

Blackstone Group L.P.  
Form 10-Q  
August 08, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-Q**

(Mark One)

X **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014**  
**OR**

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM            TO**  
**Commission File Number: 001-33551**

**The Blackstone Group L.P.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-8875684**  
(I.R.S. Employer

Identification No.)

**345 Park Avenue**

**New York, New York 10154**

(Address of principal executive offices)(Zip Code)

**(212) 583-5000**

(Registrant's telephone number, including area code)

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of the Registrant's voting common units representing limited partner interests outstanding as of July 31, 2014 was 516,461,946. The number of the Registrant's non-voting common units representing limited partner interests outstanding as of July 31, 2014 was 69,083,468.

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### **Forward-Looking Statements**

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, indicator, believes, expects, potential, continues, will, should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in our annual report on Form 10-K for the year ended December 31, 2013 and in this report, as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (SEC), which are accessible on the SEC's website at [www.sec.gov](http://www.sec.gov). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. The forward-looking statements speak only as of the date of this report, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

### **Website and Social Media Disclosure**

We use our website ([www.blackstone.com](http://www.blackstone.com)), our corporate Facebook page ([www.facebook.com/blackstone](http://www.facebook.com/blackstone)) and our corporate Twitter (@Blackstone), LinkedIn ([www.linkedin.com/company/the-blackstone-group](http://www.linkedin.com/company/the-blackstone-group)), Facebook ([www.facebook.com/Blackstone](http://www.facebook.com/Blackstone)), Instagram ([instagram.com/Blackstone](http://instagram.com/Blackstone)) and YouTube ([www.youtube.com/user/blackstonegroup](http://www.youtube.com/user/blackstonegroup)) accounts as channels of distribution of company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive e-mail alerts and other information about Blackstone when you enroll your e-mail address by visiting the Email Alerts section of our website at <http://ir.blackstone.com>. The contents of our website and social media channels are not, however, a part of this report.

In this report, references to Blackstone, the Partnership, we, us or our refer to The Blackstone Group L.P. and its consolidated subsidiaries. Unless the context otherwise requires, references in this report to the ownership of Mr. Stephen A. Schwarzman, our founder, and other Blackstone personnel include the ownership of personal planning vehicles and family members of these individuals.

Blackstone Funds, our funds and our investment funds refer to the private equity funds, real estate funds, funds of hedge funds, credit-focused funds, collateralized loan obligation (CLO) and collateralized debt obligation (CDO) vehicles, real estate investment trusts and registered investment companies that are managed by Blackstone. Our carry funds refer to the private equity funds, real estate funds and certain of the credit-focused funds (with multi-year drawdown, commitment-based structures that only pay carry on the realization of an investment) that are managed by Blackstone. Blackstone's Private Equity segment comprises its management of corporate private equity funds (including our sector and regional focused funds), which we refer to collectively as our Blackstone Capital Partners (BCP) funds, certain multi-asset class investment funds which we collectively refer to as our Blackstone Tactical Opportunities Accounts (Tactical Opportunities), and Strategic Partners Fund Solutions (Strategic Partners), a secondary private fund of funds business. We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners (BREP) funds and our real estate debt investment funds as our Blackstone Real Estate Debt Strategies (BREDS) funds. We refer to our listed real estate investment trusts as REITs. Our hedge funds refer to our funds of hedge funds, certain of our real estate debt investment funds and certain other credit-focused funds which are managed by Blackstone.

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Assets under management refers to the assets we manage. Our Assets Under Management equals the sum of:

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods,
- (b) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (c) the invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs and CDOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs and CDOs after the reinvestment period,
- (f) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by our public REIT.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds and hedge funds generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, annually or quarterly), in most cases upon advance written notice, with the majority of our funds requiring from 60 days up to 95 days notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to separately managed accounts may generally be terminated by an investor on 30 to 90 days notice.

Fee-earning assets under management refers to the assets we manage on which we derive management and/or performance fees. Our Fee-Earning Assets Under Management equals the sum of:

- (a) for our Private Equity segment funds and Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, remaining invested capital, fair value or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (c) the remaining invested capital of co-investments managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (e) the invested capital or fair value of assets we manage pursuant to separately managed accounts,

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- (f) the net proceeds received from equity offerings and accumulated core earnings of our REITs, subject to certain adjustments,
- (g) the aggregate par amount of collateral assets, including principal cash, of our CLOs and CDOs, and

- (h) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies.

Our calculations of assets under management and fee-earning assets under management may differ from the calculations of other asset managers, and as a result this measure may not be comparable to similar measures presented by other asset managers. In addition, our calculation of assets under management includes commitments to, and the fair value of, invested capital in our funds from Blackstone and our personnel, regardless of whether such commitments or invested capital are subject to fees. Our definitions of assets under management or fee-earning assets under management are not based on any definition of assets under management or fee-earning assets under management that is set forth in the agreements governing the investment funds that we manage.

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For our carry funds, total assets under management includes the fair value of the investments held, whereas fee-earning assets under management includes the amount of capital commitments, the remaining amount of invested capital at cost depending on whether the investment period has or has not expired or the fee terms of the fund. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

This report does not constitute an offer of any Blackstone Fund.

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Financial Condition (Unaudited)****(Dollars in Thousands, Except Unit Data)**

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 1,223,073	\$ 831,998
Cash Held by Blackstone Funds and Other	1,260,909	1,045,882
Investments (including assets pledged of \$66,359 and \$316,564 at June 30, 2014 and December 31, 2013, respectively)	21,627,145	21,729,523
Accounts Receivable	1,082,495	888,356
Reverse Repurchase Agreements	30,721	148,984
Due from Affiliates	1,049,224	1,192,044
Intangible Assets, Net	508,924	560,748
Goodwill	1,787,392	1,787,392
Other Assets	303,219	284,472
Deferred Tax Assets	1,186,207	1,209,207
<b>Total Assets</b>	<b>\$ 30,059,309</b>	<b>\$ 29,678,606</b>
<b>Liabilities and Partners' Capital</b>		
Loans Payable	\$ 8,989,184	\$ 10,466,504
Due to Affiliates	1,346,903	1,436,859
Accrued Compensation and Benefits	2,349,374	2,132,939
Securities Sold, Not Yet Purchased	130,754	76,195
Repurchase Agreements	41,772	316,352
Accounts Payable, Accrued Expenses and Other Liabilities	1,390,617	872,086
<b>Total Liabilities</b>	<b>14,248,604</b>	<b>15,300,935</b>
<b>Commitments and Contingencies</b>		
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>2,284,169</b>	<b>1,950,442</b>
<b>Partners' Capital</b>		
Partners' Capital (common units: 588,371,951 issued and outstanding as of June 30, 2014; 572,592,279 issued and outstanding as of December 31, 2013)	6,520,288	6,002,592
Appropriated Partners' Capital	218,279	300,708
Accumulated Other Comprehensive Income	5,749	3,466
Non-Controlling Interests in Consolidated Entities	2,692,608	2,464,047
Non-Controlling Interests in Blackstone Holdings	4,089,612	3,656,416
<b>Total Partners' Capital</b>	<b>13,526,536</b>	<b>12,427,229</b>
<b>Total Liabilities and Partners' Capital</b>	<b>\$ 30,059,309</b>	<b>\$ 29,678,606</b>



continued

See notes to condensed consolidated financial statements.

**Table of Contents****THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Financial Condition (Unaudited)****(Dollars in Thousands)**

The following presents the portion of the consolidated balances presented above attributable to consolidated Blackstone Funds which are variable interest entities. The following assets may only be used to settle obligations of these consolidated Blackstone Funds and these liabilities are only the obligations of these consolidated Blackstone Funds and they do not have recourse to the general credit of Blackstone.

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Cash Held by Blackstone Funds and Other	\$ 988,094	\$ 618,881
Investments	7,703,015	9,700,804
Accounts Receivable	561,281	231,052
Due from Affiliates	21,058	27,022
Other Assets	23,386	29,755
<b>Total Assets</b>	<b>\$ 9,296,834</b>	<b>\$ 10,607,514</b>
<b>Liabilities</b>		
Loans Payable	\$ 6,835,021	\$ 8,802,155
Due to Affiliates	83,876	143,444
Accounts Payable, Accrued Expenses and Other	804,051	284,818
<b>Total Liabilities</b>	<b>\$ 7,722,948</b>	<b>\$ 9,230,417</b>

See notes to condensed consolidated financial statements.

**Table of Contents****THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Operations (Unaudited)****(Dollars in Thousands, Except Unit and Per Unit Data)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Revenues</b>				
Management and Advisory Fees, Net	\$ 619,523	\$ 578,723	\$ 1,192,683	\$ 1,060,856
Performance Fees				
Realized				
Carried Interest	641,659	183,288	975,282	477,458
Incentive Fees	39,504	76,104	83,298	99,845
Unrealized				
Carried Interest	660,682	456,706	991,076	634,053
Incentive Fees	54,639	938	118,872	106,736
Total Performance Fees	1,396,484	717,036	2,168,528	1,318,092
Investment Income				
Realized				
	215,710	75,490	368,736	117,843
Unrealized				
	10,809	56,570	24,309	162,800
Total Investment Income	226,519	132,060	393,045	280,643
Interest and Dividend Revenue				
	15,340	13,814	29,409	26,371
Other	(6)	(1,163)	863	981
<b>Total Revenues</b>	<b>2,257,860</b>	<b>1,440,470</b>	<b>3,784,528</b>	<b>2,686,943</b>
<b>Expenses</b>				
Compensation and Benefits				
Compensation				
	500,641	478,981	985,992	930,411
Performance Fee Compensation				
Realized				
Carried Interest	260,301	75,910	409,699	165,347
Incentive Fees	18,509	35,014	42,144	45,522
Unrealized				
Carried Interest	114,296	172,824	155,026	268,296
Incentive Fees	24,692	3,084	48,223	47,562
Total Compensation and Benefits	918,439	765,813	1,641,084	1,457,138
General, Administrative and Other				
	136,492	117,365	272,046	226,671
Interest Expense				
	29,847	26,956	54,514	54,018
Fund Expenses				
	5,003	4,628	9,988	12,036
<b>Total Expenses</b>	<b>1,089,781</b>	<b>914,762</b>	<b>1,977,632</b>	<b>1,749,863</b>
<b>Other Income</b>				
Net Gains from Fund Investment Activities				
	138,585	40,966	208,740	108,176
<b>Income Before Provision for Taxes</b>	<b>1,306,664</b>	<b>566,674</b>	<b>2,015,636</b>	<b>1,045,256</b>
<b>Provision for Taxes</b>	<b>83,282</b>	<b>56,082</b>	<b>137,379</b>	<b>107,075</b>

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<b>Net Income</b>	1,223,382	510,592	1,878,257	938,181
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	22,486	22,366	68,278	84,682
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	140,061	27,944	184,022	18,492
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>	543,819	249,134	843,324	456,224
 <b>Net Income Attributable to The Blackstone Group L.P.</b>	 \$ 517,016	 \$ 211,148	 \$ 782,633	 \$ 378,783
 <b>Distributions Declared Per Common Unit</b>	 \$ 0.35	 \$ 0.30	 \$ 0.93	 \$ 0.72
 <b>Net Income Per Common Unit</b>				
Common Units, Basic	\$ 0.85	\$ 0.36	\$ 1.30	\$ 0.65
Common Units, Diluted	\$ 0.85	\$ 0.36	\$ 1.29	\$ 0.65
 <b>Weighted-Average Common Units Outstanding</b>				
Common Units, Basic	606,690,740	583,843,094	604,123,284	583,086,840
Common Units, Diluted	609,897,829	586,763,053	607,797,760	586,235,677
 <b>Revenues Earned from Affiliates</b>				
Management and Advisory Fees, Net	\$ 81,343	\$ 80,752	\$ 155,375	\$ 120,123

See notes to condensed consolidated financial statements.

**Table of Contents****THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Comprehensive Income (Unaudited)****(Dollars in Thousands)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net Income	\$ 1,223,382	\$ 510,592	\$ 1,878,257	\$ 938,181
Other Comprehensive Income (Loss), Net of Tax Adjustment	(564)	10,018	(1,730)	(1,932)
Comprehensive Income	1,222,818	520,610	1,876,527	936,249
Less:				
Comprehensive Income in Redeemable Non-Controlling Interests in Consolidated Entities	22,486	22,366	68,278	84,682
Comprehensive Income Attributable to Non-Controlling Interests in Consolidated Entities	136,166	34,856	180,009	17,576
Comprehensive Income Attributable to Non-Controlling Interests in Blackstone Holdings	543,819	249,134	843,324	456,224
Comprehensive Income Attributable to The Blackstone Group L.P.	\$ 520,347	\$ 214,254	\$ 784,916	\$ 377,767

See notes to condensed consolidated financial statements.

**Table of Contents****THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Changes in Partners Capital (Unaudited)**

(Dollars in Thousands, Except Unit Data)

The Blackstone Group L.P.								
	Common Units	Partners Capital	Appro- priated Partners Capital	Accumulated Other Compre- hensive Income	Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners Capital	Redeemable Non- Controlling Interests in Consolidated Entities
<b>Balance at December 31, 2013</b>	572,592,279	\$ 6,002,592	\$ 300,708	\$ 3,466	\$ 2,464,047	\$ 3,656,416	\$ 12,427,229	\$ 1,950,442
Transition and Acquisition Adjustments Relating to Consolidation of CLO Entities			8,398				8,398	
Consolidation of Fund Entity					4,511		4,511	30,922
Net Income		782,633			184,022	843,324	1,809,979	68,278
Allocation of Losses of Consolidated CLO Entities			(34,505)		34,505			
Currency Translation Adjustment Allocation of Currency Translation Adjustment of Consolidated CLO Entities			(4,013)	2,283	(4,013)		(1,730)	
Reclassification of Currency Translation Adjustment Due to Deconsolidation of CLO Entities		(2,695)					(2,695)	
Capital Contributions					256,603		256,603	447,785
Capital Distributions		(550,393)			(248,011)	(572,730)	(1,371,134)	(213,258)
Transfer of Non-Controlling Interests in Consolidated Entities					(3,014)		(3,014)	
Purchase of Interests from Certain Non-Controlling Interest Holders		(6)					(6)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		14,996					14,996	
Equity-Based Compensation Relinquished with Deconsolidation and Liquidation of Partnership		232,313				215,825	448,138	
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	6,185,592	(24,860)			(55)	(430)	(25,290)	
Excess Tax Benefits Related to Equity-Based Compensation, Net Change in The Blackstone Group L.P.'s Ownership Interest		12,915					12,915	
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	9,594,080	64,497				(64,497)		
<b>Balance at June 30, 2014</b>	588,371,951	\$ 6,520,288	\$ 218,279	\$ 5,749	\$ 2,692,608	\$ 4,089,612	\$ 13,526,536	\$ 2,284,169

continued

See notes to condensed consolidated financial statements.



**Table of Contents****THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Changes in Partners' Capital (Unaudited)**

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P.							Redeemable
	Common	Partners	Appropriated	Accumulated Other Comprehensive	Non- Controlling	Non- Controlling	Total	Non- Controlling
	Units	Capital	Partners Capital	Income (Loss)	Interests in Consolidated Entities	Interests in Blackstone Holdings	Partners Capital	Interests in Consolidated Entities
<b>Balance at December 31, 2012</b>	556,354,387	\$ 4,955,649	\$ 509,028	\$ 2,170	\$ 1,443,559	\$ 2,748,356	\$ 9,658,762	\$ 1,556,185
Net Income		378,783			18,492	456,224	853,499	84,682
Allocation of Losses of Consolidated CLO Entities			(141,719)		141,719			
Currency Translation Adjustment Allocation of Currency Translation Adjustment of Consolidated CLO Entities			(916)	(1,016)	(916)		(1,932)	
Capital Contributions					95,651	153	95,804	502,372
Capital Distributions		(412,480)			(137,786)	(492,635)	(1,042,901)	(165,003)
Transfer of Non-Controlling Interests in Consolidated Entities					(1,291)		(1,291)	
Purchase of Interests from Certain Non-Controlling Interest Holders		(22)					(22)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		76,899					76,899	
Equity-Based Compensation		216,736				213,049	429,785	
Relinquished with Deconsolidation and Liquidation of Partnership			(30,737)				(30,737)	50
Net Delivery of Vested Common Units	5,988,448	(15,162)				(279)	(15,441)	
Change in The Blackstone Group L.P.'s Ownership Interest		(10,476)				10,476		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	2,439,287	12,163				(12,163)		
<b>Balance at June 30, 2013</b>	564,782,122	\$ 5,202,090	\$ 335,656	\$ 1,154	\$ 1,560,344	\$ 2,923,181	\$ 10,022,425	\$ 1,978,286

See notes to condensed consolidated financial statements.



**Table of Contents****THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Cash Flows (Unaudited)**

(Dollars in Thousands)

	Six Months Ended June 30,	
	2014	2013
<b>Operating Activities</b>		
Net Income	\$ 1,878,257	\$ 938,181
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Blackstone Funds Related		
Unrealized Appreciation on Investments Allocable to Non-Controlling Interests in Consolidated Entities	(290,698)	(277,805)
Net Realized Gains on Investments	(1,457,777)	(788,643)
Changes in Unrealized (Gains) Losses on Investments Allocable to The Blackstone Group L.P.	45,811	(160,642)
Non-Cash Performance Fees	(930,489)	(381,415)
Non-Cash Performance Fee Compensation	655,092	526,727
Equity-Based Compensation Expense	381,553	378,587
Excess Tax Benefits Related to Equity-Based Compensation	(17,938)	
Amortization of Intangibles	51,824	44,492
Other Non-Cash Amounts Included in Net Income	113,063	101,767
Cash Flows Due to Changes in Operating Assets and Liabilities		
Cash Held by Blackstone Funds and Other	(106,245)	227,249
Cash Relinquished in Deconsolidation and Liquidation of Partnership	(293,989)	(135,843)
Accounts Receivable	280,586	(44,072)
Reverse Repurchase Agreements	118,263	71,745
Due from Affiliates	244,803	126,242
Other Assets	(30,289)	2,966
Accrued Compensation and Benefits	(340,604)	(267,844)
Securities Sold, Not Yet Purchased	(97,247)	(143,916)
Accounts Payable, Accrued Expenses and Other Liabilities	(440,090)	(342,707)
Repurchase Agreements	(313,675)	(142,073)
Due to Affiliates	3,672	(34,986)
Treasury Cash Management Strategies		
Investments Purchased	(1,595,138)	(2,258,191)
Cash Proceeds from Sale of Investments	1,767,007	2,533,672
Blackstone Funds Related		
Investments Purchased	(3,686,756)	(5,163,545)
Cash Proceeds from Sale or Pay Down of Investments	5,904,448	6,530,610
Net Cash Provided by Operating Activities	1,843,444	1,340,556
<b>Investing Activities</b>		
Purchase of Furniture, Equipment and Leasehold Improvements	(13,618)	(14,645)
Changes in Restricted Cash	5,841	5,804
Net Cash Used in Investing Activities	(7,777)	(8,841)

continued

See notes to condensed consolidated financial statements.



**Table of Contents****THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Cash Flows (Unaudited)**

(Dollars in Thousands)

	Six Months Ended June 30,	
	2014	2013
<b>Financing Activities</b>		
Distributions to Non-Controlling Interest Holders in Consolidated Entities	\$ (449,914)	\$ (302,789)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	690,755	595,543
Purchase of Interests from Certain Non-Controlling Interest Holders	(6)	(22)
Payments Under Tax Receivable Agreement	(80,565)	
Net Settlement of Vested Common Units and Repurchase of Common and Blackstone Holdings Partnership Units	(25,290)	(15,441)
Excess Tax Benefits Related to Equity-Based Compensation	17,938	
Proceeds from Loans Payable	490,101	2,850
Repayment and Repurchase of Loans Payable	(7,934)	(3,691)
Distributions to Unitholders Blackstone Funds Related	(1,123,123)	(905,115)
Proceeds from Loans Payable	42,197	4,075
Repayment of Loans Payable	(998,743)	(755,045)
Net Cash Used in Financing Activities	(1,444,584)	(1,379,635)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(8)	(605)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>391,075</b>	<b>(48,525)</b>
Cash and Cash Equivalents, Beginning of Period	831,998	709,502
Cash and Cash Equivalents, End of Period	\$ 1,223,073	\$ 660,977
<b>Supplemental Disclosure of Cash Flows Information</b>		
Payments for Interest	\$ 49,580	\$ 56,621
Payments for Income Taxes	\$ 89,792	\$ 41,808
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>		
Non-Cash Contributions from Non-Controlling Interest Holders	\$ 10,553	\$
Non-Cash Distributions to Non-Controlling Interest Holders	\$ (11,355)	\$
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	\$ 5,239	\$ (291)
Net Assets Related to the Consolidation of CLO Vehicles	\$ 8,398	\$
Net Assets Related to the Consolidation of Certain Fund Entities	\$ 35,433	\$
In-kind Contribution of Capital	\$	\$ 2,323
Notes Issuance Costs	\$ 4,375	\$

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Transfer of Interests to Non-Controlling Interest Holders	\$ (3,014)	\$ (1,291)
Change in The Blackstone Group L.P.'s Ownership Interest	\$ (11,704)	\$ (10,476)
Net Settlement of Vested Common Units	\$ 59,301	\$ 53,585
Conversion of Blackstone Holdings Partnership Units to Common Units	\$ 64,497	\$ 12,163
Acquisition of Ownership Interests from Non-Controlling Interest Holders		
Deferred Tax Asset	\$ (63,173)	\$ (85,538)
Due to Affiliates	\$ 48,177	\$ 8,639
Partners' Capital	\$ 14,996	\$ 76,899

See notes to condensed consolidated financial statements.

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**1. ORGANIZATION**

The Blackstone Group L.P., together with its subsidiaries ( Blackstone or the Partnership ), is a leading global manager of private capital and provider of financial advisory services. The alternative asset management business includes the management of private equity funds, real estate funds, real estate investment trusts ( REITs ), funds of hedge funds, credit-focused funds, collateralized loan obligation ( CLO ) vehicles, collateralized debt obligation ( CDO ) vehicles, separately managed accounts and registered investment companies (collectively referred to as the Blackstone Funds ). Blackstone also provides various financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory, capital markets and fund placement services. Blackstone s business is organized into five segments: private equity, real estate, hedge fund solutions, credit and financial advisory.

The Partnership was formed as a Delaware limited partnership on March 12, 2007. The Partnership is managed and operated by its general partner, Blackstone Group Management L.L.C., which is in turn wholly owned and controlled by one of Blackstone s founders, Stephen A. Schwarzman (the Founder ), and Blackstone s other senior managing directors. The activities of the Partnership are conducted through its holding partnerships: Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. (collectively, Blackstone Holdings , Blackstone Holdings Partnerships or the Holding Partnerships ). The Partnership, through its wholly owned subsidiaries, is the sole general partner in each of these Holding Partnerships.

Generally, holders of the limited partner interests in the four Holding Partnerships may, four times each year, exchange their limited partnership interests ( Partnership Units ) for Blackstone common units, on a one-to-one basis, exchanging one Partnership Unit in each of the four Holding Partnerships for one Blackstone common unit.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information and the instructions to Form 10-Q. The condensed consolidated financial statements, including these notes, are unaudited and exclude some of the disclosures required in audited financial statements. Management believes it has made all necessary adjustments (consisting of only normal recurring items) so that the condensed consolidated financial statements are presented fairly and that estimates made in preparing its condensed consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Partnership s Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission.

The condensed consolidated financial statements include the accounts of the Partnership, its wholly owned or majority-owned subsidiaries, the consolidated entities which are considered to be variable interest entities and for which the Partnership is considered the primary beneficiary, and certain partnerships or similar entities which are not considered variable interest entities but in which the general partner is presumed to have control.

All intercompany balances and transactions have been eliminated in consolidation.

Restructurings within consolidated CLOs are treated as investment purchases or sales, as applicable, in the Condensed Consolidated Statements of Cash Flows.



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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**Consolidation**

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner is presumed to have control. Although the Partnership has a non-controlling interest in the Blackstone Holdings Partnerships, the limited partners do not have the right to dissolve the partnerships or have substantive kick out rights or participating rights that would overcome the presumption of control by the Partnership. Accordingly, the Partnership consolidates Blackstone Holdings and records non-controlling interests to reflect the economic interests of the limited partners of Blackstone Holdings.

In addition, the Partnership consolidates all variable interest entities ( VIE ) in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a VIE and (b) whether the Partnership's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. VIEs qualify for the deferral of the consolidation guidance if all of the following conditions have been met:

- (a) The entity has all of the attributes of an investment company as defined in the American Institute of Certified Public Accountants Accounting and Auditing Guide, *Investment Companies* ( Investment Company Guide ), or does not have all the attributes of an investment company but it is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the Investment Company Guide,
- (b) The reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and
- (c) The entity is not a securitization or asset-backed financing entity or an entity that was formerly considered a qualifying special purpose entity.

Where the VIEs have qualified for the deferral of the current consolidation guidance, the analysis is based on previous consolidation guidance. This guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a variable interest entity and (b) whether the Partnership's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would be expected to absorb a majority of the variability of the entity. Under both guidelines, the Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion continually. In evaluating whether the Partnership is the primary beneficiary, Blackstone evaluates its economic interests in the entity held either directly by the Partnership and its affiliates or indirectly through employees. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Partnership, affiliates of the Partnership or third parties) or amendments to the governing documents of the respective Blackstone Funds could affect an entity's status as a VIE or the determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

Assets of consolidated variable interest entities that can only be used to settle obligations of the consolidated VIE and liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of Blackstone are presented in a separate section in the Condensed Consolidated Statements of Financial Condition.

Blackstone's other disclosures regarding VIEs are discussed in Note 9. Variable Interest Entities .

**Fair Value of Financial Instruments**

GAAP establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values, as follows:

Level I Quoted prices are available in active markets for identical financial instruments as of the reporting date. The type of financial instruments in Level I include listed equities, listed derivatives and mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.

Level II Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, government and agency securities, less liquid and restricted equity securities, certain over-the-counter derivatives where the fair value is based on observable inputs, and certain funds of hedge funds and proprietary investments in which Blackstone has the ability to redeem its investment at net asset value at, or within three months of, the reporting date.

Level III Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity and real estate funds, credit-focused funds, distressed debt and non-investment grade residual interests in securitizations, certain corporate bonds and loans held within CLO vehicles, certain over-the-counter derivatives where the fair value is based on unobservable inputs and certain funds of hedge funds that use net asset value per share to determine fair value in which Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date. Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date if an investee fund manager has the ability to limit the amount of redemptions, and/or the ability to side pocket investments, irrespective of whether such ability has been exercised. Senior and subordinate notes issued by CLO vehicles are classified within Level III of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given





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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Transfers between levels of the fair value hierarchy are recognized at the beginning of the reporting period.

***Level II Valuation Techniques***

Financial instruments classified within Level II of the fair value hierarchy comprise debt instruments, including corporate loans and bonds held by Blackstone's consolidated CLO vehicles, those held within Blackstone's Treasury Cash Management Strategies and debt securities sold, not yet purchased and interests in investment funds. Certain equity securities and derivative instruments valued using observable inputs are also classified as Level II.

The valuation techniques used to value financial instruments classified within Level II of the fair value hierarchy are as follows:

Debt Instruments and Equity Securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments. The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.

Investment Funds held by the consolidated Blackstone Funds are valued using net asset value per share as described in Level III Valuation Techniques Funds of Hedge Funds. Certain investments in investment funds are classified within Level II of the fair value hierarchy as the investment can be redeemed at, or within three months of, the reporting date.

Freestanding Derivatives and Derivative Instruments Designated as Fair Value Hedges are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.

***Level III Valuation Techniques***

In the absence of observable market prices, Blackstone values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties, certain funds of hedge funds and credit-focused investments.

***Private Equity Investments*** The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization (EBITDA), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (for example, multiplying a key performance metric of the investee company such as EBITDA by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced



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comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to EBITDA or price/earnings exit multiples.

*Real Estate Investments* The fair values of real estate investments are determined by considering projected operating cash flows, sales of comparable assets, if any, and replacement costs, among other measures. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rates ( cap rates ) analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to an exit EBITDA multiple or capitalization rate. Additionally, where applicable, projected distributable cash flow through debt maturity will be considered in support of the investment s fair value.

*Funds of Hedge Funds* The investments of consolidated Blackstone Funds in funds of hedge funds ( Investee Funds ) are valued at net asset value ( NAV ) per share of the Investee Fund. In limited circumstances, the Partnership may determine, based on its own due diligence and investment procedures, that NAV per share does not represent fair value. In such circumstances, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with the requirements of GAAP.

Certain investments of Blackstone and of the consolidated Blackstone funds of hedge funds and credit-focused funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee s investment generally provide for minimum holding periods or lock-ups, the institution of gates on redemptions or the suspension of redemptions or an ability to side pocket investments, at the discretion of the investee s fund manager, and as a result, investments may not be redeemable at, or within three months of, the reporting date. A side pocket is used by hedge funds and funds of hedge funds to separate investments that may lack a readily ascertainable value, are illiquid or are subject to liquidity restriction. Redemptions are generally not permitted until the investments within a side pocket are liquidated or it is deemed that the conditions existing at the time that required the investment to be included in the side pocket no longer exist. As the timing of either of these events is uncertain, the timing at which the Partnership may redeem an investment held in a side pocket cannot be estimated. Investments for which fair value is measured using NAV per share are reflected within the fair value hierarchy based on the existence of redemption restrictions, if any, as described above. Further disclosure on instruments for which fair value is measured using NAV per share is presented in Note 5. Net Asset Value as Fair Value .

*Credit-Focused Investments* The fair values of credit-focused investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. In some instances, Blackstone may utilize other valuation techniques, including the discounted cash flow method or a market approach.

*Credit-Focused Liabilities* Credit-focused liabilities comprise senior and subordinate loans issued by Blackstone s consolidated CLO vehicles. Such liabilities are valued using a discounted cash flow method.

***Level III Valuation Process***

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration any changes in Blackstone s weighted-average cost of capital assumptions, discounted cash flow

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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projections and exit multiple assumptions, as well as any changes in economic and other relevant conditions, and valuation models are updated accordingly. The valuation process also includes a review by an independent valuation party, at least annually for all investments, and quarterly for certain investments, to corroborate the values determined by management. The valuations of Blackstone's investments are reviewed quarterly by a valuation committee which is chaired by Blackstone's Vice Chairman and includes senior heads of each of Blackstone's businesses, as well as representatives of legal and finance. Each quarter, the valuations of Blackstone's investments are also reviewed by the Audit Committee in a meeting attended by the chairman of the valuation committee. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments.

**Investments, at Fair Value**

The Blackstone Funds are accounted for as investment companies under the Investment Company Guide, and reflect their investments, including majority-owned and controlled investments (the Portfolio Companies), at fair value. Blackstone has retained the specialized accounting for the consolidated Blackstone Funds. Thus, such consolidated funds' investments are reflected in Investments on the Condensed Consolidated Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Fund Investment Activities in the Condensed Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price).

Blackstone's principal investments are presented at fair value with unrealized appreciation or depreciation and realized gains and losses recognized in the Condensed Consolidated Statements of Operations within Investment Income (Loss).

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables that otherwise would not have been carried at fair value with gains and losses recorded in net income. Accounting for these financial instruments at fair value is consistent with how the Partnership accounts for its other principal investments. Loans extended to third parties are recorded within Accounts Receivable within the Condensed Consolidated Statements of Financial Condition. Debt securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-focused and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Condensed Consolidated Statements of Operations. Interest income on interest bearing loans and receivables on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest and Dividend Revenue.

In addition, the Partnership has elected the fair value option for the assets and liabilities of CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts or the acquisition of the share capital of CLO managers. The adjustment resulting from the difference between the fair value of assets and liabilities for each of these events is presented as a transition and acquisition adjustment to Appropriated Partners' Capital. Assets of the consolidated CLOs are presented within Investments within the Condensed Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. The methodology for measuring the fair value of such assets and liabilities is consistent

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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with the methodology applied to private equity, real estate and credit-focused investments. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains (Losses) from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses. Amounts attributable to Non-Controlling Interests in Consolidated Entities have a corresponding adjustment to Appropriated Partners' Capital.

The Partnership has elected the fair value option for certain proprietary investments that would otherwise have been accounted for using the equity method of accounting. The fair value of such investments is based on quoted prices in an active market or using the discounted cash flow method. Changes in fair value are recognized in Investment Income (Loss) in the Condensed Consolidated Statements of Operations.

Further disclosure on instruments for which the fair value option has been elected is presented in Note 7. Fair Value Option to the Condensed Consolidated Financial Statements.

Security and loan transactions are recorded on a trade date basis.

**Equity Method Investments**

Investments in which the Partnership is deemed to exert significant influence, but not control, are accounted for using the equity method of accounting. Under the equity method of accounting, the Partnership's share of earnings (losses) from equity method investments is included in Investment Income (Loss) in the Condensed Consolidated Statements of Operations. The carrying amounts of equity method investments are reflected in Investments in the Condensed Consolidated Statements of Financial Condition. As the underlying investments of the Partnership's equity method investments in Blackstone Funds are reported at fair value, the carrying value of the Partnership's equity method investments approximates fair value.

**Repurchase and Reverse Repurchase Agreements**

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements), comprised primarily of U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, represent collateralized financing transactions. Such transactions are recorded in the Condensed Consolidated Statements of Financial Condition at their contractual amounts and include accrued interest. The carrying value of repurchase and reverse repurchase agreements approximates fair value.

The Partnership manages credit exposure arising from repurchase agreements and reverse repurchase agreements by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Partnership, in the event of a counterparty default, the right to liquidate collateral and the right to offset a counterparty's rights and obligations.

The Partnership takes possession of securities purchased under reverse repurchase agreements and is permitted to repledge, deliver or otherwise use such securities. The Partnership also pledges its financial instruments to counterparties to collateralize repurchase agreements. Financial instruments pledged that can be repledged, delivered or otherwise used by the counterparty are recorded in Investments in the Condensed Consolidated Statements of Financial Condition.

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

Blackstone does not offset assets and liabilities relating to reverse repurchase agreements and repurchase agreements in its Condensed Consolidated Statements of Financial Condition. Additional disclosures relating to offsetting are discussed in Note 11. Offsetting of Assets and Liabilities .

**Securities Sold, Not Yet Purchased**

Securities Sold, Not Yet Purchased consist of equity and debt securities that the Partnership has borrowed and sold. The Partnership is required to cover its short sale in the future by purchasing the security at prevailing market prices and delivering it to the counterparty from which it borrowed the security. The Partnership is exposed to loss in the event that the price at which a security may have to be purchased to cover a short sale exceeds the price at which the borrowed security was sold short.

Securities Sold, Not Yet Purchased are recorded at fair value in the Condensed Consolidated Statements of Financial Condition.

**Derivative Instruments**

The Partnership recognizes all derivatives as assets or liabilities on its Condensed Consolidated Statements of Financial Condition at fair value. On the date the Partnership enters into a derivative contract, it designates and documents each derivative contract as one of the following: (a) a hedge of a recognized asset or liability ( fair value hedge ), (b) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ( cash flow hedge ), (c) a hedge of a net investment in a foreign operation, or (d) a derivative instrument not designated as a hedging instrument ( freestanding derivative ). For a fair value hedge, Blackstone records changes in the fair value of the derivative and, to the extent that it is highly effective, changes in the fair value of the hedged asset or liability attributable to the hedged risk, in current period earnings in General, Administrative and Other in the Condensed Consolidated Statements of Operations. Changes in the fair value of derivatives designated as hedging instruments caused by factors other than changes in the risk being hedged, which are excluded from the assessment of hedge effectiveness, are recognized in current period earnings.

The Partnership formally documents at inception its hedge relationships, including identification of the hedging instruments and the hedged items, its risk management objectives, strategy for undertaking the hedge transaction and the Partnership's evaluation of effectiveness of its hedged transaction. At least monthly, the Partnership also formally assesses whether the derivative it designated in each hedging relationship is expected to be, and has been, highly effective in offsetting changes in estimated fair values or cash flows of the hedged items using either the regression analysis or the dollar offset method. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued. The Partnership may also at any time remove a designation of a fair value hedge. The fair value of the derivative instrument is reflected within Other Assets in the Condensed Consolidated Statements of Financial Condition.

For freestanding derivative contracts, the Partnership presents changes in fair value in current period earnings. Changes in the fair value of derivative instruments held by consolidated Blackstone Funds are reflected in Net Gains (Losses) from Fund Investment Activities or, where derivative instruments are held by the Partnership, within Investment Income (Loss) in the Condensed Consolidated Statements of Operations. The fair value of freestanding derivative assets are recorded within Investments and freestanding derivative liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Condensed Consolidated Statements of Financial Condition.

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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The Partnership has elected to not offset derivative assets and liabilities or financial assets in its Condensed Consolidated Statements of Financial Condition, including cash and securities, that may be received or paid as part of collateral arrangements, even when an enforceable master netting agreement is in place that provides the Partnership, in the event of counterparty default, the right to liquidate collateral and the right to offset a counterparty's rights and obligations.

Blackstone's other disclosures regarding derivative financial instruments are discussed in Note 6. Derivative Financial Instruments .

Blackstone's disclosures regarding offsetting are discussed in Note 11. Offsetting of Assets and Liabilities .

**Affiliates**

Blackstone considers its Founder, senior managing directors, employees, the Blackstone Funds and the Portfolio Companies to be affiliates.

**Distributions**

Distributions are reflected in the condensed consolidated financial statements when declared.

**Recent Accounting Developments**

In February 2013, the Financial Accounting Standards Board ( FASB ) issued guidance on the reporting of amounts reclassified out of accumulated other comprehensive income. The guidance did not change the requirement for reporting net income or other comprehensive income in financial statements. However, the amendments required an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes to the financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts.

The guidance was effective prospectively for periods beginning after December 15, 2012. Adoption had no impact on the Partnership's financial statements.

In December 2011, the FASB issued guidance to enhance disclosures about financial instruments and derivative instruments that are either (a) offset or (b) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. Under the amended guidance, an entity is required to disclose quantitative information relating to recognized assets and liabilities that are offset or subject to an enforceable master netting arrangement or similar agreement, including (a) the gross amounts of those recognized assets and liabilities, (b) the amounts offset to determine the net amount presented in the statement of financial position, and (c) the net amount presented in the statement of financial position. With respect to amounts subject to an enforceable master netting arrangement or similar agreement which are not offset, disclosure is required of (a) the amounts related to recognized financial instruments and other derivative instruments, (b) the amount related to financial collateral (including cash collateral), and (c) the overall net amount after considering amounts that have not been offset. The guidance was effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods and retrospective application is required. As the amendments were limited to disclosure only, adoption did not have a material impact on the Partnership's financial statements.



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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

In January 2013, the FASB issued guidance to clarify the scope of disclosures about offsetting assets and liabilities. The amendments clarified that the scope of guidance issued in December 2011 to enhance disclosures around financial instruments and derivative instruments that are either (a) offset, or (b) subject to a master netting agreement or similar agreement, irrespective of whether they are offset, applies to derivatives, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The amendments were effective for interim and annual periods beginning on or after January 1, 2013. Adoption did not have a material impact on the Partnership's financial statements.

In February 2013, the FASB issued guidance on the measurement of joint and several liability arrangements in which the total amount of the obligation is fixed at the reporting date. The guidance requires entities to measure obligations from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date as the sum of (a) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and (b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Adoption did not have a material impact on the Partnership's financial statements.

In March 2013, the FASB issued guidance on a parent entity's accounting for cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. When a parent entity ceases to have a controlling financial interest in a subsidiary or a group of assets that is a business within a foreign entity, any related portion of the total cumulative translation adjustment should be released into net income if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. For an equity method investment that is a foreign entity, partial sale guidance applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. For an equity method investment that is not a foreign entity, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment. Additionally, the guidance clarifies that the sale of an investment in a foreign entity includes both (a) events that result in the loss of a controlling financial interest in a foreign entity (that is, irrespective of any retained investment) and (b) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. The guidance shall be applied on a prospective basis for fiscal years, and interim periods within those years, beginning after December 15, 2013. The guidance should be applied to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. Adoption did not have a material impact on the Partnership's financial statements.

In April 2013, the FASB issued guidance on when and how an entity should prepare its financial statements using the liquidation basis of accounting. The guidance requires an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. Financial statements prepared using the liquidation basis of accounting shall measure and present assets at the amount of the expected cash proceeds from liquidation. The presentation of assets shall include any items that had not previously been recognized under GAAP but that it expects to either sell in liquidation or use in settling liabilities. Liabilities shall be recognized and measured in accordance with GAAP that otherwise applies to those liabilities. The guidance requires an entity to accrue and separately present the costs that it expects to incur and the income that it expects to earn during the expected duration of the liquidation, including any costs associated with sale or settlement of those assets and liabilities. The

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guidance requires disclosures about an entity's plan for liquidation, the methods and significant assumptions used to measure assets and liabilities, the type and amount of costs and income accrued, and the expected duration of the liquidation process. The guidance is effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013 and interim periods therein. The guidance should be applied prospectively. Adoption did not have a material impact on the Partnership's financial statements.

In June 2013, the FASB issued guidance to clarify the characteristics of an investment company and to provide guidance for assessing whether an entity is an investment company. Consistent with existing guidance for investment companies, all investments are to be measured at fair value including non-controlling ownership interests in other investment companies. There are no changes to the current requirements relating to the retention of specialized accounting in the consolidated financial statements of a non-investment company parent. The guidance is effective for interim and annual periods beginning after December 15, 2013 and early application is prohibited. Adoption did not have a material impact on the Partnership's financial statements.

In June 2014, the FASB issued amended guidance on revenue from contracts with customers. The guidance requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity is required to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract, and (e) recognize revenue when (or as) the entity satisfies a performance obligation. In determining the transaction price, an entity may include variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty associated with the variable consideration is resolved.

The guidance introduces new qualitative and quantitative disclosure requirements about contracts with customers including revenue and impairments recognized, disaggregation of revenue and information about contract balances and performance obligations. Information is required about significant judgments and changes in judgments in determining the timing of satisfaction of performance obligations and determining the transaction price and amounts allocated to performance obligations. Additional disclosures are required about assets recognized from the costs to obtain or fulfill a contract.

The amended guidance is effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period. The guidance may have a material impact on Blackstone's consolidated financial statements if it is determined that both performance fees and carried interest are forms of variable consideration that may not be included in the transaction price. This may significantly delay the recognition of carried interest income and performance fees.

In June 2014, the FASB issued amended guidance on transfers and servicing. Under the amended guidance, repurchase transactions previously accounted for as sales should be accounted for as secured borrowings. There are additional disclosures relating to repurchase agreements, secured lending transactions and repurchase-to-maturity transactions that are accounted for as secured borrowings including a disaggregation of the gross obligations by the class of collateral pledged, the remaining contractual tenor of the agreements and a discussion of the potential risks associated with the agreements and the related collateral pledged.

The guidance is effective for the first interim or annual period beginning after December 15, 2014. Earlier application is prohibited. The amended guidance is not expected to have a material impact on Blackstone's financial statements.

In August 2014, the FASB issued amended guidance on the measurement of financial assets and financial liabilities of a consolidated collateralized financing entity. Under the amended guidance, a reporting entity that

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consolidates a collateralized financing entity may elect to measure the financial assets and the financial liabilities using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. When this measurement alternative is elected, a reporting entity's consolidated net income (loss) should reflect the reporting entity's own economic interest in the collateralized financing entity, including (a) changes in the fair value of the beneficial interests retained by the reporting entity and (b) beneficial interests that represent compensation for services. When this measurement alternative is not elected, the amendments clarify that the fair value of financial assets and financial liabilities should be measured in accordance with existing fair value guidance and any difference in the fair value of financial assets and financial liabilities should be reflected in earnings and attributed to the reporting entity in the consolidated statement of income (loss). The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted as of the beginning of the annual period. The guidance is expected to impact the measurement of the financial assets or financial liabilities of Blackstone's consolidated collateralized loan obligation vehicles and have a material impact on the recognition of appropriated partners' capital. However, the impact on net income attributable to The Blackstone Group L.P. is not expected to be material.

**3. INTANGIBLE ASSETS**

Intangible Assets, Net consists of the following:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Finite-Lived Intangible Assets/Contractual Rights	\$ 1,464,017	\$ 1,594,128
Accumulated Amortization	(955,093)	(1,033,380)
<b>Intangible Assets, Net</b>	<b>\$ 508,924</b>	<b>\$ 560,748</b>

Amortization expense associated with Blackstone's intangible assets was \$25.6 million and \$51.8 million for the three and six month periods ended June 30, 2014, respectively, and \$21.6 million and \$44.5 million for the three and six month periods ended June 30, 2013, respectively.

Amortization of Intangible Assets held at June 30, 2014 is expected to be \$102.2 million, \$95.8 million, \$85.6 million, \$46.5 million and \$46.5 million for each of the years ending December 31, 2014, 2015, 2016, 2017 and 2018, respectively. Blackstone's intangible assets as of June 30, 2014 are expected to amortize over a weighted-average period of 7.1 years.

**4. INVESTMENTS**

Investments consists of the following:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Investments of Consolidated Blackstone Funds	\$ 10,820,315	\$ 12,521,248
Equity Method Investments	3,492,500	3,309,879
Blackstone's Treasury Cash Management Strategies	1,185,858	1,104,800
Performance Fees	5,979,682	4,674,792

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Other Investments	148,790	118,804
	\$ 21,627,145	\$ 21,729,523

Blackstone's share of Investments of Consolidated Blackstone Funds totaled \$696.2 million and \$487.8 million at June 30, 2014 and December 31, 2013, respectively.

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**Investments of Consolidated Blackstone Funds**

The following table presents the Realized and Net Change in Unrealized Gains (Losses) on investments held by the consolidated Blackstone Funds and a reconciliation to Other Income Net Gains from Fund Investment Activities in the Condensed Consolidated Statements of Operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Realized Gains	\$ 20,226	\$ 30,547	\$ 33,939	\$ 98,335
Net Change in Unrealized Gains (Losses)	68,333	(41,232)	41,119	(83,727)
Realized and Net Change in Unrealized Gains (Losses) from Consolidated Blackstone Funds	88,559	(10,685)	75,058	14,608
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	50,026	51,651	133,682	93,568
Other Income Net Gains from Fund Investment Activities	\$ 138,585	\$ 40,966	\$ 208,740	\$ 108,176

**Equity Method Investments**

Blackstone's equity method investments include its investments in private equity funds, real estate funds, funds of hedge funds and credit-focused funds and other proprietary investments, which are not consolidated but in which the Partnership exerts significant influence.

Blackstone evaluates each of its equity method investments to determine if any were significant as defined by guidance from the United States Securities and Exchange Commission. As of and for the three months ended June 30, 2014 and 2013, no individual equity method investment held by Blackstone met the significance criteria. As such, Blackstone is not required to present summarized financial information for any of its equity method investments.

The Partnership recognized net gains related to its equity method investments of \$135.8 million and \$103.4 million for the three months ended June 30, 2014 and 2013, respectively. The Partnership recognized net gains related to its equity method investments of \$233.0 million and \$211.3 million for the six months ended June 30, 2014 and 2013, respectively.

**Blackstone's Treasury Cash Management Strategies**

The portion of Blackstone's Treasury Cash Management Strategies included in Investments represents the Partnership's liquid investments in government, other investment and non-investment grade securities and other investments. These strategies are primarily managed by third party institutions. The following table presents the realized and net change in unrealized gains (losses) on investments held by Blackstone's Treasury Cash Management Strategies:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Realized Gains (Losses)	\$ 1,071	\$ (1,354)	\$ 4,165	\$ 2,557
Net Change in Unrealized Gains (Losses)	7,122	(18,196)	16,092	(19,167)

\$ 8,193	\$ (19,550)	\$ 20,257	\$ (16,610)
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(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

**Performance Fees**

Performance Fees allocated to the general partner in respect of performance of certain Carry Funds, funds of hedge funds and credit-focused funds were as follows:

	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
Performance Fees, December 31, 2013	\$ 971,860	\$ 3,268,606	\$ 9,468	\$ 424,858	\$ 4,674,792
Performance Fees Allocated as a Result of Changes in Fund Fair Values	1,001,329	877,904	34,275	148,041	2,061,549
Foreign Exchange Loss		(2,450)			(2,450)
Fund Distributions	(255,670)	(366,719)	(16,133)	(115,687)	(754,209)
Performance Fees, June 30, 2014	\$ 1,717,519	\$ 3,777,341	\$ 27,610	\$ 457,212	\$ 5,979,682

**Other Investments**

Other Investments consist primarily of proprietary investment securities held by Blackstone. The following table presents Blackstone's realized and net change in unrealized gains (losses) in other investments:

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Realized Gains (Losses)	\$ (695)	\$ 14,754	\$ 5,612	\$ 14,106
Net Change in Unrealized Gains (Losses)	13	(17,705)	(6,491)	(12,501)
	\$ (682)	\$ (2,951)	\$ (879)	\$ 1,605

**5. NET ASSET VALUE AS FAIR VALUE**

A summary of fair value by strategy type alongside the remaining unfunded commitments and ability to redeem such investments as of June 30, 2014 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	\$ 130,069	\$ 3,542	(a)	(a)
Credit Driven	336,229		(b)	(b)
Event Driven	122,853		(c)	(c)

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Equity	372,345	(d)	(d)
Commodities	57,435	(e)	(e)
Private Equity	86,345	(f)	(f)
	\$ 1,105,276	\$	3,542

- (a) Diversified Instruments include investments in funds that invest across multiple strategies. Investments representing 66% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 26% of the fair value of the investments in this category represent investments in hedge funds that are in the process of liquidating. Distributions from these funds will be received as underlying investments are liquidated. The time at which this redemption restriction



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- may lapse cannot be estimated. The remaining 8% of investments in this category are redeemable as of the reporting date. As of the reporting date, the investee fund manager had elected to side pocket 16% of Blackstone's investments in this category.
- (b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 68% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 30% of the fair value of the investments in this category are redeemable as of the reporting date. Investments representing 2% of the total fair value in the credit driven category are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have exercised such ability) to side pocket such investments. As of the reporting date, the investee fund manager had not elected to side pocket any of Blackstone's investments in this category.
  - (c) The Event Driven category includes investments in hedge funds whose primary investing strategy is to identify certain event-driven investments. Withdrawals are not permitted in this category. Distributions will be received as the underlying investments are liquidated.
  - (d) The Equity category includes investments in hedge funds that invest primarily in domestic and international equity securities. Withdrawals are generally not permitted for investments in this category. Distributions will be received as the underlying investments are liquidated.
  - (e) The Commodities category includes investments in commodities-focused funds that primarily invest in futures and physical-based commodity driven strategies. Withdrawals are not permitted for investments representing 95% of the fair value of investments in this category. Distributions will be received as the underlying investments are liquidated. The remaining 5% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date.
  - (f) The Private Equity category includes investments in private equity funds that primarily invest in private equity, revenue interests and other private investments. Withdrawals are not permitted for investments in this category.

**6. DERIVATIVE FINANCIAL INSTRUMENTS**

Blackstone and the Blackstone Funds enter into derivative contracts in the normal course of business to achieve certain risk management objectives and for general investment purposes. Additionally, Blackstone may enter into derivative contracts in order to hedge its interest rate risk exposure against the effects of interest rate changes. As a result of the use of derivative contracts, Blackstone and the consolidated Blackstone Funds are exposed to the risk that counterparties will fail to fulfill their contractual obligations. To mitigate such counterparty risk, Blackstone and the consolidated Blackstone Funds enter into contracts with certain major financial institutions, all of which have investment grade ratings. Counterparty credit risk is evaluated in determining the fair value of derivative instruments.

**Freestanding Derivatives**

Freestanding derivatives are instruments that Blackstone and certain of the consolidated Blackstone Funds have entered into as part of their overall risk management and investment strategies. These derivative contracts are not designated as hedging instruments for accounting purposes. Such contracts may include interest rate swaps, foreign exchange contracts, equity swaps, options, futures and other derivative contracts.

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The table below summarizes the aggregate notional amount and fair value of the derivative financial instruments. The notional amount represents the absolute value amount of all outstanding derivative contracts.

	June 30, 2014				December 31, 2013			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
<b>Freestanding Derivatives</b>								
Blackstone								
Other								
Interest Rate Contracts	\$ 398,243	\$ 1,980	\$ 1,006,429	\$ 2,694	\$ 1,994,276	\$ 8,521	\$ 1,083,140	\$ 2,676
Foreign Currency Contracts	71,686	518	265,771	1,173	166,066	1,480	163,787	1,015
Total Return Swaps					326,929	342		
Credit Default Swaps	10,000	218	9,000	1,583			10,000	591
Investments of Consolidated Blackstone Funds								
Foreign Currency Contracts	283,843	18,189	262,295	18,753	396,569	30,830	239,037	10,018
Interest Rate Contracts	25,442	2,983			62,193	3,726		
Credit Default Swaps			95,560	6,101				
<b>Total</b>	<b>\$ 789,214</b>	<b>\$ 23,888</b>	<b>\$ 1,639,055</b>	<b>\$ 30,304</b>	<b>\$ 2,946,033</b>	<b>\$ 44,899</b>	<b>\$ 1,495,964</b>	<b>\$ 14,300</b>

The table below summarizes the impact to the Condensed Consolidated Statements of Operations from derivative financial instruments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Freestanding Derivatives</b>				
Realized Gains (Losses)				
Interest Rate Contracts	\$ (570)	\$ (429)	\$ (1,403)	\$ (955)
Foreign Currency Contracts	(4,420)	(2,527)	(2,981)	(3,763)
Credit Default Swaps	996	(181)	1,282	(173)
<b>Total</b>	<b>\$ (3,994)</b>	<b>\$ (3,137)</b>	<b>\$ (3,102)</b>	<b>\$ (4,891)</b>
<b>Net Change in Unrealized Gains (Losses)</b>				
Interest Rate Contracts	\$ (1,731)	\$ (2,807)	\$ (4,273)	\$ (9,493)
Foreign Currency Contracts	(13,827)	5,257	(21,944)	12,636
Credit Default Swaps	2,985	(277)	4,798	(300)
<b>Total</b>	<b>\$ (12,573)</b>	<b>\$ 2,173</b>	<b>\$ (21,419)</b>	<b>\$ 2,843</b>

As of June 30, 2014 and December 31, 2013, the Partnership had not designated any derivatives as cash flow hedges or hedges of net investments in foreign operations.



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**7. FAIR VALUE OPTION**

The following table summarizes the financial instruments for which the fair value option has been elected:

	June 30, 2014	December 31, 2013
<b>Assets</b>		
Loans and Receivables	\$ 42,725	\$ 137,788
Equity and Preferred Securities	91,094	88,568
Assets of Consolidated CLO Vehicles		
Corporate Loans	6,230,918	8,466,889
Corporate Bonds	168,426	161,382
Other	26,041	41,061
	\$ 6,559,204	\$ 8,895,688
<b>Liabilities</b>		
Liabilities of Consolidated CLO Vehicles		
Senior Secured Notes	\$ 6,407,838	\$ 8,302,572
Subordinated Notes	474,757	610,435
	\$ 6,882,595	\$ 8,913,007

The following table presents the realized and net change in unrealized gains (losses) on financial instruments on which the fair value option was elected:

	2014		2013	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
<b>Assets</b>				
Loans and Receivables	\$	\$	\$	\$ (154)
Equity and Preferred Securities	(739)	796	(605)	(2,869)
Assets of Consolidated CLO Vehicles				
Corporate Loans	(26,393)	33,898	3,499	(44,274)
Corporate Bonds	(3,284)	3,442	771	(2,070)
Other	(1,703)	22,673	537	(497)
	\$ (32,119)	\$ 60,809	\$ 4,202	\$ (49,864)
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles				
Senior Secured Notes	\$ (1,554)	\$ (39,764)	\$	\$ (64,042)

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Subordinated Notes

18,659

41,267

\$ (1,554)      \$ (21,105)      \$      \$ (22,775)

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(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

	2014		Six Months Ended June 30, 2013	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
<b>Assets</b>				
Loans and Receivables	\$	\$	\$ 43	\$ (204)
Equity and Preferred Securities	(1,323)	5,914	(1,398)	281
Assets of Consolidated CLO Vehicles				
Corporate Loans	(64,635)	48,957	43,074	34,872
Corporate Bonds	(2,186)	3,694	3,653	(5,858)
Other	13,294	19,555	1,426	1,112
	\$ (54,850)	\$ 78,120	\$ 46,798	\$ 30,203
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles				
Senior Secured Notes	\$ (4,092)	\$ (95,638)	\$	\$ (291,953)
Subordinated Notes		55,614		78,009
	\$ (4,092)	\$ (40,024)	\$	\$ (213,944)

The following table presents information for those financial instruments for which the fair value option was elected:

	June 30, 2014		June 30, 2014	
	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess (Deficiency) of Fair Value Over Principal	For Financial Assets with Non-Accrual Status Excess (Deficiency) of Fair Value Over Principal
Loans and Receivables	\$ (1,177)	\$	\$	\$ (1,703)
Assets of Consolidated CLO Vehicles				
Corporate Loans	(134,252)	12,674	(32,038)	
Corporate Bonds	2,911			
	\$ (132,518)	\$ 12,674	\$ (32,038)	\$ (1,703)

	December 31, 2013		December 31, 2013	
	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess (Deficiency) of Fair Value Over Principal	For Financial Assets with Non-Accrual Status Excess (Deficiency) of Fair Value Over Principal

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Loans and Receivables	\$ (533)	\$	\$	\$	\$
Assets of Consolidated CLO Vehicles					
Corporate Loans	(281,254)	57,837	(176,379)		
Corporate Bonds	(1,789)				
	\$ (283,576)	\$ 57,837	\$ (176,379)	\$	\$

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**Notes to Condensed Consolidated Financial Statements - Continued**

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- (a) Corporate Loans and Corporate Bonds within CLO assets are classified as past due if contractual payments are more than one day past due.

As of December 31, 2013, no Loans and Receivables for which the fair value option was elected were past due or in non-accrual status. As of June 30, 2014 and December 31, 2013, no Corporate Bonds included within the Assets of Consolidated CLO Vehicles for which the fair value option was elected were past due or in non-accrual status.



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**8. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS**

The following tables summarize the valuation of the Partnership's financial assets and liabilities by the fair value hierarchy:

	June 30, 2014			Total
	Level I	Level II	Level III	
<b>Assets</b>				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	\$	\$	\$ 984,184	\$ 984,184
Equity Securities	112,952	68,589	201,456	382,997
Partnership and LLC Interests		226,209	1,215,690	1,441,899
Debt Instruments	2,122	1,478,713	83,843	1,564,678
Assets of Consolidated CLO Vehicles				
Corporate Loans		5,487,401	743,517	6,230,918
Corporate Bonds		156,851	11,575	168,426
Freestanding Derivatives Foreign Currency Contracts		18,189		18,189
Freestanding Derivatives Interest Rate Contracts		2,983		2,983
Other	19	21,247	4,775	26,041
Total Investments of Consolidated Blackstone Funds	115,093	7,460,182	3,245,040	10,820,315
Blackstone's Treasury Cash Management Strategies	249,137	877,568	59,153	1,185,858
Money Market Funds	363,245			363,245
Freestanding Derivatives				
Interest Rate Contracts	1,184	796		1,980
Foreign Currency Contracts		518		518
Credit Default Swaps		218		218
Loans and Receivables			42,725	42,725
Other Investments	19,840	7,446	121,504	148,790
	\$ 748,499	\$ 8,346,728	\$ 3,468,422	\$ 12,563,649
<b>Liabilities</b>				
Liabilities of Consolidated Blackstone Funds (a)				
Freestanding Derivatives Credit Default Swaps	\$	\$ 6,101	\$	\$ 6,101
Liabilities of Consolidated CLO Vehicles				
Senior Secured Notes			6,407,838	6,407,838
Subordinated Notes			474,757	474,757
Freestanding Derivatives Foreign Currency Contracts		18,753		18,753
Total Liabilities of Consolidated Blackstone Funds		24,854	6,882,595	6,907,449
Freestanding Derivatives				
Interest Rate Contracts	1,700	994		2,694
Foreign Currency Contracts		1,173		1,173
Credit Default Swaps		1,583		1,583
Securities Sold, Not Yet Purchased		130,754		130,754
	\$ 1,700	\$ 159,358	\$ 6,882,595	\$ 7,043,653



**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements Continued**

(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

	December 31, 2013			Total
	Level I	Level II	Level III	
<b>Assets</b>				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	\$	\$	\$ 897,843	\$ 897,843
Equity Securities	51,147	130,816	193,699	375,662
Partnership and LLC Interests		88,555	1,254,903	1,343,458
Debt Instruments		1,154,902	45,495	1,200,397
Assets of Consolidated CLO Vehicles				
Corporate Loans		7,537,661	929,228	8,466,889
Corporate Bonds		161,382		161,382
Freestanding Derivatives Foreign Currency Contracts		30,830		30,830
Freestanding Derivatives Interest Rate Contracts		3,726		3,726
Other	3,477		37,584	41,061
Total Investments of Consolidated Blackstone Funds	54,624	9,107,872	3,358,752	12,521,248
Blackstone's Treasury Cash Management Strategies	19,629	1,041,039	44,132	1,104,800
Money Market Funds	173,781			173,781
Freestanding Derivatives				
Interest Rate Contracts	7,423	1,098		8,521
Foreign Currency Contracts		1,480		1,480
Total Return Swaps		342		342
Loans and Receivables			137,788	137,788
Other Investments	87,068	17,270	14,466	118,804
	\$ 342,525	\$ 10,169,101	\$ 3,555,138	\$ 14,066,764
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	\$	\$	\$ 8,302,572	\$ 8,302,572
Subordinated Notes			610,435	610,435
Freestanding Derivatives Foreign Currency Contracts		10,018		10,018
Freestanding Derivatives				
Interest Rate Contracts	2,484	192		2,676
Foreign Currency Contracts		1,015		1,015
Credit Default Swaps		591		591
Securities Sold, Not Yet Purchased		76,195		76,195
	\$ 2,484	\$ 88,011	\$ 8,913,007	\$ 9,003,502

- (a) Pursuant to GAAP consolidation guidance, the Partnership is required to consolidate all VIEs in which it has been identified as the primary beneficiary, including certain CLO vehicles, and other funds in which a consolidated entity of the Partnership, as the general partner of the fund, is presumed to have control. While the Partnership is required to consolidate certain funds, including CLO vehicles, for GAAP purposes, the Partnership has no ability to utilize the assets of these funds and there is no recourse to the Partnership for their liabilities since these are client assets and liabilities.



**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following table summarizes the fair value transfers between Level I and Level II for positions that existed as of June 30, 2014 and 2013, respectively:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Transfers from Level I into Level II (a)	\$	\$ 31	\$	\$ 28,670
Transfers from Level II into Level I (b)	\$ 49,298	\$ 46,495	\$ 67,327	\$

- (a) Transfers out of Level I represent those financial instruments for which restrictions exist and adjustments were made to an otherwise observable price to reflect fair value at the reporting date.
- (b) Transfers into Level I represent those financial instruments for which an unadjusted quoted price in an active market became available for the identical asset.

**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements Continued**

(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of June 30, 2014:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted-Average (a)
<b>Financial Assets</b>					
Investments of Consolidated Blackstone Funds					
Investment Funds	\$ 984,184	NAV as Fair Value	N/A	N/A	N/A
Equity Securities	110,938	Discounted Cash Flows	Discount Rate	7.6% - 26.2%	11.6%
			Revenue CAGR	1.9% - 29.2%	6.3%
			Exit Multiple - EBITDA	5.0x - 13.0x	9.2x
			Exit Multiple - P/E	9.5x - 17.0x	10.5x
	83,809	Transaction Price	N/A	N/A	N/A
	159	Market Comparable Companies	EBITDA Multiple	6.8x - 7.4x	6.9x
	44	Third Party Pricing	N/A	N/A	N/A
	6,506	Other	N/A	N/A	N/A
Partnership and LLC Interests	498,549	Discounted Cash Flows	Discount Rate	5.0% - 20.0%	9.0%
			Revenue CAGR	-2.2% - 42.4%	5.5%
			Exit Multiple - EBITDA	0.1x - 23.3x	9.8x
			Exit Capitalization Rate	4.3% - 10.5%	6.9%
	696,464	Transaction Price	N/A	N/A	N/A
	11,651	Third Party Pricing	N/A	N/A	N/A
	9,026	Other	N/A	N/A	N/A
Debt Instruments	14,568	Discounted Cash Flows	Discount Rate	10.6% - 23.0%	19.8%
			Revenue CAGR	3.6% - 7.8%	4.6%
			Exit Multiple - EBITDA	5.9x - 11.0x	10.7x
			Exit Capitalization Rate	6.2% - 8.4%	6.3%
			Default Rate	2.0%	N/A
			Recovery Rate	70.0%	N/A
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	63,036	Third Party Pricing	N/A	N/A	N/A
	6,031	Transaction Price	N/A	N/A	N/A
	208	Market Comparable Companies	EBITDA Multiple	6.1x - 8.0x	6.1x
Assets of Consolidated CLO Vehicles	470,263	Third Party Pricing	N/A	N/A	N/A
	269,579	Market Comparable Companies	EBITDA Multiple	3.5x - 15.0x	6.9x
	20,025	Discounted Cash Flows	Discount Rate	7.0% - 8.5%	7.3%
Total Investments of Consolidated Blackstone Funds	3,245,040				

continued



**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

	<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Ranges</b>	<b>Weighted-Average (a)</b>
Blackstone's Treasury Cash Management Strategies	\$ 17,308	Discounted Cash Flows	Default Rate	2.0%	N/A
			Recovery Rate	70.0%	N/A
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
			Discount Rate	5.9% - 8.3%	6.6%
	26,192	Third Party Pricing	N/A	N/A	N/A
	5,629	Transaction Price	N/A	N/A	N/A
	10,024	NAV as Fair Value	N/A	N/A	N/A
Loans and Receivables	42,725	Discounted Cash Flows	Discount Rate	13.0% - 16.2%	14.6%
Other Investments	11,923	Transaction Price	N/A	N/A	N/A
	106,464	Discounted Cash Flows	Discount Rate	1.4% - 12.5%	2.9%
			Default Rate	2.0%	N/A
			Recovery Rate	70.0%	N/A
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	3,117	NAV as Fair Value	N/A	N/A	N/A
Total	\$ 3,468,422				
<b>Financial Liabilities</b>					
Liabilities of Consolidated CLO Vehicles	\$ 6,882,595	Discounted Cash Flows	Default Rate	2.0% - 3.0%	2.1%
			Recovery Rate	70.0%	N/A
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Discount Rate	0.2% - 47.6%	2.4%
			Reinvestment Rate	LIBOR + 400 bps	N/A



**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued**

(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of December 31, 2013:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted-Average (a)
<b>Financial Assets</b>					
Investments of Consolidated Blackstone Funds					
Investment Funds	\$ 897,843	NAV as Fair Value	N/A	N/A	N/A
Equity Securities	112,117	Discounted Cash Flows	Discount Rate	9.2% - 26.3%	12.4%
			Revenue CAGR	0.9% - 46.2%	6.8%
			Exit Multiple - EBITDA	5.0x - 14.0x	8.9x
			Exit Multiple - P/E	8.5x - 17.0x	9.8x
	78,154	Transaction Price	N/A	N/A	N/A
	275	Market Comparable Companies	EBITDA Multiple	6.3x - 7.5x	6.9x
	50	Third Party Pricing	N/A	N/A	N/A
	3,103	Other	N/A	N/A	N/A
Partnership and LLC Interests	557,534	Discounted Cash Flows	Discount Rate	5.0% - 22.5%	9.0%
			Revenue CAGR	-0.7% - 17.7%	5.5%
			Exit Multiple - EBITDA	3.0x - 23.3x	9.4x
			Exit Capitalization Rate	4.3% - 10.5%	7.0%
	687,246	Transaction Price	N/A	N/A	N/A
	9,181	Third Party Pricing	N/A	N/A	N/A
	942	Other	N/A	N/A	N/A
Debt Instruments	11,814	Discounted Cash Flows	Discount Rate	10.7% - 21.0%	19.2%
			Revenue CAGR	4.8% - 5.5%	4.8%
			Exit Multiple - EBITDA	5.8x - 11.1x	10.8x
			Exit Capitalization Rate	6.4% - 7.5%	6.7%
			Default Rate	2.0%	N/A
			Recovery Rate	67.0%	N/A
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	31,675	Third Party Pricing	N/A	N/A	N/A
	1,772	Transaction Price	N/A	N/A	N/A
	234	Market Comparable Companies	EBITDA Multiple	6.2x - 8.0x	6.2x
Assets of Consolidated CLO Vehicles	615,414	Third Party Pricing	N/A	N/A	N/A
	293,382	Market Comparable Companies	EBITDA Multiple	3.5x - 11.3x	7.3x
	57,936	Discounted Cash Flows	Discount Rate	7.0% - 14.0%	7.8%
			Revenue CAGR	4.2%	N/A
			Exit Multiple - EBITDA	8.0x	N/A
	80	Transaction Price	N/A	N/A	N/A

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Total Investments of Consolidated Blackstone Funds	3,358,752
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(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

	<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Ranges</b>	<b>Weighted-Average (a)</b>
Blackstone's Treasury Cash Management Strategies	\$ 17,040	Discounted Cash Flows	Default Rate	2.0%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
			Discount Rate	6.0% - 8.6%	6.6%
	16,993	Third Party Pricing	N/A	N/A	N/A
	10,099	NAV as Fair Value	N/A	N/A	N/A
Loans and Receivables	137,788	Discounted Cash Flows	Discount Rate	11.0% - 14.8%	12.6%
Other Investments	7,927	Transaction Price	N/A	N/A	N/A
	3,725	NAV as Fair Value	N/A	N/A	N/A
	2,814	Discounted Cash Flows	Discount Rate	12.5%	N/A
<b>Total</b>	<b>\$ 3,555,138</b>				
<b>Financial Liabilities</b>					
Liabilities of Consolidated CLO Vehicles	\$ 8,913,007	Discounted Cash Flows	Default Rate	2.0% - 3.0%	2.1%
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	5.0% - 20.0%	18.0%
			Discount Rate	0.4% - 24.2%	2.6%
			Reinvestment Rate	LIBOR + 400 bps	N/A

N/A Not applicable.

CAGR Compound annual growth rate.

EBITDA Earnings before interest, taxes, depreciation and amortization.

Exit Multiple Ranges include the last twelve months EBITDA, forward EBITDA and price/earnings ( P/E ) exit multiples.

(a) Unobservable inputs were weighted based on the fair value of the investments included in the range.

The significant unobservable inputs used in the fair value measurement of the Blackstone's Treasury Cash Management Strategies, debt instruments, other investments and liabilities of consolidated CLO vehicles are discount rates, default rates, recovery rates, recovery lag, pre-payment rates and reinvestment rates. Increases (decreases) in any of the discount rates, default rates, recovery lag and pre-payment rates in isolation would result in a lower (higher) fair value measurement. Increases (decreases) in any of the recovery rates and reinvestment rates in isolation would result in a higher (lower) fair value measurement. Generally, a change in the assumption used for default rates may be accompanied by a directionally similar change in the assumption used for recovery lag and a directionally opposite change in the assumption used for recovery rates and pre-payment rates.

The significant unobservable inputs used in the fair value measurement of equity securities, partnership and LLC interests, debt instruments, assets of consolidated CLO vehicles and loans and receivables are discount rates, exit capitalization rates, exit multiples, EBITDA multiples and revenue compound annual growth rates. Increases (decreases) in any of discount rates and exit capitalization rates in isolation can result in a lower (higher) fair value measurement. Increases (decreases) in any of exit multiples and revenue compound annual growth rates in isolation can result in a higher (lower) fair value measurement.



**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements Continued**

(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

Since December 31, 2013, there have been no changes in valuation techniques within Level II and Level III that have had a material impact on the valuation of financial instruments.

The following tables summarize the changes in financial assets and liabilities measured at fair value for which the Partnership has used Level III inputs to determine fair value and does not include gains or losses that were reported in Level III in prior years or for instruments that were transferred out of Level III prior to the end of the respective reporting period. Total realized and unrealized gains and losses recorded for Level III investments are reported in Investment Income and Net Gains from Fund Investment Activities in the Condensed Consolidated Statements of Operations.

	Level III Financial Assets at Fair Value Three Months Ended June 30,							
	2014				2013			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total
Balance, Beginning of Period	\$ 3,412,822	\$ 61,573	\$ 136,911	\$ 3,611,306	\$ 2,937,297	\$ 3,867	\$ 63,049	\$ 3,004,213
Transfer Out Due to Deconsolidation	(140,393)			(140,393)	(50,181)			(50,181)
Transfer In to Level III (b)	196,770		4,293	201,063	177,145			177,145
Transfer Out of Level III (b)	(234,833)		(9,735)	(244,568)	(259,570)		(1,713)	(261,283)
Purchases	227,522	12,403	55,791	295,716	308,817	103,653	28,260	440,730
Sales	(276,020)	(31,345)	(4,170)	(311,535)	(302,010)		(41,074)	(343,084)
Settlements		(432)	(145)	(577)				
Realized Gains (Losses), Net	(26,634)		(651)	(27,285)	29,476		13,587	43,063
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	85,806	526	(1,637)	84,695	49,345	211	(14,195)	35,361
Balance, End of Period	\$ 3,245,040	\$ 42,725	\$ 180,657	\$ 3,468,422	\$ 2,890,319	\$ 107,731	\$ 47,914	\$ 3,045,964

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(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

	Level III Financial Assets at Fair Value Six Months Ended June 30,							
	2014				2013			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total
Balance, Beginning of Period	\$ 3,358,752	\$ 137,788	\$ 58,598	\$ 3,555,138	\$ 3,017,699	\$ 30,663	\$ 28,104	\$ 3,076,466
Transfer In Due to Consolidation and Acquisition (a)	276,806			276,806			11,960	11,960
Transfer Out Due to Deconsolidation	(238,399)			(238,399)	(152,727)			(152,727)
Transfer In to Level III (b)	222,991		7,972	230,963	224,363			224,363
Transfer Out of Level III (b)	(292,469)		(10,744)	(303,213)	(372,438)		(1,713)	(374,151)
Purchases	392,699	93,645	133,430	619,774	436,850	106,526	91,034	634,410
Sales	(559,330)	(188,064)	(8,237)	(755,631)	(430,563)	(29,462)	(80,536)	(540,561)
Settlements		(1,170)	(301)	(1,471)		(332)	(1,559)	(1,891)
Realized Gains (Losses), Net	(21,042)		(549)	(21,591)	1,959	43	14,436	16,438
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	105,032	526	488	106,046	165,176	293	(13,812)	151,657
Balance, End of Period	\$ 3,245,040	\$ 42,725	\$ 180,657	\$ 3,468,422	\$ 2,890,319	\$ 107,731	\$ 47,914	\$ 3,045,964

	Level III Financial Liabilities at Fair Value Three Months Ended June 30,						
	2014			2013			
	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total	Total
Balance, Beginning of Period	\$ 7,795,523	\$ 619,188	\$ 8,414,711	\$ 9,634,747	\$ 720,552	\$ 10,355,299	
Transfer In Due to Consolidation and Acquisition (a)	32,197	10,000	42,197				
Transfer Out Due to Deconsolidation	(814,300)	(133,454)	(947,754)	(343,392)	(67,629)	(411,021)	
Settlements	(609,646)		(609,646)	(299,993)	(4)	(299,997)	
Realized Losses, Net	1,554		1,554				
Changes in Unrealized (Gains) Losses Included in Earnings Related to Liabilities Still Held at the Reporting Date	2,510	(20,977)	(18,467)	198,586	(34,237)	164,349	
Balance, End of Period	\$ 6,407,838	\$ 474,757	\$ 6,882,595	\$ 9,189,948	\$ 618,682	\$ 9,808,630	



**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements Continued**

(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

	Level III Financial Liabilities at Fair Value					
	Six Months Ended June 30,					
	2014			2013		
	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total
Balance, Beginning of Period	\$ 8,302,572	\$ 610,435	\$ 8,913,007	\$ 10,695,136	\$ 846,471	\$ 11,541,607
Transfer In Due to Consolidation and Acquisition (a)	504,216	96,182	600,398			
Transfer Out Due to Deconsolidation	(1,453,391)	(173,252)	(1,626,643)	(1,100,842)	(150,925)	(1,251,767)
Issuances				1,054	775	1,829
Settlements	(998,633)	(110)	(998,743)	(704,377)	(346)	(704,723)
Realized Losses, Net	4,092		4,092			
Changes in Unrealized (Gains) Losses Included in Earnings Related to Liabilities Still Held at the Reporting Date	48,982	(58,498)	(9,516)	298,977	(77,293)	221,684
Balance, End of Period	\$ 6,407,838	\$ 474,757	\$ 6,882,595	\$ 9,189,948	\$ 618,682	\$ 9,808,630

- (a) Represents the transfer into Level III of financial assets and liabilities as a result of the consolidation of certain fund entities.
- (b) Transfers in and out of Level III financial assets and liabilities were due to changes in the observability of inputs used in the valuation of such assets and liabilities.
- (c) Represents Blackstone's Treasury Cash Management Strategies and Other Investments.

**9. VARIABLE INTEREST ENTITIES**

Pursuant to GAAP consolidation guidance, the Partnership consolidates certain VIEs in which it is determined that the Partnership is the primary beneficiary either directly or indirectly, through a consolidated entity or affiliate. VIEs include certain private equity, real estate, credit-focused or funds of hedge funds entities and CLO vehicles. The purpose of such VIEs is to provide strategy specific investment opportunities for investors in exchange for management and performance based fees. The investment strategies of the Blackstone Funds differ by product; however, the fundamental risks of the Blackstone Funds have similar characteristics, including loss of invested capital and loss of management fees and performance based fees. In Blackstone's role as general partner, collateral manager or investment adviser, it generally considers itself the sponsor of the applicable Blackstone Fund. The Partnership does not provide performance guarantees and has no other financial obligation to provide funding to consolidated VIEs other than its own capital commitments.

The assets of consolidated variable interest entities may only be used to settle obligations of these consolidated Blackstone Funds. In addition, there is no recourse to the Partnership for the consolidated VIEs' liabilities including the liabilities of the consolidated CLO vehicles.



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(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

The Partnership holds variable interests in certain VIEs which are not consolidated as it is determined that the Partnership is not the primary beneficiary. The Partnership's involvement with such entities is in the form of direct equity interests and fee arrangements. The maximum exposure to loss represents the loss of assets recognized by Blackstone relating to non-consolidated entities, any amounts due to non-consolidated entities and any clawback obligation relating to previously distributed Carried Interest. The assets and liabilities recognized in the Partnership's Condensed Consolidated Statements of Financial Condition related to the Partnership's interest in these non-consolidated VIEs and the Partnership's maximum exposure to loss relating to non-consolidated VIEs were as follows:

	June 30, 2014	December 31, 2013
Investments	\$ 1,005,062	\$ 758,304
Accounts Receivable	112,370	166,908
Due from Affiliates	41,766	86,246
Total VIE Assets	1,159,198	1,011,458
Due to Affiliates	1,723	397
Accounts Payable, Accrued Expenses and Other Liabilities		2
Potential Clawback Obligation	59,757	63,290
Maximum Exposure to Loss	\$ 1,220,678	\$ 1,075,147

**10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS**

At June 30, 2014, the Partnership received securities, primarily U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, with a fair value of \$30.6 million as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of \$30.6 million were used to cover Securities Sold, Not Yet Purchased. The Partnership also pledged securities with a carrying value of \$65.7 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

At December 31, 2013, the Partnership received securities, primarily U.S. and non-U.S. government and agency securities, asset-backed securities and corporate debt, with a fair value of \$148.4 million and cash as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of \$148.4 million were used to cover Securities Sold, Not Yet Purchased and Repurchase Agreements. The Partnership also pledged securities with a carrying value of \$316.6 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

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(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

**11. OFFSETTING OF ASSETS AND LIABILITIES**

The following tables present the offsetting of assets and liabilities as of June 30, 2014:

	Gross and Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Received	
<b>Assets</b>				
Freestanding Derivatives	\$ 2,716	\$ 1,219	\$ 509	\$ 988
Reverse Repurchase Agreements	30,721	30,570		151
Total	\$ 33,437	\$ 31,789	\$ 509	\$ 1,139

	Gross and Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Pledged	
<b>Liabilities</b>				
Freestanding Derivatives	\$ 11,551	\$ 1,219	\$ 9,666	\$ 666
Repurchase Agreements	41,772	41,300	470	2
Total	\$ 53,323	\$ 42,519	\$ 10,136	\$ 668

The following tables present the offsetting of assets and liabilities as of December 31, 2013:

	Gross and Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Received	
<b>Assets</b>				
Freestanding Derivatives	\$ 10,343	\$ 3,025	\$ 582	\$ 6,736
Reverse Repurchase Agreements	148,984	148,394		590

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Total \$ 159,327 \$ 151,419 \$ 582 \$ 7,326

	Gross and Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Pledged	
<b>Liabilities</b>				
Freestanding Derivatives	\$ 4,282	\$ 3,025	\$ 1,257	\$
Repurchase Agreements	316,352	316,352		
Total	\$ 320,634	\$ 319,377	\$ 1,257	\$

**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

Reverse Repurchase Agreements and Repurchase Agreements are presented separately on the Condensed Consolidated Statements of Financial Condition. Freestanding Derivative assets are included in Other Assets in the Condensed Consolidated Statements of Financial Condition. The following table presents the components of Other Assets:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Furniture, Equipment and Leasehold Improvements, Net	\$ 132,196	\$ 137,088
Prepaid Expenses	98,501	61,226
Other Assets	69,806	75,815
Freestanding Derivatives	2,716	10,343
	<b>\$ 303,219</b>	<b>\$ 284,472</b>

Freestanding Derivative liabilities are included in Accounts Payable, Accrued Expenses and Other Liabilities in the Condensed Consolidated Statements of Financial Condition and are not a significant component thereof.

**Notional Pooling Arrangement**

Blackstone has entered into a notional cash pooling arrangement with a financial institution for cash management purposes. This arrangement allows for cash withdrawals based upon aggregate cash balances on deposit at the same financial institution. Cash withdrawals cannot exceed aggregate cash balances on deposit. The net balance of cash on deposit and overdrafts is used as a basis for calculating net interest expense or income. As of June 30, 2014, the aggregate cash balance on deposit relating to the cash pooling arrangement was \$956.9 million, which was fully offset with an accompanying overdraft.

**12. BORROWINGS**

On April 7, 2014, Blackstone Holdings Finance Co. L.L.C. (the Issuer), an indirect subsidiary of the Partnership, issued \$500 million aggregate principal amount of Senior Notes maturing June 15, 2044 (the Notes). The Notes have an interest rate of 5.000% per annum, accruing from April 7, 2014. Interest is payable semiannually in arrears on June 15 and December 15 of each year, commencing December 15, 2014. The Notes are unsecured and unsubordinated obligations of the Issuer. The Notes are fully and unconditionally guaranteed, jointly and severally, by the Partnership, Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. (the Guarantors). The guarantees are unsecured and unsubordinated obligations of the Guarantors. Transaction costs related to the issuance of the Notes have been capitalized and are being amortized over the life of the Notes.

On May 29, 2014, the Issuer entered into an amendment to the \$1.1 billion revolving credit facility (the Credit Facility) with Citibank, N.A., as Administrative Agent. The amendment, among other things, extended the maturity date of the Credit Facility from July 13, 2017 to May 29, 2019. As of June 30, 2014, Blackstone had no outstanding borrowings under the Credit Facility.

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(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

The carrying value and fair value of the Blackstone issued notes, included in Loans Payable within the Condensed Consolidated Statements of Financial Condition, were:

	June 30, 2014		December 31, 2013	
	Carrying Value	Fair Value (a)	Carrying Value	Fair Value (a)
Blackstone Issued 6.625%, \$600 Million Par, Notes Due 8/15/2019 (b)	\$ 629,007	\$ 696,150	\$ 632,823	\$ 684,860
Blackstone Issued 5.875%, \$400 Million Par, Notes Due 3/15/2021	\$ 398,625	\$ 465,840	\$ 398,543	\$ 447,120
Blackstone Issued 4.750%, \$400 Million Par, Notes Due 2/15/2023	\$ 393,500	\$ 435,920	\$ 393,202	\$ 415,760
Blackstone Issued 6.250%, \$250 Million Par, Notes Due 8/15/2042	\$ 239,800	\$ 302,950	\$ 239,738	\$ 278,550
Blackstone Issued 5.000%, \$500 Million Par, Notes Due 6/15/2044	\$ 492,963	\$ 514,850	\$	\$

(a) Fair value is determined by broker quote and these notes would be classified as Level II within the fair value hierarchy.

(b) The carrying and fair values are determined using the original \$600 million par amount less \$15 million attributable to these notes which were acquired but not retired by Blackstone during 2012.

Included within Loans Payable and Due to Affiliates within the Condensed Consolidated Statements of Financial Condition are amounts due to holders of debt securities issued by Blackstone's consolidated CLO vehicles. Borrowings through the consolidated CLO vehicles consisted of the following:

	June 30, 2014			December 31, 2013		
	Borrowing Outstanding	Weighted-Average Interest Rate	Weighted-Average Remaining Maturity in Years	Borrowing Outstanding	Weighted-Average Interest Rate	Weighted-Average Remaining Maturity in Years
Senior Secured Notes	\$ 6,667,944	1.01%	3.7	\$ 8,605,553	1.09%	4.1
Subordinated Notes	999,134	(a)	N/A	1,221,068	(a)	N/A
	\$ 7,667,078			\$ 9,826,621		

(a) The Subordinated Notes do not have contractual interest rates but instead receive distributions from the excess cash flows of the CLO vehicles.

Senior Secured Notes and Subordinated Notes comprise the following amounts:

June 30, 2014	December 31, 2013
Amounts Due to Non-Consolidated Affiliates	Amounts Due to Non-Consolidated Affiliates

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	<b>Fair Value</b>	<b>Borrowing Outstanding</b>	<b>Fair Value</b>	<b>Fair Value</b>	<b>Borrowing Outstanding</b>	<b>Fair Value</b>
Senior Secured Notes	\$ 6,407,838	\$ 14,500	\$ 13,779	\$ 8,302,572	\$ 14,500	\$ 13,732
Subordinated Notes	\$ 474,757	\$ 128,642	\$ 40,339	\$ 610,435	\$ 224,444	\$ 110,197

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The Loans Payable of the consolidated CLO vehicles are collateralized by assets held by each respective CLO vehicle and assets of one vehicle may not be used to satisfy the liabilities of another. As of June 30, 2014 and December 31, 2013, the fair value of the consolidated CLO assets was \$7.8 billion and \$9.5 billion, respectively. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

Scheduled principal payments for borrowings as of June 30, 2014 were as follows:

	<b>Operating Borrowings</b>	<b>Blackstone Fund Facilities/CLO Vehicles</b>	<b>Total Borrowings</b>
2014	\$	\$	\$
2015		6,544	6,544
2016			
2017		315,000	315,000
After 2018	2,135,000	7,352,078	9,487,078
Total	\$ 2,135,000	\$ 7,673,622	\$ 9,808,622

**13. INCOME TAXES**

Blackstone's effective tax rate was 6.4% and 9.9% for the three months ended June 30, 2014 and 2013, respectively, and 6.8% and 10.2% for the six months ended June 30, 2014 and 2013, respectively. Blackstone's income tax provision was \$83.3 million and \$56.1 million for the three months ended June 30, 2014 and 2013, respectively, and \$137.4 million and \$107.1 million for the six months ended June 30, 2014 and 2013, respectively.

Blackstone's effective tax rate for the three and six months ended June 30, 2014 and 2013 was substantially due to the following: (a) certain corporate subsidiaries are subject to federal, state, local and foreign income taxes as applicable and other subsidiaries are subject to New York City unincorporated business taxes, and (b) a portion of compensation charges are not deductible for tax purposes.

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(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

**14. NET INCOME PER COMMON UNIT**

Basic and diluted net income per common unit for the three and six months ended June 30, 2014 and June 30, 2013 was calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net Income Attributable to The Blackstone Group L.P.	\$ 517,016	\$ 211,148	\$ 782,633	\$ 378,783
<b>Basic Net Income Per Common Unit</b>				
Weighted-Average Common Units Outstanding	606,690,740	583,843,094	604,123,284	583,086,840
Basic Net Income Per Common Unit	\$ 0.85	\$ 0.36	\$ 1.30	\$ 0.65
<b>Diluted Net Income Per Common Unit</b>				
Weighted-Average Common Units Outstanding	606,690,740	583,843,094	604,123,284	583,086,840
Weighted-Average Unvested Deferred Restricted Common Units	3,207,089	2,919,959	3,674,476	3,148,837
Weighted-Average Diluted Common Units Outstanding	609,897,829	586,763,053	607,797,760	586,235,677
Diluted Net Income Per Common Unit	\$ 0.85	\$ 0.36	\$ 1.29	\$ 0.65

The following table summarizes the anti-dilutive securities for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Weighted-Average Blackstone Holdings Partnership Units	544,158,132	555,224,714	546,727,909	556,337,696
<b>Unit Repurchase Program</b>				

In January 2008, Blackstone announced that the Board of Directors of its general partner, Blackstone Group Management L.L.C., had authorized the repurchase by Blackstone of up to \$500 million of Blackstone common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date.

During the six months ended June 30, 2014 and 2013, no units were repurchased. As of June 30, 2014, the amount remaining available for repurchases under this program was \$335.8 million.





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**15. EQUITY-BASED COMPENSATION**

The Partnership has granted equity-based compensation awards to Blackstone's senior managing directors, non-partner professionals, non-professionals and selected external advisers under the Partnership's 2007 Equity Incentive Plan (the Equity Plan), the majority of which to date were granted in connection with Blackstone's initial public offering (IPO). The Equity Plan allows for the granting of options, unit appreciation rights or other unit-based awards (units, restricted units, restricted common units, deferred restricted common units, phantom restricted common units or other unit-based awards based in whole or in part on the fair value of the Blackstone common units or Blackstone Holdings Partnership Units) which may contain certain service or performance requirements. As of January 1, 2014, the Partnership had the ability to grant 164,224,426 units under the Equity Plan.

For the three and six months ended June 30, 2014, the Partnership recorded compensation expense of \$186.9 million and \$381.6 million, respectively, in relation to its equity-based awards with corresponding tax benefits of \$6.4 million and \$13.6 million, respectively. For the three and six months ended June 30, 2013, the Partnership recorded compensation expense of \$183.2 million and \$378.6 million, respectively, in relation to its equity-based awards with corresponding tax benefits of \$6.2 million and \$11.7 million, respectively. As of June 30, 2014, there was \$943.1 million of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 1.6 years.

Total vested and unvested outstanding units, including Blackstone common units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,153,326,805 as of June 30, 2014. Total outstanding unvested phantom units were 74,414 as of June 30, 2014.

A summary of the status of the Partnership's unvested equity-based awards as of June 30, 2014 and of changes during the period January 1, 2014 through June 30, 2014 is presented below:

	Blackstone Holdings		The Blackstone Group L.P.			
	Partnership Units	Weighted-Average Grant Date Fair Value	Equity Settled Awards Deferred Restricted Common Units and Options	Weighted-Average Grant Date Fair Value	Cash Settled Awards Phantom Units	Weighted-Average Grant Date Fair Value
<b>Unvested Units</b>						
Balance, December 31, 2013	48,057,816	\$ 26.64	20,004,139	\$ 15.57	147,169	\$ 12.00
Granted	555,917	31.48	830,022	27.02	461	28.05
Vested	(17,318,368)	29.88	(3,121,112)	19.00	(72,646)	11.82
Forfeited	(324,557)	19.63	(459,095)	13.94	(570)	33.41
Balance, June 30, 2014	30,970,808	\$ 24.99	17,253,954	\$ 15.55	74,414	\$ 12.29

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**Units Expected to Vest**

The following unvested units, after expected forfeitures, as of June 30, 2014, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	28,002,135	1.7
Deferred Restricted Blackstone Common Units	14,750,278	2.1
<b>Total Equity-Based Awards</b>	<b>42,752,413</b>	<b>1.8</b>
Phantom Units	75,514	0.05

**Equity-Based Awards with Performance Conditions**

The Partnership has also granted certain equity-based awards with performance requirements. These awards are based on the performance of certain businesses over a three to five year period beginning January 2012, relative to a predetermined threshold. Blackstone has determined that it is probable that the relevant performance thresholds will be exceeded in future periods and, therefore, has recorded compensation expense since the beginning of the performance period of \$79.1 million.

**16. RELATED PARTY TRANSACTIONS****Affiliate Receivables and Payables**

Due from Affiliates and Due to Affiliates consisted of the following:

	June 30, 2014	December 31, 2013
<b>Due from Affiliates</b>		
Accrual for Potential Clawback of Previously Distributed Carried Interest	\$ 2,609	\$ 1,561
Primarily Interest Bearing Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees for Investments in Blackstone Funds	210,909	151,493
Amounts Due from Portfolio Companies and Funds	279,723	307,926
Investments Redeemed in Non-Consolidated Funds of Hedge Funds	29,128	259,787
Management and Performance Fees Due from Non-Consolidated Funds	346,151	325,389
Payments Made on Behalf of Non-Consolidated Entities	171,843	133,790
Advances Made to Certain Non-Controlling Interest Holders and Blackstone Employees	8,861	12,098
	<b>\$ 1,049,224</b>	<b>\$ 1,192,044</b>



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(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

	June 30, 2014	December 31, 2013
<b>Due to Affiliates</b>		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	\$ 1,204,655	\$ 1,235,168
Accrual for Potential Repayment of Previously Received Performance Fees	4,111	4,270
Due to Note Holders of Consolidated CLO Vehicles	54,118	123,929
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	16,835	11,293
Payable to Affiliates for Consolidated Funds	24,010	29,803
Distributions Received on Behalf of Blackstone Entities	25,816	22,815
Payments Made by Non-Consolidated Entities	17,358	9,581
	<b>\$ 1,346,903</b>	<b>\$ 1,436,859</b>

**Interests of the Founder, Senior Managing Directors, Employees and Other Related Parties**

The founder, senior managing directors, employees and certain other related parties invest on a discretionary basis in the consolidated Blackstone Funds both directly and through consolidated entities. These investments generally are subject to preferential management fee and performance fee arrangements. As of June 30, 2014 and December 31, 2013, such investments aggregated \$1.0 billion and \$1.0 billion, respectively. Their share of the Net Income Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated \$50.8 million and \$50.2 million for the three months ended June 30, 2014 and 2013, respectively, and \$95.7 million and \$100.6 million for the six months ended June 30, 2014 and 2013, respectively.

**Revenues Earned from Affiliates**

Management and Advisory Fees, Net earned from affiliates totaled \$81.3 million and \$80.8 million for the three months ended June 30, 2014 and 2013, respectively. Management and Advisory Fees, Net earned from affiliates totaled \$155.4 million and \$120.1 million for the six months ended June 30, 2014 and 2013, respectively. Fees relate primarily to transaction and monitoring fees which are negotiated in the ordinary course of fundraising and investment activities.

**Loans to Affiliates**

Loans to affiliates consist of interest bearing advances to certain Blackstone individuals to finance their investments in certain Blackstone Funds. These loans earn interest at Blackstone's cost of borrowing and such interest totaled \$1.0 million and \$0.7 million for the three months ended June 30, 2014 and 2013, respectively, and \$1.1 million and \$1.7 million for the six months ended June 30, 2014 and 2013, respectively.

**Contingent Repayment Guarantee**

Blackstone and its personnel who have received Carried Interest distributions have guaranteed payment on a several basis (subject to a cap) to the Carry Funds of any clawback obligation with respect to the excess Carried Interest allocated to the general partners of such funds and indirectly received thereby to the extent that either Blackstone or its personnel fails to fulfill its clawback obligation, if any. The Accrual for Potential Repayment of Previously Received Performance Fees represents amounts previously paid to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Carry Funds were to be

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**Notes to Condensed Consolidated Financial Statements Continued**

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liquidated based on the fair value of their underlying investments as of June 30, 2014. See Note 17. Commitments and Contingencies  
Contingencies Contingent Obligations (Clawback) .

**Aircraft and Other Services**

In the normal course of business, Blackstone personnel have made use of aircraft owned as personal assets by Stephen A. Schwarzman and an aircraft owned jointly as a personal asset by Hamilton E. James, Blackstone's President and Chief Operating Officer, and Jonathan D. Gray, Blackstone's Global Head of Real Estate and a Director of Blackstone (each such aircraft, Personal Aircraft). Mr. Schwarzman paid for his purchases of his Personal Aircraft himself and bears all operating, personnel and maintenance costs associated with their operation. Each of Mr. James and Mr. Gray paid for his respective interest in their jointly owned Personal Aircraft himself and bears all operating, personnel and maintenance costs associated with its operation. Payment by Blackstone for the use of the Personal Aircraft by Blackstone employees is made at market rates.

In addition, on occasion, Mr. Schwarzman and his family have made use of an aircraft in which Blackstone owns a fractional interest, as well as other assets of Blackstone. Mr. Schwarzman is charged for his and his family's personal use of Blackstone assets based on market rates and usage. Personal use of Blackstone resources is also reimbursed to Blackstone at market rates.

The transactions described herein are not material to the Condensed Consolidated Financial Statements.

**Tax Receivable Agreements**

Blackstone used a portion of the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to purchase interests in the predecessor businesses from the predecessor owners. In addition, holders of Blackstone Holdings Partnership Units may exchange their Blackstone Holdings Partnership Units for Blackstone common units on a one-for-one basis. The purchase and subsequent exchanges are expected to result in increases in the tax basis of the tangible and intangible assets of Blackstone Holdings and therefore reduce the amount of tax that Blackstone's wholly owned subsidiaries would otherwise be required to pay in the future.

One of the subsidiaries of the Partnership which is a corporate taxpayer has entered into tax receivable agreements with each of the predecessor owners and additional tax receivable agreements have been executed, and will continue to be executed, with newly-admitted senior managing directors and others who acquire Blackstone Holdings Partnership Units. The agreements provide for the payment by the corporate taxpayer to such owners of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that the corporate taxpayers actually realize as a result of the aforementioned increases in tax basis and of certain other tax benefits related to entering into these tax receivable agreements. For purposes of the tax receivable agreements, cash savings in income tax will be computed by comparing the actual income tax liability of the corporate taxpayers to the amount of such taxes that the corporate taxpayers would have been required to pay had there been no increase to the tax basis of the tangible and intangible assets of Blackstone Holdings as a result of the exchanges and had the corporate taxpayers not entered into the tax receivable agreements.

Assuming no material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreements (which are taxable to the recipients) will aggregate \$1.2 billion over the next 15 years. The after-tax net present value of these estimated payments totals \$395.8 million assuming a 15% discount rate and using Blackstone's most recent projections relating to the estimated timing of the benefit to be received. Future

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payments under the tax receivable agreements in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreements are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above.

Amounts related to the deferred tax asset resulting from the increase in tax basis from the exchange of Blackstone Holdings Partnership Units to Blackstone common units, the resulting remeasurement of net deferred tax assets at the Blackstone ownership percentage at the balance sheet date, the due to affiliates for the future payments resulting from the tax receivable agreements and resulting adjustment to partners' capital are included as Acquisition of Ownership Interests from Non-Controlling Interest Holders in the Supplemental Disclosure of Non-Cash Investing and Financing Activities in the Condensed Consolidated Statements of Cash Flows.

**Other**

Blackstone does business with and on behalf of some of its Portfolio Companies; all such arrangements are on a negotiated basis.

**17. COMMITMENTS AND CONTINGENCIES**

**Commitments**

*Investment Commitments*

Blackstone had \$1.5 billion of investment commitments as of June 30, 2014 representing general partner capital funding commitments to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. The consolidated Blackstone Funds had signed investment commitments of \$45.2 million as of June 30, 2014 which includes \$30.3 million of signed investment commitments for portfolio company acquisitions in the process of closing.

**Contingencies**

*Guarantees*

Certain of Blackstone's consolidated real estate funds guarantee payments to third parties in connection with the on-going business activities and/or acquisitions of their Portfolio Companies. There is no direct recourse to the Partnership to fulfill such obligations. To the extent that underlying funds are required to fulfill guarantee obligations, the Partnership's invested capital in such funds is at risk. Total investments at risk in respect of guarantees extended by consolidated real estate funds was \$2.6 million as of June 30, 2014.

On March 28, 2012, the Blackstone Holdings Partnerships entered into a guaranty agreement with a lending institution in which the Holdings Partnerships guarantee certain loans held by employees for investment in Blackstone Funds. The amount guaranteed as of June 30, 2014 was \$65.5 million.

*Litigation*

From time to time, Blackstone is named as a defendant in legal actions relating to transactions conducted in the ordinary course of business. Although there can be no assurance of the outcome of such legal actions, in the opinion of management, Blackstone does not have a potential liability related to any current legal proceeding or claim that would individually or in the aggregate materially affect its results of operations, financial position or cash flows.





**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements - Continued****(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)***Contingent Obligations (Clawback)*

Carried Interest is subject to clawback to the extent that the Carried Interest received to date with respect to a fund exceeds the amount due to Blackstone based on cumulative results of that fund. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability. The lives of the carry funds with a potential clawback obligation, including available contemplated extensions, are currently anticipated to expire at various points through 2016. Further extensions of such terms may be implemented under given circumstances.

For financial reporting purposes, the general partners have recorded a liability for potential clawback obligations to the limited partners of some of the carry funds due to changes in the unrealized value of a fund's remaining investments and where the fund's general partner has previously received Carried Interest distributions with respect to such fund's realized investments.

The following table presents the clawback obligations by segment:

Segment	June 30, 2014			December 31, 2013		
	Blackstone Holdings	Current and Former Personnel	Total	Blackstone Holdings	Current and Former Personnel	Total
Private Equity	\$	\$	\$	\$ (5)	\$ 151	\$ 146
Real Estate	1,502	498	2,000	1,501	518	2,019
Credit		2,111	2,111	1,213	892	2,105
Total	\$ 1,502	\$ 2,609	\$ 4,111	\$ 2,709	\$ 1,561	\$ 4,270

A portion of the Carried Interest paid to current and former Blackstone personnel is held in segregated accounts in the event of a cash clawback obligation. These segregated accounts are not included in the Condensed Consolidated Financial Statements of the Partnership, except to the extent a portion of the assets held in the segregated accounts may be allocated to a consolidated Blackstone fund of hedge funds. At June 30, 2014, \$443.3 million was held in segregated accounts for the purpose of meeting any clawback obligations of current and former personnel if such payments are required.

**18. SEGMENT REPORTING**

Blackstone transacts its primary business in the United States and substantially all of its revenues are generated domestically.

Blackstone conducts its alternative asset management and financial advisory businesses through five segments:

**Private Equity** Blackstone's Private Equity segment comprises its management of private equity funds, certain multi-asset class investment funds and secondary private funds of funds.

**Real Estate** Blackstone's Real Estate segment primarily comprises its management of global, European focused and Asian focused opportunistic real estate funds. In addition, the segment has debt investment funds and a publicly traded REIT targeting

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non-controlling real estate debt-related investment opportunities in the public and private markets, primarily in the United States and Europe.

**Hedge Fund Solutions** Blackstone's Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management (BAAM), an institutional solutions provider utilizing hedge funds across a variety of strategies.

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**Credit** Blackstone's Credit segment, which principally includes GSO Capital Partners LP ( GSO ), manages credit-focused products within private debt and public market strategies. GSO's products include senior credit-focused funds, distressed debt funds, mezzanine funds, general credit-focused funds, registered investment companies, separately managed accounts and CLO vehicles.

**Financial Advisory** Blackstone's Financial Advisory segment comprises its financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and Park Hill Group, which provides fund placement services for alternative investment funds.

These business segments are differentiated by their various sources of income. The Private Equity, Real Estate, Hedge Fund Solutions and Credit segments primarily earn their income from management fees and investment returns on assets under management, while the Financial Advisory segment primarily earns its income from fees related to investment banking services and advice and fund placement services.

Blackstone uses Economic Income ( EI ) as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone's IPO and long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds Blackstone manages. Economic Net Income ( ENI ) represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes.

Management makes operating decisions and assesses the performance of each of Blackstone's business segments based on financial and operating metrics and data that is presented without the consolidation of any of the Blackstone Funds that are consolidated into the Condensed Consolidated Financial Statements. Consequently, all segment data excludes the assets, liabilities and operating results related to the Blackstone Funds.

**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements Continued**

(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

The following table presents the financial data for Blackstone's segments for the three months ended June 30, 2014 and 2013:

	Three Months Ended June 30, 2014					Total Segments
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 103,204	\$ 157,869	\$ 123,008	\$ 112,489	\$	\$ 496,570
Advisory Fees					114,914	114,914
Transaction and Other Fees, Net	27,616	13,514	126	7,064	876	49,196
Management Fee Offsets	(4,246)	(7,702)	(1,531)	(6,739)		(20,218)
<b>Total Management and Advisory Fees, Net</b>	<b>126,574</b>	<b>163,681</b>	<b>121,603</b>	<b>112,814</b>	<b>115,790</b>	<b>640,462</b>
<b>Performance Fees</b>						
Realized						
Carried Interest	212,394	417,826		11,439		641,659
Incentive Fees		6,070	7,973	25,248		39,291
Unrealized						
Carried Interest	502,210	119,461		39,041		660,712
Incentive Fees		(3,483)	30,556	29,703		56,776
<b>Total Performance Fees</b>	<b>714,604</b>	<b>539,874</b>	<b>38,529</b>	<b>105,431</b>		<b>1,398,438</b>
<b>Investment Income (Loss)</b>						
Realized						
Carried Interest	74,812	122,664	2,394	2,223	106	202,199
Incentive Fees	17,662	(50,437)	1,057	4,521	969	(26,228)
Unrealized						
Carried Interest	92,474	72,227	3,451	6,744	1,075	175,971
Interest and Dividend Revenue	4,666	8,009	2,340	4,892	2,187	22,094
Other	564	(218)	(203)	11	(160)	(6)
<b>Total Investment Income</b>	<b>938,882</b>	<b>783,573</b>	<b>165,720</b>	<b>229,892</b>	<b>118,892</b>	<b>2,236,959</b>
<b>Expenses</b>						
Compensation and Benefits						
Compensation	73,038	85,582	43,341	51,310	69,744	323,015
Performance Fee Compensation						
Realized						
Carried Interest	112,720	143,442		4,139		260,301
Incentive Fees		3,081	2,918	12,510		18,509
Unrealized						
Carried Interest	66,194	27,339		20,803		114,336
Incentive Fees		(1,783)	11,252	15,223		24,692

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Total Compensation and Benefits	251,952	257,661	57,511	103,985	69,744	740,853
Other Operating Expenses	39,193	36,542	25,101	22,159	22,116	145,111
Total Expenses	291,145	294,203	82,612	126,144	91,860	885,964
Economic Income	\$ 647,737	\$ 489,370	\$ 83,108	\$ 103,748	\$ 27,032	\$ 1,350,995

**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements Continued**

(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

	Three Months Ended June 30, 2013					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 86,621	\$ 137,000	\$ 100,113	\$ 101,940	\$	\$ 425,674
Advisory Fees					120,734	120,734
Transaction and Other Fees, Net	38,348	19,013	61	9,002	40	66,464
Management Fee Offsets	(1,950)	(6,312)	(714)	(1,559)		(10,535)
<b>Total Management and Advisory Fees, Net</b>	<b>123,019</b>	<b>149,701</b>	<b>99,460</b>	<b>109,383</b>	<b>120,774</b>	<b>602,337</b>
<b>Performance Fees</b>						
<b>Realized</b>						
Carried Interest	3,899	143,481		35,908		183,288
Incentive Fees		31,102	13,845	29,920		74,867
<b>Unrealized</b>						
Carried Interest	182,926	259,972		13,808		456,706
Incentive Fees		(32,279)	20,989	15,648		4,358
<b>Total Performance Fees</b>	<b>186,825</b>	<b>402,276</b>	<b>34,834</b>	<b>95,284</b>		<b>719,219</b>
<b>Investment Income (Loss)</b>						
<b>Realized</b>						
	21,586	18,577	13,668	901	(146)	54,586
<b>Unrealized</b>						
	21,088	30,636	(12,054)	4,381	(1,518)	42,533
<b>Total Investment Income (Loss)</b>	<b>42,674</b>	<b>49,213</b>	<b>1,614</b>	<b>5,282</b>	<b>(1,664)</b>	<b>97,119</b>
Interest and Dividend Revenue	3,251	4,396	1,878	4,071	1,746	15,342
Other	366	(274)	(254)	(1,063)	61	(1,164)
<b>Total Revenues</b>	<b>356,135</b>	<b>605,312</b>	<b>137,532</b>	<b>212,957</b>	<b>120,917</b>	<b>1,432,853</b>
<b>Expenses</b>						
<b>Compensation and Benefits</b>						
Compensation	63,747	73,792	36,844	55,941	76,153	306,477
<b>Performance Fee Compensation</b>						
<b>Realized</b>						
Carried Interest	877	55,005		20,028		75,910
Incentive Fees		15,733	5,116	14,165		35,014
<b>Unrealized</b>						
Carried Interest	88,111	78,604		6,109		172,824
Incentive Fees		(16,329)	7,666	11,747		3,084
<b>Total Compensation and Benefits</b>	<b>152,735</b>	<b>206,805</b>	<b>49,626</b>	<b>107,990</b>	<b>76,153</b>	<b>593,309</b>
Other Operating Expenses	32,178	27,617	16,535	22,961	20,861	120,152
<b>Total Expenses</b>	<b>184,913</b>	<b>234,422</b>	<b>66,161</b>	<b>130,951</b>	<b>97,014</b>	<b>713,461</b>

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Economic Income	\$ 171,222	\$ 370,890	\$ 71,371	\$ 82,006	\$ 23,903	\$ 719,392
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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

The following table reconciles the Total Segments to Blackstone's Income Before Provision for Taxes for the three months ended June 30, 2014 and 2013:

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$ 2,236,959	\$ 20,901(a)	\$ 2,257,860	\$ 1,432,853	\$ 7,617(a)	\$ 1,440,470
Expenses	\$ 885,964	\$ 203,817(b)	\$ 1,089,781	\$ 713,461	\$ 201,301(b)	\$ 914,762
Other Income	\$	\$ 138,585(c)	\$ 138,585	\$	\$ 40,966(c)	\$ 40,966
Economic Income	\$ 1,350,995	\$ (44,331)(d)	\$ 1,306,664	\$ 719,392	\$ (152,718)(d)	\$ 566,674

- (a) The Revenues adjustment represents management and performance fees earned from Blackstone Funds that were eliminated in consolidation to arrive at Blackstone consolidated revenues and non-segment related Investment Income, which is included in Blackstone consolidated revenues.
- (b) The Expenses adjustment represents the addition of expenses of the consolidated Blackstone Funds to the Blackstone unconsolidated expenses, amortization of intangibles and expenses related to transaction-related equity-based compensation to arrive at Blackstone consolidated expenses.
- (c) The Other Income adjustment results from the following:

	Three Months Ended June 30,	
	2014	2013
Fund Management Fees and Performance Fees Eliminated in Consolidation and Transactional Investment Loss	\$ (21,040)	\$ (7,886)
Fund Expenses Added in Consolidation	765	5,623
Non-Controlling Interests in Income of Consolidated Entities	162,547	50,310
Transaction-Related Other Income	(3,687)	(7,081)
<b>Total Consolidation Adjustments and Reconciling Items</b>	<b>\$ 138,585</b>	<b>\$ 40,966</b>

- (d) The reconciliation of Economic Income to Income Before Provision for Taxes as reported in the Condensed Consolidated Statements of Operations consists of the following:

	Three Months Ended June 30,	
	2014	2013
Economic Income	\$ 1,350,995	\$ 719,392
Adjustments		
Amortization of Intangibles	(28,310)	(24,322)



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IPO and Acquisition-Related Charges	(178,568)	(178,706)
Non-Controlling Interests in Income of Consolidated Entities	162,547	50,310
Total Consolidation Adjustments and Reconciling Items	(44,331)	(152,718)
Income Before Provision for Taxes	\$ 1,306,664	\$ 566,674

**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements Continued**

(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

The following table presents the financial data for Blackstone's segments as of and for the six months ended June 30, 2014 and 2013:

	June 30, 2014 and the Six Months Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 201,788	\$ 317,205	\$ 236,392	\$ 218,063	\$	\$ 973,448
Advisory Fees					184,877	184,877
Transaction and Other Fees,						
Net	70,463	27,078	219	10,408	938	109,106
Management Fee Offsets	(5,959)	(16,926)	(2,986)	(10,991)		(36,862)
Total Management and Advisory Fees, Net	266,292	327,357	233,625	217,480	185,815	1,230,569
<b>Performance Fees</b>						
Realized						
Carried Interest	332,199	612,484		30,599		975,282
Incentive Fees		6,044	47,818	39,266		93,128
Unrealized						
Carried Interest	669,275	259,698		62,027		991,000
Incentive Fees		(746)	48,641	70,147		118,042
Total Performance Fees	1,001,474	877,480	96,459	202,039		2,177,452
<b>Investment Income (Loss)</b>						
Realized						
Carried Interest	135,347	154,021	19,214	5,294	240	314,116
Unrealized	8,629	(45,058)	5,488	7,600	1,663	(21,678)
Total Investment Income	143,976	108,963	24,702	12,894	1,903	292,438
Interest and Dividend Revenue	9,894	14,119	5,001	10,753	4,689	44,456
Other	1,428	99	(81)	(248)	(335)	863
Total Revenues	1,423,064	1,328,018	359,706	442,918	192,072	3,745,778
<b>Expenses</b>						
Compensation and Benefits						
Compensation	146,345	165,815	83,912	102,062	131,426	629,560
Performance Fee Compensation						
Realized						
Carried Interest	198,491	195,275		15,933		409,699
Incentive Fees		3,065	16,189	22,890		42,144
Unrealized						
Carried Interest	39,046	84,324		31,656		155,026

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Incentive Fees		(401)	18,013	30,611		48,223
Total Compensation and Benefits	383,882	448,078	118,114	203,152	131,426	1,284,652
Other Operating Expenses	72,199	69,649	44,581	54,998	43,458	284,885
Total Expenses	456,081	517,727	162,695	258,150	174,884	1,569,537
Economic Income	\$ 966,983	\$ 810,291	\$ 197,011	\$ 184,768	\$ 17,188	\$ 2,176,241
Segment Assets as of June 30, 2014	\$ 5,446,042	\$ 8,109,718	\$ 1,261,025	\$ 2,563,669	\$ 804,464	\$ 18,184,918

**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements Continued**

(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

	Six Months Ended June 30, 2013					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
<b>Segment Revenues</b>						
Management and Advisory Fees, Net						
Base Management Fees	\$ 172,867	\$ 275,346	\$ 192,904	\$ 193,304	\$	\$ 834,421
Advisory Fees					187,754	187,754
Transaction and Other Fees, Net	62,801	28,153	65	13,376	43	104,438
Management Fee Offsets	(2,430)	(13,598)	(1,038)	(3,131)		(20,197)
<b>Total Management and Advisory Fees, Net</b>	<b>233,238</b>	<b>289,901</b>	<b>191,931</b>	<b>203,549</b>	<b>187,797</b>	<b>1,106,416</b>
<b>Performance Fees</b>						
Realized						
Carried Interest	143,791	212,254		121,413		477,458
Incentive Fees		34,194	27,554	37,846		99,594
Unrealized						
Carried Interest	98,972	540,048		(4,967)		634,053
Incentive Fees		(29,879)	76,490	65,502		112,113
<b>Total Performance Fees</b>	<b>242,763</b>	<b>756,617</b>	<b>104,044</b>	<b>219,794</b>		<b>1,323,218</b>
<b>Investment Income (Loss)</b>						
Realized						
	45,748	28,111	14,520	4,229	88	92,696
Unrealized						
	52,799	90,939	(8,141)	5,474	(1,877)	139,194
<b>Total Investment Income (Loss)</b>	<b>98,547</b>	<b>119,050</b>	<b>6,379</b>	<b>9,703</b>	<b>(1,789)</b>	<b>231,890</b>
Interest and Dividend Revenue	6,235	8,694	3,094	8,618	3,362	30,003
Other	790	(407)	(169)	765		979
<b>Total Revenues</b>	<b>581,573</b>	<b>1,173,855</b>	<b>305,279</b>	<b>442,429</b>	<b>189,370</b>	<b>2,692,506</b>
<b>Expenses</b>						
Compensation and Benefits						
Compensation	123,950	143,251	70,712	101,462	134,079	573,454
Performance Fee Compensation						
Realized						
Carried Interest	17,123	80,868		67,356		165,347
Incentive Fees		17,457	10,138	17,927		45,522
Unrealized						
Carried Interest	104,730	167,661		(4,095)		268,296
Incentive Fees		(15,295)	27,502	35,355		47,562
<b>Total Compensation and Benefits</b>	<b>245,803</b>	<b>393,942</b>	<b>108,352</b>	<b>218,005</b>	<b>134,079</b>	<b>1,100,181</b>
Other Operating Expenses	61,346	56,079	31,694	43,923	41,554	234,596

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Total Expenses	307,149	450,021	140,046	261,928	175,633	1,334,777
Economic Income	\$ 274,424	\$ 723,834	\$ 165,233	\$ 180,501	\$ 13,737	\$ 1,357,729

**Table of Contents****THE BLACKSTONE GROUP L.P.****Notes to Condensed Consolidated Financial Statements Continued**

(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

The following table reconciles the Total Segments to Blackstone's Income Before Provision for Taxes and Total Assets as of and for the six months ended June 30, 2014 and 2013:

	June 30, 2014 and the Six Months Then Ended			Six Months Ended June 30, 2013		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$ 3,745,778	\$ 38,750(a)	\$ 3,784,528	\$ 2,692,506	\$ (5,563)(a)	\$ 2,686,943
Expenses	\$ 1,569,537	\$ 408,095(b)	\$ 1,977,632	\$ 1,334,777	\$ 415,086(b)	\$ 1,749,863
Other Income	\$	\$ 208,740(c)	\$ 208,740	\$	\$ 108,176(c)	\$ 108,176
Economic Income (Loss)	\$ 2,176,241	\$ (160,605)(d)	\$ 2,015,636	\$ 1,357,729	\$ (312,473)(d)	\$ 1,045,256
Total Assets	\$ 18,184,918	\$ 11,874,391(e)	\$ 30,059,309			

- (a) The Revenues adjustment represents management and performance fees earned from Blackstone Funds that were eliminated in consolidation to arrive at Blackstone consolidated revenues and non-segment related Investment Income, which is included in Blackstone consolidated revenues.
- (b) The Expenses adjustment represents the addition of expenses of the consolidated Blackstone Funds to the Blackstone unconsolidated expenses, amortization of intangibles and expenses related to transaction-related equity-based compensation to arrive at Blackstone consolidated expenses.
- (c) The Other Income adjustment results from the following:

	Six Months Ended June 30,	
	2014	2013
Fund Management Fees and Performance Fees Eliminated in Consolidation and Transactional Investment Loss	\$ (38,918)	\$ 5,134
Fund Expenses Added in Consolidation	19	14,024
Non-Controlling Interests in Income of Consolidated Entities	252,300	103,174
Transaction-Related Other Income	(4,661)	(14,156)
<b>Total Consolidation Adjustments and Reconciling Items</b>	<b>\$ 208,740</b>	<b>\$ 108,176</b>

- (d) The reconciliation of Economic Income to Income Before Provision for Taxes as reported in the Condensed Consolidated Statements of Operations consists of the following:

	Six Months Ended June 30,	
	2014	2013
Economic Income	\$ 2,176,241	\$ 1,357,729

Adjustments

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Amortization of Intangibles	(57,313)	(49,979)
IPO and Acquisition-Related Charges	(355,592)	(365,668)
Non-Controlling Interests in Income of Consolidated Entities	252,300	103,174
Total Consolidation Adjustments and Reconciling Items	(160,605)	(312,473)
Income Before Provision for Taxes	\$ 2,015,636	\$ 1,045,256

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements - Continued**

**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

- (e) The Total Assets adjustment represents the addition of assets of the consolidated Blackstone Funds to the Blackstone unconsolidated assets to arrive at Blackstone consolidated assets.

**19. SUBSEQUENT EVENTS**

There have been no events since June 30, 2014 that require recognition or disclosure in the Condensed Consolidated Financial Statements.



**Table of Contents****ITEM 1A. UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION  
THE BLACKSTONE GROUP L.P.****Unaudited Consolidating Statements of Financial Condition**

(Dollars in Thousands)

	June 30, 2014			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 1,223,073	\$	\$	\$ 1,223,073
Cash Held by Blackstone Funds and Other	119,926	1,140,983		1,260,909
Investments	11,607,154	10,771,370	(751,379)	21,627,145
Accounts Receivable	412,713	669,782		1,082,495
Reverse Repurchase Agreements	30,721			30,721
Due from Affiliates	1,027,915	59,642	(38,333)	1,049,224
Intangible Assets, Net	508,924			508,924
Goodwill	1,787,392			1,787,392
Other Assets	280,893	22,326		303,219
Deferred Tax Assets	1,186,207			1,186,207
<b>Total Assets</b>	<b>\$ 18,184,918</b>	<b>\$ 12,664,103</b>	<b>\$ (789,712)</b>	<b>\$ 30,059,309</b>
<b>Liabilities and Partners Capital</b>				
Loans Payable	\$ 2,153,895	\$ 6,835,289	\$	\$ 8,989,184
Due to Affiliates	1,245,641	222,162	(120,900)	1,346,903
Accrued Compensation and Benefits	2,349,374			2,349,374
Securities Sold, Not Yet Purchased	30,616	100,138		130,754
Repurchase Agreements	1,261	40,511		41,772
Accounts Payable, Accrued Expenses and Other Liabilities	536,043	854,574		1,390,617
<b>Total Liabilities</b>	<b>6,316,830</b>	<b>8,052,674</b>	<b>(120,900)</b>	<b>14,248,604</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>		<b>2,284,169</b>		<b>2,284,169</b>
<b>Partners Capital</b>				
Partners Capital	6,520,288	668,812	(668,812)	6,520,288
Appropriated Partners Capital		218,279		218,279
Accumulated Other Comprehensive Income	4,804	945		5,749
Non-Controlling Interests in Consolidated Entities	1,253,384	1,439,224		2,692,608
Non-Controlling Interests in Blackstone Holdings	4,089,612			4,089,612
<b>Total Partners Capital</b>	<b>11,868,088</b>	<b>2,327,260</b>	<b>(668,812)</b>	<b>13,526,536</b>
<b>Total Liabilities and Partners Capital</b>	<b>\$ 18,184,918</b>	<b>\$ 12,664,103</b>	<b>\$ (789,712)</b>	<b>\$ 30,059,309</b>

**Table of Contents****THE BLACKSTONE GROUP L.P.****Unaudited Consolidating Statements of Financial Condition**

(Dollars in Thousands)

	December 31, 2013			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 831,998	\$	\$	\$ 831,998
Cash Held by Blackstone Funds and Other	251,554	794,328		1,045,882
Investments	9,739,140	12,493,961	(503,578)	21,729,523
Accounts Receivable	507,612	380,744		888,356
Reverse Repurchase Agreements	148,984			148,984
Due from Affiliates	1,138,002	108,131	(54,089)	1,192,044
Intangible Assets, Net	560,748			560,748
Goodwill	1,787,392			1,787,392
Other Assets	254,884	29,588		284,472
Deferred Tax Assets	1,209,207			1,209,207
<b>Total Assets</b>	<b>\$ 16,429,521</b>	<b>\$ 13,806,752</b>	<b>\$ (557,667)</b>	<b>\$ 29,678,606</b>
<b>Liabilities and Partners Capital</b>				
Loans Payable	\$ 1,664,305	\$ 8,802,199	\$	\$ 10,466,504
Due to Affiliates	1,261,562	249,702	(74,405)	1,436,859
Accrued Compensation and Benefits	2,132,939			2,132,939
Securities Sold, Not Yet Purchased	76,195			76,195
Repurchase Agreements	316,352			316,352
Accounts Payable, Accrued Expenses and Other Liabilities	299,813	572,273		872,086
<b>Total Liabilities</b>	<b>5,751,166</b>	<b>9,624,174</b>	<b>(74,405)</b>	<b>15,300,935</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>		<b>1,950,442</b>		<b>1,950,442</b>
<b>Partners Capital</b>				
Partners Capital	6,002,592	495,229	(495,229)	6,002,592
Appropriated Partners Capital		300,708		300,708
Accumulated Other Comprehensive Income	1,230	2,236		3,466
Non-Controlling Interests in Consolidated Entities	1,018,117	1,433,963	11,967	2,464,047
Non-Controlling Interests in Blackstone Holdings	3,656,416			3,656,416
<b>Total Partners Capital</b>	<b>10,678,355</b>	<b>2,232,136</b>	<b>(483,262)</b>	<b>12,427,229</b>
<b>Total Liabilities and Partners Capital</b>	<b>\$ 16,429,521</b>	<b>\$ 13,806,752</b>	<b>\$ (557,667)</b>	<b>\$ 29,678,606</b>

(a) The Consolidated Blackstone Funds consisted of the following:  
Blackstone Distressed Securities Fund L.P.

Blackstone Market Opportunities Fund L.P.

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Blackstone Real Estate Partners VI.C ESH L.P.\*

Blackstone Real Estate Special Situations Fund L.P.\*

Blackstone Real Estate Special Situations Offshore Fund Ltd.\*

Blackstone Strategic Alliance Fund II L.P.

Blackstone Strategic Alliance Fund L.P.

Blackstone Strategic Capital Holdings B L.P.\*

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Blackstone Strategic Capital Holdings L.P.\*

Blackstone Strategic Equity Fund L.P.

Blackstone Value Recovery Fund L.P.

Blackstone/GSO Secured Trust Ltd.

BREP Edens Investment Partners L.P.

BSSF I AIV L.P.\*

BTD CP Holdings, LP

GSO Legacy Associates II LLC

GSO Legacy Associates LLC

Shanghai Blackstone Equity Investment Partnership L.P.

Private equity side-by-side investment vehicles

Real estate side-by-side investment vehicles

Mezzanine side-by-side investment vehicles

Collateralized loan obligation vehicles

\* Consolidated as of June 30, 2014 only.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis should be read in conjunction with The Blackstone Group L.P.'s Condensed Consolidated Financial Statements and the related notes included in this Quarterly Report on Form 10-Q.*

**Our Business**

Blackstone is one of the largest independent managers of private capital in the world. We also provide a wide range of financial advisory services, including financial advisory, restructuring and reorganization advisory and fund placement services.

Our business is organized into five business segments:

**Private Equity.** We are a world leader in private equity investing, having managed six general private equity funds, as well as two sector focused funds, since we established this business in 1987. We refer to these managed corporate private equity funds collectively as our Blackstone Capital Partners ( BCP ) funds. We also manage the Blackstone Tactical Opportunities Accounts ( Tactical Opportunities ), which are multi-asset class investment accounts, and Strategic Partners Fund Solutions ( Strategic Partners ), a secondary private fund of funds business acquired on August 5, 2013. Through our private equity funds we pursue transactions throughout the world, including leveraged buyout acquisitions of seasoned companies, transactions involving growth equity or start-up businesses in established industries, minority investments, corporate partnerships, distressed debt, structured securities and industry consolidations, in all cases in strictly friendly transactions.

**Real Estate.** We are a world leader in real estate investing since launching our first real estate fund in 1994. We have managed or continue to manage a number of global, European and Asian focused opportunistic real estate funds, several real estate debt investment funds, core plus real estate investments and a publicly traded real estate investment trust ( REIT ) ( BXMT ). Our real estate opportunity funds are diversified geographically and have made significant investments in lodging, major urban office buildings, shopping centers, residential and a variety of real estate operating companies. Our debt investment funds target high yield real estate debt related investment opportunities in the public and private markets, primarily in the United States and Europe. We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners ( BREP ) funds and our real estate debt investment funds as our Blackstone Real Estate Debt Strategies ( BREDS ) funds.

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**Hedge Fund Solutions.** Blackstone's Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management ( BAAM ). BAAM was organized in 1990 and has developed into a leading institutional solutions provider utilizing hedge funds across a wide variety of strategies. BAAM is the world's largest discretionary allocator to hedge funds.

**Credit.** Our Credit segment is comprised principally of GSO Capital Partners LP ( GSO ), a global leader in managing credit-focused products within private debt and public market strategies. GSO's products include senior credit-focused funds, distressed debt funds, mezzanine funds, general credit-focused funds, registered investment companies, separately managed accounts and collateralized loan obligation ( CLO ) vehicles.

**Financial Advisory.** Our Financial Advisory segment serves a diverse and global group of clients with financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and fund placement services for alternative investment funds.

We generate revenue from fees earned pursuant to contractual arrangements with funds, fund investors and fund portfolio companies (including management, transaction and monitoring fees), and from financial and strategic advisory, restructuring and reorganization advisory, capital markets services and fund placement services for alternative investment funds. We invest in the funds we manage and, in most cases, receive a preferred allocation of income (i.e., a carried interest) or an incentive fee from an investment fund in the event that specified cumulative investment returns are achieved (generally collectively referred to as Performance Fees ). The composition of our revenues will vary based on market conditions and the cyclical nature of the different businesses in which we operate. Net investment gains and investment income generated by the Blackstone Funds, principally private equity and real estate funds, are driven by value created by our operating and strategic initiatives as well as overall market conditions. Fair values are affected by changes in the fundamentals of the portfolio company, the portfolio company's industry, the overall economy and other market conditions.

## **Business Environment**

Blackstone's businesses are materially affected by conditions in the financial markets and economic conditions in the U.S., Europe, Asia and, to a lesser extent, elsewhere in the world.

World equity and debt markets rose in the second quarter, fueled by sustained accommodative monetary policy as well as improving economic data, particularly in developed economies. Heightened levels of geopolitical uncertainty did not dissuade investors as sentiment improved and volatility declined. The MSCI All Country Index rose 4.2% in the quarter, with positive performance across both developed and developing market indices.

In the U.S., the S&P 500 was up 4.7%, reaching record nominal levels, driven by the improving economic outlook, declining unemployment and rising housing prices. Market appreciation and investor risk appetite kept capital markets activity at sustained high levels, including both equity and debt issuance. M&A activity also significantly improved in the quarter.

Credit indices also rose in the second quarter, with the high yield index up 2.4% and the leveraged loan index up 1.5%. Benchmark rates declined, with the U.S. 10-year Treasury down 20 basis points to 2.5%, and high yield spreads and yields tightened slightly. Issuance volumes climbed dramatically in the quarter.

Real estate operating fundamentals continue to improve, driven by a lack of new supply and growth in demand. In the U.S., overall vacancy levels have declined 70 basis points to 14.5% and 20 basis points to 10.3% within the office and retail sectors, respectively compared to the second quarter of 2013. In the U.S. hospitality sector, new construction remains significantly below historical levels and supply/demand fundamentals continue to support RevPAR ( Revenue per Available Room ) growth of 8.2% for the quarter. On a national level, home prices have increased 9.3% over the past twelve months through May 2014.

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### **Organizational Structure**

The simplified diagram below depicts our current organizational structure. The diagram does not depict all of our subsidiaries, including intermediate holding companies through which certain of the subsidiaries depicted are held.

### **Key Financial Measures and Indicators**

We manage our business using traditional financial measures and key operating metrics since we believe these metrics measure the productivity of our investment activities. Our key financial measures and indicators are discussed below.

#### ***Revenues***

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to Part I. Item 1. Business Incentive Arrangements / Fee Structure and Part I. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Revenue Recognition in our 2013 Annual Report on Form 10-K for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

*Management and Advisory Fees, Net* Management and Advisory Fees, Net are comprised of management fees, including base management fees, transaction and other fees, advisory fees and management fee reductions and offsets.

The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital, or in some cases, a fixed fee. Base management fees are recognized based on contractual terms specified in the underlying investment advisory agreements.

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Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership ( management fee reductions ) by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by our limited partners, which are granted based on the amount they reimburse Blackstone for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and fund placement services for alternative investment funds. Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable, and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date, are included in Accounts Receivable or Due from Affiliates in the Condensed Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

*Performance Fees* Performance Fees earned on the performance of Blackstone's hedge fund structures ( Incentive Fees ) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund's governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone's offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Condensed Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Condensed Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback or reversal.

In certain fund structures, specifically in private equity, real estate and certain Hedge Fund Solutions and credit-focused funds ( Carry Funds ), performance fees ( Carried Interest ) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Condensed Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are



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met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

*Investment Income (Loss)* Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

*Interest and Dividend Revenue* Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

*Other Revenue* Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

***Expenses***

*Compensation and Benefits Compensation* Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis. Equity-based awards that do not require future service are expensed immediately. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits Performance Fee* Performance Fee Compensation consists of Carried Interest and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. Compensation received from advisory clients in the form of securities of such clients may also be allocated to employees and senior managing directors.

*Other Operating Expenses* Other Operating Expenses represents general and administrative expenses including interest expense, occupancy and equipment expenses and other expenses, which consist principally of professional fees, public company costs, travel and related expenses, communications and information services and depreciation and amortization.

*Fund Expenses* The expenses of our consolidated Blackstone Funds consist primarily of interest expense, professional fees and other third party expenses.

***Non-Controlling Interests in Consolidated Entities***

Non-Controlling Interests in Consolidated Entities represent the component of Partners' Capital in consolidated Blackstone Funds held by third party investors and employees. The percentage interests held by

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third parties and employees is adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-focused funds which occur during the reporting period. In addition, all non-controlling interests in consolidated Blackstone Funds are attributed a share of income (loss) arising from the respective funds and a share of other comprehensive income, if applicable. Income (Loss) is allocated to non-controlling interests in consolidated entities based on the relative ownership interests of third party investors and employees after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

### ***Redeemable Non-Controlling Interests in Consolidated Entities***

Non-controlling interests related to funds of hedge funds and certain other credit-focused funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified period of time (typically between one and three years), or may be withdrawn subject to a redemption fee in the funds of hedge funds and certain credit-focused funds during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third party interests in such consolidated funds are presented as Redeemable Non-Controlling Interests in Consolidated Entities within the Condensed Consolidated Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the Condensed Consolidated Statements of Financial Condition. For all consolidated funds in which redemption rights have not been granted, non-controlling interests are presented within Partners' Capital in the Condensed Consolidated Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities.

### ***Non-Controlling Interests in Blackstone Holdings***

Non-Controlling Interests in Blackstone Holdings represent the component of Partners' Capital in the consolidated Blackstone Holdings Partnerships held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

Certain costs and expenses are borne directly by the Holdings Partnerships. Income (Loss), excluding those costs directly borne by and attributable to the Holdings Partnerships, is attributable to Non-Controlling Interests in Blackstone Holdings. This residual attribution is based on the year to date average percentage of Blackstone Holdings Partnership Units held by Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships.

### ***Income Taxes***

The Blackstone Holdings Partnerships and certain of their subsidiaries operate in the U.S. as partnerships for U.S. federal income tax purposes and generally as corporate entities in non-U.S. jurisdictions. Accordingly, these entities in some cases are subject to New York City unincorporated business taxes or non-U.S. income taxes. In addition, certain of the wholly owned subsidiaries of the Partnership and the Blackstone Holdings Partnerships will be subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to the Partnership's share of this income tax is reflected in the Condensed Consolidated Financial Statements.

Income taxes are accounted for using the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current and deferred tax liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Condensed Consolidated Statements of Financial Condition.

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Blackstone uses the flow-through method to account for investment tax credits. Under this method, the investment tax credits are recognized as a reduction to income tax expense.

Blackstone analyzes its tax filing positions in all of the U.S. federal, state, local and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. Blackstone records uncertain tax positions on the basis of a two-step process: (a) determination is made whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (b) those tax positions that meet the more-likely-than-not threshold are recognized as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority. Blackstone recognizes accrued interest and penalties related to uncertain tax positions in General, Administrative and Other expenses within the Condensed Consolidated Statements of Operations.

There remains some uncertainty regarding Blackstone's future taxation levels. Over the past several years, a number of legislative and administrative proposals to change the taxation of Carried Interest have been introduced and, in certain cases, have been passed by the U.S. House of Representatives that would have, in general, treated income and gains, including gain on sale, attributable to an investment services partnership interest, or ISPI, as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Our common units and the interests that we hold in entities that are entitled to receive Carried Interest would likely have been classified as ISPIs for purposes of this legislation. It is unclear whether or when the U.S. Congress will pass such legislation or what provisions will be included in any final legislation if enacted.

The most recent legislative proposals provided that, for taxable years beginning ten years after the date of enactment, income derived with respect to an ISPI that is not a qualified capital interest and that is subject to the foregoing rules would not meet the qualifying income requirements under the publicly traded partnership rules. Therefore, if similar legislation were to be enacted, following such ten-year period, we would be precluded from qualifying as a partnership for U.S. federal income tax purposes or be required to hold all such ISPIs through corporations.

The Obama administration has proposed to Congress similar changes that would tax income and gain, including gain on sale, attributable to an ISPI at ordinary rates, with an exception for certain qualified capital interests. The proposals would also characterize certain income and gain in respect of ISPIs as non-qualifying income under the tax rules applicable to publicly traded partnerships after a ten-year transition period from the effective date, with an exception for certain qualified capital interests. In its published revenue proposals for 2015, as well as for prior years, the Obama administration proposed similar changes.

Earlier this year, Representative Dave Camp, Chairman of the House Ways and Means Committee, released a discussion draft of proposed legislation that would introduce major changes to the U.S. federal income tax system (the 2014 Camp Proposal). It would, among other things (a) generally treat publicly traded partnerships (other than those deriving 90 percent of their income from activities relating to mining and natural resources) as taxable corporations for tax years beginning after 2016 and (b) recharacterize a portion of capital gain from certain partnership interests held in connection with the performance of services as ordinary income for tax years beginning after 2014.

States and other jurisdictions have also considered legislation to increase taxes with respect to Carried Interest. For example, in 2010, the New York State Assembly passed a bill, which could have caused a non-resident of New York who holds our common units to be subject to New York state income tax on carried interest earned by entities in which we hold an indirect interest, thereby requiring the non-resident to file a New York state income tax return reporting such carried interest income. This legislation would have been retroactive to January 1, 2010. It is unclear whether or when similar legislation will be enacted. Finally, several state and local jurisdictions are evaluating ways to subject partnerships to entity level taxation through the imposition of state or local income, franchise or other forms of taxation or to increase the amount of such taxation.

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If we were taxed as a corporation or were forced to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations, our effective tax rate could increase significantly. The federal statutory rate for corporations is currently 35%, and the state and local tax rates, net of the federal benefit, aggregate approximately 5%. If a variation of the above described legislation or any other change in the tax laws, rules, regulations or interpretations preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules or force us to hold interests in entities earning income from Carried Interest through taxable subsidiary corporations, this could materially increase our tax liability, and could well result in a reduction in the market price of our common units.

It is not possible at this time to meaningfully quantify the potential impact on Blackstone of this potential future legislation or any similar legislation. Multiple versions of legislation in this area have been proposed over the last few years that have included significantly different provisions regarding effective dates and the treatment of invested capital, tiered entities and cross-border operations, among other matters. Depending upon what version of the legislation, if any, were enacted, the potential impact on a public company such as Blackstone in a given year could differ dramatically and could be material. In addition, many of these legislative proposals would not themselves impose a tax on a publicly traded partnership such as Blackstone. Rather, they could force Blackstone and other publicly traded partnerships to restructure their operations so as to prevent disqualifying income from reaching the publicly traded partnership in amounts that would disqualify the partnership from treatment as a partnership for U.S. federal income tax purposes. Such a restructuring could result in more income being earned in corporate subsidiaries, thereby increasing corporate income tax liability indirectly borne by the publicly traded partnership. In addition, we, and our common unitholders, could be taxed on any such restructuring. The nature of any such restructuring would depend on the precise provisions of the legislation that was ultimately enacted, as well as the particular facts and circumstances of Blackstone's operations at the time any such legislation were to take effect, making the task of predicting the amount of additional tax highly speculative.

The Obama administration has announced other proposals for potential reform to the U.S. federal income tax rules for businesses, including reducing the deductibility of interest for corporations, reducing the top marginal rate on corporations and subjecting entities currently treated as partnerships for tax purposes to an entity level income tax similar to the corporate income tax. Several proposals for reform if enacted could adversely affect us. It is unclear what any actual legislation would provide, when it would be proposed or what its prospects for enactment would be.

The 2014 Camp Proposal, in addition to the proposed changes discussed above relating to publicly traded partnerships and carried interest, includes proposed provisions for the migration of the United States from a worldwide system of taxation, pursuant to which U.S. corporations are taxed on their worldwide income, to a territorial system where U.S. corporations are taxed only on their U.S. source income (subject to certain exceptions for income derived in low-tax jurisdictions from the exploitation of tangible assets) at a top corporate tax rate that would be 25%. The 2014 Camp Proposal includes numerous revenue raisers to offset the reduction in the tax rate and base which may or may not be detrimental to us, including changes to the rules for depreciating or amortizing assets, including goodwill, and changes to rules affecting real estate investment trusts, partnerships and tax-exempt entities. Senator Baucus recently proposed a similar territorial U.S. tax system, but with more expansive U.S. taxation of the foreign profits of non-U.S. subsidiaries of U.S. corporations. The Baucus proposal would also eliminate the withholding tax exemption on portfolio interest debt obligations for investors residing in non-treaty jurisdictions. Whether these proposals will be enacted by the government and in what form is unknown, as are the ultimate consequences of the proposed legislation.

***Economic Income***

Blackstone uses Economic Income ( EI ) as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its five segments. EI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges

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arise from Blackstone's initial public offering ( IPO ) and long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. EI presents revenues and expenses on a basis that deconsolidates the investment funds we manage. Economic Net Income ( ENI ) represents EI adjusted to include current period taxes. Taxes represent the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes. EI, our principal segment measure, is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. (See Note 18. Segment Reporting in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements.)

***Fee Related Earnings***

Blackstone uses Fee Related Earnings ( FRE ), which is derived from EI, as a measure to highlight earnings from operations excluding: (a) the income related to performance fees and related performance fee compensation costs, (b) income earned from Blackstone's investments in the Blackstone Funds, and (c) realized and unrealized gains (losses) from other investments except for such gains (losses) from Blackstone's Treasury Cash Management Strategies. Management uses FRE as a measure to assess whether recurring revenue from our businesses is sufficient to adequately cover all of our operating expenses and generate profits. FRE equals contractual fee revenues, investment income from Blackstone's Treasury Cash Management Strategies and interest income, less (a) compensation expenses (which includes amortization of non-IPO and non-acquisition-related equity-based awards, but excludes amortization of IPO and acquisition-related equity-based awards, Carried Interest and incentive fee compensation) and (b) other operating expenses. See Liquidity and Capital Resources Sources of Liquidity below for our discussion of Fee Related Earnings.

***Distributable Earnings***

Distributable Earnings, which is derived from our segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings, which is a measure not prepared under accounting principles generally accepted in the United States of America (a non-GAAP measure), is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. See Liquidity and Capital Resources Sources of Liquidity below for our discussion of Distributable Earnings.

Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Payables Under the Tax Receivable Agreement.

***Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization***

Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization ( Adjusted EBITDA ), is a supplemental non-GAAP measure derived from our segment reported results and may be used to assess our ability to service our borrowings. Adjusted EBITDA represents Distributable Earnings plus the addition of (a) Interest Expense, (b) Taxes and Related Payables Including Payable Under Tax Receivable Agreement, and (c) Depreciation and Amortization. See Liquidity and Capital Resources Sources of Liquidity below for our calculation of Adjusted EBITDA.

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***Summary Walkdown of GAAP to Non-GAAP Financial Metrics***

The relationship of our GAAP to non-GAAP financial measures is presented in the summary walkdown below. The summary walkdown shows how each non-GAAP financial measure is related to the other non-GAAP financial measures. This presentation is not meant to be a detailed calculation of each measure, but to show the relationship between the measures. For the calculation of each of these non-GAAP financial measures and a full reconciliation of Income Before Provision for Taxes to Distributable Earnings, please see [Liquidity and Capital Resources Sources of Liquidity](#).

***Operating Metrics***

The alternative asset management business is a complex business that is primarily based on managing third party capital and does not require substantial capital investment to support rapid growth. However, there also can be volatility associated with its earnings and cash flows. Since our inception, we have developed and used various key operating metrics to assess and monitor the operating performance of our various alternative asset management businesses in order to monitor the effectiveness of our value creating strategies.

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*Assets Under Management.* Assets Under Management refers to the assets we manage. Our Assets Under Management equals the sum of:

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods,
- (b) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (c) the invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs and collateralized debt obligations ( CDOs ) during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs and CDOs after the reinvestment period,
- (f) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by our public REIT.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds and hedge funds generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, annually or quarterly), in most cases upon advance written notice, with the majority of our funds requiring from 60 days up to 95 days notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to separately managed accounts may generally be terminated by an investor on 30 to 90 days notice.

*Fee-Earning Assets Under Management.* Fee-Earning Assets Under Management refers to the assets we manage on which we derive management and/or performance fees. Our Fee-Earning Assets Under Management equals the sum of:

- (a) for our Private Equity segment funds and Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, remaining invested capital, fair value or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,
- (c) the remaining invested capital of co-investments managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds and certain registered investment companies,
- (e) the invested capital or fair value of assets we manage pursuant to separately managed accounts,

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(f) the net proceeds received from equity offerings and accumulated core earnings of our REITs, subject to certain adjustments,

(g) the aggregate par amount of collateral assets, including principal cash, of our CLOs and CDOs, and

(h) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies.

Our calculations of assets under management and fee-earning assets under management may differ from the calculations of other asset managers, and as a result this measure may not be comparable to similar measures presented by other asset managers. In addition, our calculation of assets under management includes commitments



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to, and the fair value of, invested capital in our funds from Blackstone and our personnel, regardless of whether such commitments or invested capital are subject to fees. Our definitions of assets under management or fee-earning assets under management are not based on any definition of assets under management or fee-earning assets under management that is set forth in the agreements governing the investment funds that we manage.

For our carry funds, total assets under management includes the fair value of the investments held, whereas fee-earning assets under management includes the amount of capital commitments, the remaining amount of invested capital at cost depending on whether the investment period has or has not expired or the fee terms of the fund. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

*Limited Partner Capital Invested.* Limited Partner Capital Invested represents the amount of Limited Partner capital commitments which were invested by our carry and drawdown funds during each period presented, plus the capital invested through co-investments arranged by us that were made by limited partners in investments of our carry funds on which we receive fees or a Carried Interest allocation or Incentive Fee.

The amount of committed undrawn capital available for investment, including general partner and employee commitments, is known as dry powder and is an indicator of the capital we have available for future investments.

## **Consolidated Results of Operations**

Following is a discussion of our consolidated results of operations for the three and six months ended June 30, 2014 and 2013. For a more detailed discussion of the factors that affected the results of our five business segments (which are presented on a basis that deconsolidates the investment funds we manage) in these periods, see [Segment Analysis](#) below.

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The following tables set forth information regarding our consolidated results of operations and certain key operating metrics for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended		2014 vs. 2013		Six Months Ended		2014 vs. 2013	
	June 30, 2014	2013	\$	%	June 30, 2014	2013	\$	%
<b>(Dollars in Thousands)</b>								
<b>Revenues</b>								
Management and Advisory Fees, Net	\$ 619,523	\$ 578,723	\$ 40,800	7%	\$ 1,192,683	\$ 1,060,856	\$ 131,827	12%
<b>Performance Fees</b>								
<b>Realized</b>								
Carried Interest	641,659	183,288	458,371	250%	975,282	477,458	497,824	104%
Incentive Fees	39,504	76,104	(36,600)	-48%	83,298	99,845	(16,547)	-17%
<b>Unrealized</b>								
Carried Interest	660,682	456,706	203,976	45%	991,076	634,053	357,023	56%
Incentive Fees	54,639	938	53,701	N/M	118,872	106,736	12,136	11%
Total Performance Fees	1,396,484	717,036	679,448	95%	2,168,528	1,318,092	850,436	65%
<b>Investment Income</b>								
<b>Realized</b>								
Realized	215,710	75,490	140,220	186%	368,736	117,843	250,893	213%
Unrealized	10,809	56,570	(45,761)	-81%	24,309	162,800	(138,491)	-85%
Total Investment Income	226,519	132,060	94,459	72%	393,045	280,643	112,402	40%
<b>Interest and Dividend Revenue</b>								
Interest and Dividend Revenue	15,340	13,814	1,526	11%	29,409	26,371	3,038	12%
Other	(6)	(1,163)	1,157	99%	863	981	(118)	-12%
<b>Total Revenues</b>	<b>2,257,860</b>	<b>1,440,470</b>	<b>817,390</b>	<b>57%</b>	<b>3,784,528</b>	<b>2,686,943</b>	<b>1,097,585</b>	<b>41%</b>
<b>Expenses</b>								
<b>Compensation and Benefits</b>								
Compensation	500,641	478,981	21,660	5%	985,992	930,411	55,581	6%
<b>Performance Fee Compensation</b>								
<b>Realized</b>								
Carried Interest	260,301	75,910	184,391	243%	409,699	165,347	244,352	148%
Incentive Fees	18,509	35,014	(16,505)	-47%	42,144	45,522	(3,378)	-7%
<b>Unrealized</b>								
Carried Interest	114,296	172,824	(58,528)	-34%	155,026	268,296	(113,270)	-42%
Incentive Fees	24,692	3,084	21,608	701%	48,223	47,562	661	1%
Total Compensation and Benefits	918,439	765,813	152,626	20%	1,641,084	1,457,138	183,946	13%
General, Administrative and Other	136,492	117,365	19,127	16%	272,046	226,671	45,375	20%
Interest Expense	29,847	26,956	2,891	11%	54,514	54,018	496	1%
Fund Expenses	5,003	4,628	375	8%	9,988	12,036	(2,048)	-17%
<b>Total Expenses</b>	<b>1,089,781</b>	<b>914,762</b>	<b>175,019</b>	<b>19%</b>	<b>1,977,632</b>	<b>1,749,863</b>	<b>227,769</b>	<b>13%</b>
<b>Other Income</b>								
<b>Net Gains from Fund Investment Activities</b>								
Net Gains from Fund Investment Activities	138,585	40,966	97,619	238%	208,740	108,176	100,564	93%

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<b>Income Before Provision for Taxes</b>	1,306,664	566,674	739,990	131%	2,015,636	1,045,256	970,380	93%
<b>Provision for Taxes</b>	83,282	56,082	27,200	49%	137,379	107,075	30,304	28%
<b>Net Income</b>	1,223,382	510,592	712,790	140%	1,878,257	938,181	940,076	100%
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	22,486	22,366	120	1%	68,278	84,682	(16,404)	-19%
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	140,061	27,944	112,117	401%	184,022	18,492	165,530	895%
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>	543,819	249,134	294,685	118%	843,324	456,224	387,100	85%
<b>Net Income Attributable to The Blackstone Group L.P.</b>	\$ 517,016	\$ 211,148	\$ 305,868	145%	\$ 782,633	\$ 378,783	\$ 403,850	107%

N/M Not meaningful.

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*Revenues*

Total Revenues were \$2.3 billion for the three months ended June 30, 2014, an increase of \$817.4 million compared to Total Revenues for the three months ended June 30, 2013 of \$1.4 billion. The increase in revenues was primarily attributable to increases in Performance Fees, Investment Income and Management and Advisory Fees, Net of \$679.4 million, \$94.5 million and \$40.8 million, respectively.

The increase in Performance Fees was primarily attributable to increases in our Private Equity and Real Estate segments of \$527.8 million and \$137.6 million, respectively. The increase in our Private Equity segment was principally driven by BCP V, which generated a net return of 9% and crossed the preferred return threshold. The performance of the corporate private equity funds was mainly driven by our public holdings, led by the initial public offering of Michaels Stores and strong appreciation of our already public holdings of Pinnacle Foods, Hilton and Cheniere. Our private portfolio also demonstrated strong performance in the healthcare and energy sectors. The increase in our Real Estate segment was principally due to the increase in the net appreciation of investments from our BREP carry funds. For the three months ended June 30, 2014, the carrying value of assets for Blackstone's contributed Real Estate funds, including fee-paying co-investments, increased 6.0% driven by appreciation in the private portfolio of 6.7% or \$1.9 billion from improving fundamentals and public portfolio appreciation of 4.8% or \$1.0 billion. Our BREDS drawdown and real estate hedge funds appreciated 2.9% and 2.6%, respectively.

The increase in Investment Income was primarily due to increases in our Private Equity and Real Estate segments of \$49.8 million and \$23.0 million, respectively. The increase in our Private Equity segment was principally driven by performance across all our funds, as a result of the strong returns in our public holdings described above as well as from our private investments in the healthcare and energy sectors. The increase in our Real Estate segment was principally due to the year over year net increase in the appreciation of investments across our global Real Estate funds.

The increase in Management and Advisory Fees, Net was due to increases in our Hedge Fund Solutions and Real Estate segments of \$22.1 million and \$14.0 million, respectively. The increase in our Hedge Fund Solutions segment was principally due to a 22% increase in Fee-Earning Assets Under Management from the prior year. The increase in our Real Estate segment was principally due to fees generated from fundraising within BREP Europe IV and our first Asia fund, partially offset by a decrease due to the expiration of BREP V.

Total Revenues were \$3.8 billion for the six months ended June 30, 2014, an increase of \$1.1 billion compared to Total Revenues for the six months ended June 30, 2013 of \$2.7 billion. The increase in revenues was primarily attributable to increases of \$850.4 million in Performance Fees, \$131.8 million in Management and Advisory Fees, Net and \$112.4 million in Investment Income.

The increase in Performance Fees was primarily attributable to increases in our Private Equity and Real Estate segments of \$758.7 million and \$120.9 million, respectively. The increase in our Private Equity segment was principally driven by appreciation of all corporate private equity funds during the period, mainly BCP V and BCP VI, which generated respective net returns of 14% and 19% for the six months ended June 30, 2014. BCP V crossed its preferred return threshold and is now fully generating performance fees. The performance of the funds was a result of the strong performance of our private holdings in the healthcare, services and energy sectors as well as appreciation of our public portfolio, including the initial public offering of Michaels Stores. The increase in our Real Estate segment was principally due to an increase in the net appreciation of investments from our BREP carry funds. For the six months ended June 30, 2014, the carrying value of assets for Blackstone's contributed Real Estate funds, including fee-paying co-investments, increased 9.7% driven by appreciation in the private portfolio from improving fundamentals and public portfolio appreciation. Our BREDS drawdown and real estate hedge funds appreciated 5.4% and 6.1%, respectively.

The increase in Management and Advisory Fees, Net was principally due to increases in our Hedge Fund Solutions, Real Estate and Private Equity segments of \$41.7 million, \$37.5 million and \$33.1 million, respectively. The increase in our Hedge Fund Solutions segment was principally due to a 22% increase in Fee-Earning Assets Under Management from the prior year. The increase in our Real Estate segment was principally due to fees

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generated from fundraising within BREP Europe IV and our first Asia fund, partially offset by a decrease due to the expiration of BREP V. The increase in our Private Equity segment was principally due to the addition of the Strategic Partners secondary private fund of funds business that closed during 2013 as well as the increase in funds raised for our Tactical Opportunities investment vehicles.

The increase in Investment Income was primarily attributable to increases in our Private Equity and Hedge Fund Solutions segments of \$45.4 million and \$18.3 million, respectively. The increase in our Private Equity segment was principally due to performance across all our funds, as a result of the strong returns in our public holdings as well as from our private investments in the healthcare, services and energy sectors. The increase in our Hedge Fund Solutions segment was principally due to the year over year increase in the net appreciation of investments of which Blackstone owns a share.

*Expenses*

Expenses were \$1.1 billion for the three months ended June 30, 2014, an increase of \$175.0 million compared to \$914.8 million for the three months ended June 30, 2013. The increase was primarily attributable to an increase of \$152.6 million in Total Compensation and Benefits, which was comprised of an increase in Performance Fee Compensation of \$131.0 million due to the increase in Performance Fees Revenue and an increase of \$21.7 million in Compensation due to an increase in headcount to support the growth of the business and overall increase in revenue, on which a portion of compensation is based.

Expenses were \$2.0 billion for the six months ended June 30, 2014, an increase of \$227.8 million compared to \$1.7 billion for the six months ended June 30, 2013. The increase was primarily attributable to increases in Total Compensation and Benefits of \$183.9 million and General, Administrative and Other of \$45.4 million. The increase in Total Compensation and Benefits was comprised of a \$128.4 million increase in Performance Fee Compensation due to the increase in Performance Fees Revenue and a \$55.6 million increase in Compensation due to an increase in headcount to support the growth of the business and overall increase in revenue, on which a portion of compensation is based. General, Administrative and Other expenses were \$272.0 million for the six months ended June 30, 2014, an increase of \$45.4 million, driven primarily by a non-recurring placement fee expense in our Credit segment and overall increases in business development and professional expenses.

*Other Income (Loss)*

Other Income (Loss) Net Gains (Losses) from Fund Investment Activities is attributable to the consolidated Blackstone Funds which are largely held by third party investors. As such, most of this Other Income (Loss) is eliminated from the results attributable to The Blackstone Group L.P. through the redeemable non-controlling interests and non-controlling interests items in the Condensed Consolidated Statements of Operations.

Other Income Net Gains from Fund Investment Activities was \$138.6 million for the three months ended June 30, 2014, an increase of \$97.6 million compared to \$41.0 million for the three months ended June 30, 2013. The change was principally driven by an increase in the income related to investments in our consolidated CLO vehicles.

Other Income Net Gains from Fund Investment Activities was \$208.7 million for the six months ended June 30, 2014, an increase of \$100.6 million compared to \$108.2 million for the six months ended June 30, 2013. The change was principally driven by an increase in the income related to investments in our consolidated CLO vehicles.

*Provision for Taxes*

Blackstone's Provision for Taxes for the three months ended June 30, 2014 and 2013 was \$83.3 million and \$56.1 million, respectively. This resulted in an effective tax rate of 6.4% and 9.9%, respectively, based on our Income Before Provision for Taxes of \$1.3 billion and \$566.7 million, respectively. The principal factor that contributed to the 3.5% decrease in the effective tax rate for the three months ended June 30, 2014 compared to the

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three months ended June 30, 2013 was pre-tax income of \$1.1 billion and \$429.7 million for three months ended June 30, 2014 and three months ended June 30, 2013, respectively, that was passed through to common unit holders and non-controlling interest holders and was not taxable to the Partnership and its subsidiaries. The change in these amounts resulted in a 2.9% decrease in the effective tax rate between the respective three month periods.

Blackstone's Provision for Taxes for the six months ended June 30, 2014 and 2013 was \$137.4 million and \$107.1 million, respectively. This resulted in an effective tax rate of 6.8% and 10.2%, respectively, based on our Income Before Provision for Taxes of \$2.0 billion and \$1.0 billion, respectively.

The principal factor that contributed to the 3.4% decrease in the effective tax rate for the six months ended June 30, 2014 compared to the six months ended June 30, 2013 was pre-tax income of \$1.7 billion and \$773.6 million for the six months ended June 30, 2014 and the six months ended June 30, 2013, respectively, that was passed through to common unit holders and non-controlling interest holders and was not taxable to the Partnership and its subsidiaries. The change in these amounts resulted in a 3.0% decrease in the effective tax rate between the respective six month periods.

### *Non-Controlling Interests in Consolidated Entities*

The Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities and Net Income (Loss) Attributable to Non-Controlling Interests in Consolidated Entities are attributable to the consolidated Blackstone Funds. The amounts of these items vary directly with the performance of the consolidated Blackstone Funds and largely eliminate the amount of Other Income (Loss) Net Gains (Losses) from Fund Investment Activities from the Net Income Attributable to The Blackstone Group L.P.

Net Income Attributable to Non-Controlling Interests in Blackstone Holdings is derived from the Income Before Provision for Taxes, excluding the Net Gains (Losses) from Fund Investment Activities, and the percentage allocation of the income between Blackstone Holdings and The Blackstone Group L.P. after considering any contractual arrangements that govern the allocation of income (loss) such as fees allocable to The Blackstone Group L.P.

For the three months ended June 30, 2014 and 2013, the net income before taxes allocated to Blackstone Holdings was 47.9% and 49.5%, respectively. For the six months ended June 30, 2014 and 2013, the net income before taxes allocated to Blackstone Holdings was 48.2% and 49.6%, respectively. The decreases of 1.6% and 1.4%, respectively, were primarily due to conversions of Blackstone Holdings Partnership Units to Blackstone common units and the vesting of common units.

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*Operating Metrics*

The following graph summarizes the Fee-Earning Assets Under Management by Segment and Total Assets Under Management by Segment, followed by a rollforward of activity for the three and six months ended June 30, 2014 and 2013. For a description of how Assets Under Management and Fee-Earning Assets Under Management are determined, please see Key Financial Measures and Indicators Operating Metrics Assets Under Management and Fee-Earning Assets Under Management :

Note: Totals in graph may not add due to rounding.

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	Three Months Ended									
	Private Equity	Real Estate	June 30, 2014 Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	June 30, 2013 Hedge Fund Solutions	Credit	Total
Net Earnings (Losses) Under Management										
Beginning of Period	\$ 41,150,728	\$ 53,490,834	\$ 55,571,357	\$ 53,386,685	\$ 203,599,604	\$ 36,785,770	\$ 42,140,507	\$ 45,585,454	\$ 46,437,616	\$ 170,949,347
Net Flows, including Commitments	3,459,413	2,386,903	3,441,992	5,308,628	14,596,936	805,104	2,814,991	2,712,762	4,635,166	10,968,023
Net Outflows, including Distributions	(601,787)	(67,501)	(1,990,723)	(831,330)	(3,491,341)		(104,147)	(1,106,213)	(367,514)	(1,577,874)
Net Realizations	(1,383,552)	(2,971,203)	(8,704)	(2,085,949)	(6,449,408)	(950,299)	(1,255,384)	(21,889)	(2,550,021)	(4,777,593)
Net Inflows (Outflows)	1,474,074	(651,801)	1,442,565	2,391,349	4,656,187	(145,195)	1,455,460	1,584,660	1,717,631	4,612,556
Market Appreciation (Depreciation)	263,954	(15,058)	1,070,098	338,975	1,657,969	(5,351)	39,526	402,351	340,518	777,044
Balance, End of Period (e)	\$ 42,888,756	\$ 52,823,975	\$ 58,084,020	\$ 56,117,009	\$ 209,913,760	\$ 36,635,224	\$ 43,635,493	\$ 47,572,465	\$ 48,495,765	\$ 176,338,947
Percentage Change (Increase/Decrease)	\$ 1,738,028	\$ (666,859)	\$ 2,512,663	\$ 2,730,324	\$ 6,314,156	\$ (150,546)	\$ 1,494,986	\$ 1,987,011	\$ 2,058,149	\$ 5,389,600
	4%	-1%	5%	5%	3%	-0%	4%	4%	4%	3%

	Six Months Ended									
	Private Equity	Real Estate	June 30, 2014 Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	June 30, 2013 Hedge Fund Solutions	Credit	Total
Net Earnings (Losses) Under Management										
Beginning of Period	\$ 42,600,515	\$ 50,792,803	\$ 52,865,837	\$ 51,722,584	\$ 197,981,739	\$ 37,050,167	\$ 41,931,339	\$ 43,478,791	\$ 45,420,143	\$ 167,880,440
Net Flows, including Commitments	3,842,118	5,693,677	5,809,622	9,138,826	24,484,243	1,275,239	3,567,325	3,921,677	8,537,997	17,302,238
Net Outflows, including Distributions	(944,249)	(158,841)	(2,598,345)	(1,702,132)	(5,403,567)		(112,205)	(1,382,621)	(853,979)	(2,348,805)
Net Realizations	(2,962,624)	(3,543,966)	(196,268)	(3,734,220)	(10,437,078)	(1,670,254)	(1,663,616)	(69,822)	(5,065,477)	(8,469,169)
Net Inflows (Outflows)	(64,755)	1,990,870	3,015,009	3,702,474	8,643,598	(395,015)	1,791,504	2,469,234	2,618,541	6,484,264
	352,996	40,302	2,203,174	691,951	3,288,423	(19,928)	(87,350)	1,624,440	457,081	1,974,243



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Market Appreciation (Depreciation)											
Balance, End Period (e)	\$ 42,888,756	\$ 52,823,975	\$ 58,084,020	\$ 56,117,009	\$ 209,913,760	\$ 36,635,224	\$ 43,635,493	\$ 47,572,465	\$ 48,495,765	\$ 176,338,947	
Increase (Decrease)	\$ 288,241	\$ 2,031,172	\$ 5,218,183	\$ 4,394,425	\$ 11,932,021	\$ (414,943)	\$ 1,704,154	\$ 4,093,674	\$ 3,075,622	\$ 8,458,507	
Increase (Decrease)	1%	4%	10%	8%	6%	-1%	4%	9%	7%	5%	

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	Three Months Ended									
	Private Equity	Real Estate	June 30, 2014 Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	June 30, 2013 Hedge Fund Solutions	Credit	Total
Total Assets Under Management Balance, Beginning of Period	\$ 66,142,945	\$ 81,333,562	\$ 58,262,659	\$ 66,006,417	\$ 271,745,583	\$ 52,491,811	\$ 59,475,215	\$ 48,187,865	\$ 58,055,781	\$ 218,210,672
Inflows, including commitments	2,736,511	2,477,644	3,307,591	6,015,825	14,537,571	525,205	4,505,181	2,643,905	6,487,480	14,161,771
Outflows, including distributions	(344,443)	(97,213)	(1,998,947)	(886,908)	(3,327,511)	(24,073)	(521,298)	(1,123,255)	(327,099)	(1,995,725)
Realizations	(4,165,727)	(6,926,958)	(11,125)	(2,277,052)	(13,380,862)	(1,648,070)	(2,243,117)	(28,551)	(2,705,454)	(6,625,192)
Net Inflows (outflows)	(1,773,659)	(4,546,527)	1,297,519	2,851,865	(2,170,802)	(1,146,938)	1,740,766	1,492,099	3,454,927	5,540,854
Market Appreciation	3,924,876	3,623,953	1,112,581	681,522	9,342,932	1,942,421	2,703,925	448,064	725,805	5,820,215
Balance, End of Period (e)	\$ 68,294,162	\$ 80,410,988	\$ 60,672,759	\$ 69,539,804	\$ 278,917,713	\$ 53,287,294	\$ 63,919,906	\$ 50,128,028	\$ 62,236,513	\$ 229,571,741
Increase (decrease)	\$ 2,151,217	\$ (922,574)	\$ 2,410,100	\$ 3,533,387	\$ 7,172,130	\$ 795,483	\$ 4,444,691	\$ 1,940,163	\$ 4,180,732	\$ 11,361,069
Increase (decrease)	3%	-1%	4%	5%	3%	2%	7%	4%	7%	5%

	Six Months Ended									
	Private Equity	Real Estate	June 30, 2014 Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	June 30, 2013 Hedge Fund Solutions	Credit	Total
Total Assets Under Management Balance, Beginning of Period	\$ 65,675,031	\$ 79,410,788	\$ 55,657,463	\$ 65,014,348	\$ 265,757,630	\$ 51,002,973	\$ 56,695,645	\$ 46,092,505	\$ 56,428,837	\$ 210,219,960
Inflows, including commitments	4,842,175	4,884,446	5,594,601	9,411,726	24,732,948	1,507,839	6,022,407	3,859,236	11,244,524	22,634,006
Outflows, including distributions	(512,241)	(677,113)	(2,611,206)	(1,788,580)	(5,589,140)	(409,411)	(577,026)	(1,482,325)	(937,922)	(3,406,684)
Realizations	(8,847,962)	(8,973,223)	(287,013)	(4,548,850)	(22,657,048)	(3,609,309)	(3,265,222)	(91,120)	(5,754,514)	(12,720,165)
Net Inflows (outflows)	(4,518,028)	(4,765,890)	2,696,382	3,074,296	(3,513,240)	(2,510,881)	2,180,159	2,285,791	4,552,088	6,507,157
Market Appreciation	7,137,159	5,766,090	2,318,914	1,451,160	16,673,323	4,795,202	5,044,102	1,749,732	1,255,588	12,844,624

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Balance, End											
Period (e)	\$ 68,294,162	\$ 80,410,988	\$ 60,672,759	\$ 69,539,804	\$ 278,917,713	\$ 53,287,294	\$ 63,919,906	\$ 50,128,028	\$ 62,236,513	\$ 229,571,741	
Increase	\$ 2,619,131	\$ 1,000,200	\$ 5,015,296	\$ 4,525,456	\$ 13,160,083	\$ 2,284,321	\$ 7,224,261	\$ 4,035,523	\$ 5,807,676	\$ 19,351,781	
Decrease											
	4%	1%	9%	7%	5%	4%	13%	9%	10%	9%	

- (a) Inflows represent contributions in our hedge funds and closed-end mutual funds, increases in available capital for our carry funds (capital raises, recallable capital and increased side-by-side commitments) and CLOs and increases in the capital we manage pursuant to separately managed account programs.
- (b) Outflows represent redemptions in our hedge funds and closed-end mutual funds, client withdrawals from our separately managed account programs and decreases in available capital for our carry funds (expired capital, expense drawdowns and decreased side-by-side commitments). Also included is the distribution of funds associated with the discontinuation of our proprietary single manager hedge funds.
- (c) Realizations represent realizations from the disposition of assets, capital returned to investors from CLOs and the effect of changes in the definition of Total Assets Under Management.
- (d) Market appreciation (depreciation) includes realized and unrealized gains (losses) on portfolio investments and the impact of foreign exchange rate fluctuations.
- (e) Fee-Earning Assets Under Management and Total Assets Under Management as of June 30, 2014 included \$295.1 million and \$349.8 million, respectively, from a joint venture in which we are the minority interest holder.

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*Fee-Earning Assets Under Management*

Fee-Earning Assets Under Management were \$209.9 billion at June 30, 2014, an increase of \$6.3 billion, or 3%, compared to \$203.6 billion at March 31, 2014. The net increase was due to:

Inflows of \$14.6 billion related to:

\$5.3 billion in our Credit segment principally related to \$1.9 billion raised due to three CLO launches, \$1.4 billion of capital raised for our business development companies ( BDCs ) and \$786.5 million raised in our Hedge Fund Strategies funds,

\$3.5 billion in our Private Equity segment primarily due to the commencement of the investment period of Strategic Partners sixth secondary fund of funds with \$3.1 billion of third party capital, and to a lesser extent, the inclusion of additional fee generating assets for our Tactical Opportunities investment vehicles,

\$3.4 billion in our Hedge Fund Solutions segment related to \$1.3 billion in specialized solutions, \$1.1 billion in customized solutions, \$561.0 million in commingled products and \$463.7 million in individual investor solutions, and

\$2.4 billion in our Real Estate segment primarily related to \$1.0 billion raised for our Asia fund, \$1.0 billion raised and/or invested across our BREDS funds and \$226.3 million raised for our Core+ funds.

Market appreciation of \$1.7 billion primarily due to:

\$1.1 billion in our Hedge Fund Solutions segment due to BAAM s Principal Solutions Composite being up 1.8% net, and

\$339.0 million in our Credit segment due to \$153.7 million of appreciation in the Hedge Fund Strategies funds and \$180.9 million of appreciation in the long-only platform.

Offsetting these increases were:

Realizations of \$6.4 billion primarily driven by:

\$3.0 billion in our Real Estate segment primarily from the partial sale of public market holdings (Hilton and Brixmor),

\$2.1 billion in our Credit segment primarily due to \$1.7 billion of capital returned to CLO investors from CLOs that are post their re-investment periods and \$337.6 million returned across our significant Mezzanine and Rescue Lending funds, and

\$1.4 billion in our Private Equity segment primarily from our BCP V fund, including two strategic sales and four partial public market dispositions (Hilton, PBF Energy, SeaWorld Parks & Entertainment ( SeaWorld ) and Nielsen).

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Outflows of \$3.5 billion primarily attributable to:

\$2.0 billion in our Hedge Fund Solutions segment reflecting seasonally higher activity in the commingled funds,

\$831.3 million in our Credit segment primarily from our BDCs and commingled funds,

\$601.8 million in our Private Equity segment due to the end of Strategic Partners V's investment period.  
BAAM had net inflows of \$2.7 billion from July 1 through August 1, 2014.

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Fee-Earning Assets Under Management were \$209.9 billion at June 30, 2014, an increase of \$11.9 billion, or 6%, compared to \$198.0 billion at December 31, 2013. The net increase was due to:

Inflows of \$24.5 billion related to:

\$9.1 billion in our Credit segment principally related to \$2.7 billion raised due to four CLO launches, \$2.2 billion of capital raised for our BDCs, \$1.9 billion raised in our Hedge Fund Strategies funds and \$906.2 million deployed in our carry funds,

\$5.8 billion in our Hedge Fund Solutions segment mainly related to additional closings on the general partner interests vehicle, growth in its co-investment platform and customized products and the launch of BAAM's second alternative investment-focused mutual fund,

\$5.7 billion in our Real Estate segment primarily related to \$1.3 billion raised for BREP Europe IV, \$1.9 billion raised and/or invested across our BREDS funds and \$1.2 billion raised for our first Asian fund, and

\$3.8 billion in our Private Equity segment primarily due to the commencement of the investment period of Strategic Partners sixth secondary fund of funds with \$3.1 billion of third party capital and the inclusion of additional fee generating assets for our Tactical Opportunities investment vehicles.

Market appreciation of \$3.3 billion primarily due to:

\$2.2 billion in our Hedge Fund Solutions segment due to BAAM's Principal Solutions Composite being up 3.6% net, and

\$692.0 million in our Credit segment due to appreciation in the Hedge Fund Strategies funds and BDCs.

Offsetting these increases were:

Realizations of \$10.4 billion primarily driven by:

\$3.7 billion in our Credit segment primarily due to \$2.8 billion of capital returned to CLO investors from CLOs that are post their re-investment periods and \$764.8 million returned across our significant Mezzanine and Rescue Lending funds,

\$3.5 billion in our Real Estate segment primarily from sales of office assets in BREP and the partial sale of public market holdings (Hilton and Brixmor), and

\$3.0 billion in our Private Equity segment that were primarily from our BCP V fund, including several public market dispositions and strategic sales.

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Outflows of \$5.4 billion primarily attributable to:

\$2.6 billion in our Hedge Fund Solutions segment as a result of, in general, the liquidity needs of limited partners,

\$1.7 billion in our Credit segment primarily from our BDCs and separately managed accounts, and

\$944.2 million in our Private Equity segment primarily from the end of Strategic Partners V's investment period.

Weighted Average Fee-Earning Assets Under Management for our Real Estate segment was \$53.2 billion for the three months ended June 30, 2014 and \$53.8 billion for the six months ended June 30, 2014. Total Segments Weighted Average Fee-Earning Assets Under Management was \$209.3 billion for the three months ended June 30, 2014 and \$208.5 billion for the six months ended June 30, 2014.

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*Total Assets Under Management*

Total Assets Under Management were \$278.9 billion at June 30, 2014, an increase of \$7.2 billion, or 3%, compared to \$271.7 billion at March 31, 2014. The net increase was due to:

Inflows of \$14.5 billion related to:

\$6.0 billion in our Credit segment primarily due to the same reasons in Fee-Earning Assets Under Management above,

\$3.3 billion in our Hedge Fund Solutions segment, which primarily related to growth in its customized products, an additional close of the general partner interests vehicle with \$2.3 billion in total commitments and the launch of BAAM's second alternative investment-focused mutual fund,

\$2.7 billion in our Private Equity segment primarily related to \$1.7 billion raised for Strategic Partners, and

\$2.5 billion in our Real Estate segment primarily due to the same reasons in Fee-Earning Assets Under Management above.

Market appreciation of \$9.3 billion due to:

\$3.9 billion in our Private Equity segment primarily due to strong fund performance, with an 8.4% overall increase in carrying value, driven by public portfolio appreciation of 7.5% and private portfolio appreciation of 10.4%,

\$3.6 billion in our Real Estate segment due to a carrying value increase of 6.0% driven by appreciation in the private portfolio by 6.7% or \$1.9 billion from improving fundamentals, and public portfolio appreciation of 4.8% or \$1.0 billion,

\$1.1 billion in our Hedge Fund Solutions segment due to BAAM's Principal Solutions Composite being up 1.8% net, and

\$681.5 million in our Credit segment due to \$246.6 million of appreciation in BDCs, \$206.0 million of appreciation in the Hedge Fund Strategies funds and \$168.7 million of appreciation in the Rescue Lending funds.

Offsetting these increases were:

Realizations of \$13.4 billion primarily driven by:

\$6.9 billion in our Real Estate segment primarily due to the same reasons in Fee-Earning Assets Under Management above,

\$4.2 billion in our Private Equity segment primarily due to continued disposition activity across the segment, mainly from our BCP V fund, and



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\$2.3 billion in our Credit segment primarily due to the same reasons in Fee-Earning Assets Under Management above.

Outflows of \$3.3 billion primarily attributable to:

\$2.0 billion in our Hedge Fund Solutions segment primarily related to the liquidity needs of limited partners, and

\$886.9 million in our Credit segment primarily due to the same reasons in Fee-Earning Assets Under Management above.

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Total Assets Under Management were \$278.9 billion at June 30, 2014, an increase of \$13.2 billion, or 5%, compared to \$265.8 billion at December 31, 2013. The net increase was due to:

Inflows of \$24.7 billion related to:

\$9.4 billion in our Credit segment primarily due to the same reasons in Fee-Earning Assets Under Management above,

\$5.6 billion in our Hedge Fund Solutions segment primarily due to the same reasons in Fee-Earning Assets Under Management above,

\$4.9 billion in our Real Estate segment primarily due to \$1.4 billion raised for BREP Europe IV, \$1.2 billion for our first Asia fund and \$1.4 billion raised and/or invested across our BREDS funds, and

\$4.8 billion in our Private Equity segment primarily related to \$2.5 billion raised for Strategic Partners and \$510.0 million for our Tactical Opportunities investment vehicles.

Market appreciation of \$16.7 billion due to:

\$7.1 billion in our Private Equity segment primarily due to strong fund performance, with a 15.0% overall increase in carrying value, including 15.3% in BCP V and 23.6% in BCP VI,

\$5.8 billion in our Real Estate segment due to a carrying value increase in our BREP funds of 9.7% driven by appreciation in the private portfolio (10.6%, \$3.2 billion) from improving fundamentals and public portfolio appreciation (8.2%, \$1.6 billion),

\$2.3 billion in our Hedge Fund Solutions segment due to BAAM's Principal Solutions Composite being up 3.6% net, and

\$1.5 billion in our Credit segment due to \$900.8 million of appreciation in the Hedge Fund Strategies funds and BDCs and \$618.6 million of appreciation in carry funds.

Offsetting these increases were:

Realizations of \$22.7 billion primarily driven by:

\$9.0 billion in our Real Estate segment primarily due to the same reasons in Fee-Earning Assets Under Management above,

\$8.8 billion in our Private Equity segment primarily due to continued disposition activity across the segment, mainly from our BCP V fund, and

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\$4.5 billion in our Credit segment primarily due to the same reasons in Fee-Earning Assets Under Management above.

Outflows of \$5.6 billion primarily attributable to:

\$2.6 billion in our Hedge Fund Solutions segment primarily related to the liquidity needs of limited partners, and

\$1.8 billion in our Credit segment primarily due to the same reasons in Fee-Earning Assets Under Management above.

**Table of Contents***Limited Partner Capital Invested*

The following presents the limited partner capital invested during the respective periods:

Note: Totals in graph may not add due to rounding.

	Three Months Ended		2014 vs. 2013		Six Months Ended		2014 vs. 2013	
	June 30,		\$	%	June 30,		\$	%
	2013	2014			2013	2014		
(Dollars in Thousands)								
Limited Partner Capital Invested								
Private Equity	\$ 749,290	1,857,330	1,108,040	148%	1,026,277	3,886,349	2,860,072	279%
Real Estate	2,213,668	3,017,193	803,525	36%	3,389,443	4,709,425	1,319,982	39%
Hedge Fund Solutions	118,323	188,236	69,913	59%	174,172	355,406	181,234	104%
Credit	553,123	363,752	(189,371)	-34%	828,975	943,858	114,883	14%
Total	\$ 3,634,404	\$ 5,426,511	\$ 1,792,107	49%	\$ 5,418,867	\$ 9,895,038	\$ 4,476,171	83%

Limited Partner Capital Invested was \$5.4 billion for the three months ended June 30, 2014, an increase of \$1.8 billion, or 49%, from \$3.6 billion for the three months ended June 30, 2013. Limited Partner Capital Invested was \$9.9 billion for the six months ended June 30, 2014, an increase of \$4.5 billion, or 83%, compared to \$5.4 billion for the six months ended June 30, 2013. The amount of Limited Partner Capital Invested is a function of finding opportunistic investments that fit our investment philosophy and strategy in each of our segments as well as the relative timing of investment closings within those segments. Our Private Equity segment deployed more capital during the six months ended June 30, 2014 than in the six months ended June 30, 2013 due to the timing of investment closings. Our Real Estate segment deployed capital at a faster rate during the six months ended June 30,

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2014 than during the six months ended June 30, 2013. Our Hedge Fund Solutions segment is investing capital based on the relative investment opportunities from the hedge fund manager seeding platform and general partner interests vehicle. In our Credit segment, capital deployed for the six months ended June 30, 2014 was higher compared to the six months ended June 30, 2013 due to greater opportunities to deploy capital.

The following presents the committed undrawn capital available for investment ( dry powder ) as of June 30, 2013 and 2014:

Note: Totals may not add due to rounding. Amounts are as of June 30, for each of the periods indicated.

- (a) Represents illiquid drawdown funds only; excludes marketable vehicles; includes both Fee-Earning (third party) capital and general partner and employee commitments that do not earn fees. Amounts are reduced by outstanding commitments to invest, but for which capital has not been called.

**Table of Contents***Net Accrued Performance Fees*

The following table presents the accrued performance fees, net of performance fee compensation, of the Blackstone Funds as of June 30, 2014 and 2013. Net accrued performance fees presented do not include clawback amounts, if any, which are disclosed in Note 17. Commitments and Contingencies Contingencies Contingent Obligations (Clawback) in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1. Financial Statements of this filing.

	June 30,	
	2014	2013
	(Dollars in Millions)	
<b>Private Equity</b>		
BCP IV Carried Interest	\$ 383	\$ 500
BCP V Carried Interest	558	
BCP VI Carried Interest	233	63
BEP Carried Interest	81	67
Tactical Opportunities Carried Interest	19	3
Strategic Partners V Carried Interest	1	
<b>Total Private Equity (a)</b>	<b>1,275</b>	<b>633</b>
<b>Real Estate</b>		
BREP IV Carried Interest	2	
BREP V Carried Interest	618	552
BREP VI Carried Interest	1,389	740
BREP VII Carried Interest	459	189
BREP International I Carried Interest	2	2
BREP Europe III Carried Interest	144	105
BREP Europe IV Carried Interest	10	
BREP Asia Carried Interest	9	
Core+ Carried Interest	1	
BREDS Carried Interest	18	22
BREDS Incentive Fees	3	7
Asia Platform Incentive Fees	9	18
<b>Total Real Estate (a)</b>	<b>2,664</b>	<b>1,635</b>
<b>Hedge Fund Solutions</b>		
Incentive Fees	57	67
<b>Total Hedge Fund Solutions</b>	<b>57</b>	<b>67</b>
<b>Credit</b>		
Carried Interest	176	129
Incentive Fees	69	65
<b>Total Credit</b>	<b>245</b>	<b>194</b>
<b>Total Blackstone</b>		
Carried Interest	4,103	2,372
Incentive Fees	138	157
<b>Net Accrued Performance Fees</b>	<b>\$ 4,241</b>	<b>\$ 2,529</b>

- (a) Private Equity and Real Estate include Co-Investments, as applicable.

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*Performance Fee Eligible Assets Under Management*

The following represents invested and to be invested capital, including closed commitments for funds whose investment period has not yet commenced, on which performance fees could be earned if certain hurdles are met:

Note: Totals may not add due to rounding. Amounts are as of June 30, 2014.

- (a) Represents invested and to be invested capital at fair value, including closed commitments for funds whose investment period has not yet commenced, on which performance fees could be earned if certain hurdles are met.
- (b) Represents dry powder exclusive of non-fee earning general partner and employee commitments.

*Investment Record*

Fund returns information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.



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The following table presents the investment record of our significant drawdown funds from inception through June 30, 2014:

Fund (Investment Period)	Committed Capital	Available Capital (a)	Unrealized Investments			Realized Investments		Total Investments		Net IRR (c)	
			Value	MOIC (b)	% Public	Value	MOIC (b)	Value	MOIC (b)	Realized	Total
<b>Private Equity</b>											
BCP I (Oct 1987 / Oct 1993)	\$ 859,081	\$	\$	N/A		\$ 1,741,738	2.6x	\$ 1,741,738	2.6x	19%	19%
BCP II (Oct 1993 / Aug 1997)	1,361,100			N/A		3,256,819	2.5x	3,256,819	2.5x	32%	32%
BCP III (Aug 1997 / Nov 2002)	3,967,422			N/A		9,184,688	2.3x	9,184,688	2.3x	14%	14%
BCOM (Jun 2000 / Jun 2006)	2,137,330	199,298	247,105	1.2x		2,619,040	1.4x	2,866,145	1.3x	7%	6%
BCP IV (Nov 2002 / Dec 2005)	6,773,138	228,665	3,876,222	2.0x	61%	17,565,752	3.1x	21,441,974	2.8x	45%	37%
BCP V (Dec 2005 / Jan 2011)	21,031,850	1,770,128	19,182,132	1.7x	49%	13,722,497	1.6x	32,904,629	1.6x	8%	8%
BCP VI (Jan 2011 / Jan 2017)	15,184,161	8,624,325	8,187,578	1.4x	19%	1,462,362	1.6x	9,649,940	1.5x	44%	19%
BEP (Aug 2011 / Aug 2017)	2,422,838	1,234,987	1,826,488	2.0x	37%	631,832	1.5x	2,458,320	1.8x	45%	52%
Total Corporate Private Equity	53,736,920	12,057,403	33,319,525	1.6x	42%	50,184,728	2.1x	83,504,253	1.9x	20%	16%
Tactical Opportunities	5,415,849	3,315,432	2,403,589	1.1x	5%	171,049	1.1x	2,574,638	1.1x	12%	16%
Strategic Partners	15,450,456	5,145,840	6,436,636	1.8x	N/A	10,305,204	1.3x	16,741,840	1.5x	N/A	14%
Other Funds and Co-Invest (d)	1,201,732	28,302	680,613	0.8x	56%	20,890	1.0x	701,503	0.8x	N/M	N/M
Total Private Equity	\$ 75,804,957	\$ 20,546,977	\$ 42,840,363	1.6x	34%	\$ 60,681,871	1.9x	\$ 103,522,234	1.8x	20%	16%
<b>Real Estate</b>											
<b>Dollar</b>											
Pre-BREP	\$ 140,714	\$	\$	N/A		\$ 345,190	2.5x	\$ 345,190	2.5x	33%	33%
BREP I (Sep 1994 / Oct 1996)	380,708			N/A		1,327,708	2.8x	1,327,708	2.8x	40%	40%
BREP II (Oct 1996 / Mar 1999)	1,198,339			N/A		2,531,613	2.1x	2,531,613	2.1x	19%	19%
BREP III (Apr 1999 / Apr 2003)	1,522,708		2,161	0.1x		3,325,133	2.4x	3,327,294	2.4x	22%	21%
BREP IV (Apr 2003 / Dec 2005)	2,198,694		1,440,888	1.0x	22%	3,092,653	2.4x	4,533,541	1.7x	66%	14%
BREP V (Dec 2005 / Feb 2007)	5,539,418		7,033,344	1.9x	17%	4,207,071	2.0x	11,240,415	1.9x	21%	10%
BREP VI (Feb 2007 / Aug 2011)	11,058,605	614,439	16,870,917	2.1x	54%	6,791,824	2.2x	23,662,741	2.2x	17%	14%
BREP VII (Aug 2011 / Feb 2017)	13,440,836	4,817,292	13,274,189	1.5x	3%	1,874,236	1.6x	15,148,425	1.5x	38%	28%
Total Global Real Estate Funds	\$ 35,480,022	\$ 5,431,731	\$ 38,621,499	1.8x	29%	\$ 23,495,428	2.2x	\$ 62,116,927	1.9x	26%	17%
<b>Euro</b>											
BREP Int 1 (Jan 2001 / Sep 2005)	824,172		120,660	1.5x		1,238,480	2.2x	1,359,140	2.1x	25%	23%
BREP Int 1 II (Sep 2005 / Jun 2008)	1,629,748	50,821	1,400,316	1.2x	37%	392,885	1.6x	1,793,201	1.3x	10%	3%

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BREP Europe III (Jun 2008 / Dec 2013)	3,204,714	496,937	3,681,634	1.5x	9%	905,868	2.5x	4,587,502	1.6x	32%	18%
BREP Europe IV (Sep 2013 / Mar 2019)	5,142,757	3,683,469	1,634,057	1.1x		115,159	1.2x	1,749,216	1.1x	104%	15%
<b>Total Euro Real Estate Funds</b>	<b>10,801,391</b>	<b>4,231,227</b>	<b>6,836,667</b>	<b>1.3x</b>	<b>12%</b>	<b>2,652,392</b>	<b>2.1x</b>	<b>9,489,059</b>	<b>1.4x</b>	<b>24%</b>	<b>11%</b>
BREP Co-Investment (e)	\$ 5,160,385	\$	\$ 8,049,438	1.9x	70%	\$ 2,052,222	2.0x	\$ 10,101,660	2.0x	14%	17%
BREP Asia (Jun 2013 / Dec 2017)	4,456,988	3,682,829	972,723	1.2x		4,400	1.0x	977,123	1.2x	N/A	20%
<b>Total Real Estate</b>	<b>\$ 59,231,111</b>	<b>\$ 14,872,413</b>	<b>\$ 56,839,535</b>	<b>1.7x</b>	<b>31%</b>	<b>\$ 29,057,652</b>	<b>2.2x</b>	<b>\$ 85,897,187</b>	<b>1.8x</b>	<b>25%</b>	<b>17%</b>
Core+	\$ 1,407,622	\$ 233,500	\$ 1,207,991	1.0x		\$	N/A	\$ 1,207,991	1.0x	N/A	N/A
BREDS (f)	\$ 6,760,361	\$ 2,492,341	\$ 3,148,411	1.2x		\$ 2,828,717	1.3x	\$ 5,977,128	1.2x	15%	12%
<b>Credit (g)</b>											
Mezzanine I (Jul 2007 / Jul 2012)	\$ 2,000,000	\$ 139,685	\$ 1,155,248	1.5x		\$ 3,606,207	1.6x	\$ 4,761,455	1.6x	N/A	18%
Mezzanine II (Nov 2011 / Nov 2016)	4,120,000	2,566,976	1,960,785	1.2x		823,420	1.4x	2,784,205	1.3x	N/A	23%
Rescue Lending I (Sep 2009 / May 2013)	3,253,143	492,815	3,527,372	1.5x		2,417,157	1.4x	5,944,529	1.5x	N/A	17%
Rescue Lending II (Jun 2013 / Jun 2018)	5,125,000	4,372,715	832,983	1.1x		3,795	1.0x	836,778	1.1x	N/A	N/M
<b>Total Credit</b>	<b>\$ 14,498,143</b>	<b>\$ 7,572,191</b>	<b>\$ 7,476,388</b>	<b>1.4x</b>		<b>\$ 6,850,579</b>	<b>1.5x</b>	<b>\$ 14,326,967</b>	<b>1.5x</b>		

**The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

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N/M Not meaningful.

N/A Not applicable.

- (a) Available Capital represents total investable capital commitments, including side-by-side, adjusted for certain expenses and expired or callable capital, less invested capital. This amount is not reduced by outstanding commitments to investments.
- (b) Multiple of Invested Capital ( MOIC ) represents carrying value, before management fees, expenses and Carried Interest, divided by invested capital.
- (c) Net Internal Rate of Return ( IRR ) represents the annualized inception to June 30, 2014 IRR on total invested capital based on realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest. Net IRRs for BREP Europe IV, BREP Asia and BREDS II are calculated from commencement of their respective investment periods which, being less than one year, are not annualized.
- (d) Returns for Other Funds and Co-Invest are not meaningful as these funds have no or little realizations.
- (e) BREP Co-Investment represents co-investment capital raised for various BREP investments. The Net IRR reflected is calculated by aggregating each co-investment's realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
- (f) Excludes Capital Trust drawdown funds.
- (g) The Total Investments MOIC for Mezzanine I, Mezzanine II, Rescue Lending I and Rescue Lending II Funds, excluding recycled capital during the investment period, was 2.0x, 1.6x, 1.7x and 1.1x, respectively. Funds presented represent the flagship credit drawdown funds only.

**Segment Analysis**

Discussed below is our EI for each of our segments. This information is reflected in the manner utilized by our senior management to make operating decisions, assess performance and allocate resources. References to our sectors or investments may also refer to portfolio companies and investments of the underlying funds that we manage.

For segment reporting purposes, revenues and expenses are presented on a basis that deconsolidates the investment funds we manage. As a result, segment revenues are greater than those presented on a consolidated GAAP basis because fund management fees recognized in certain segments are received from the Blackstone Funds and eliminated in consolidation when presented on a consolidated GAAP basis. Furthermore, segment expenses are lower than related amounts presented on a consolidated GAAP basis due to the exclusion of fund expenses that are paid by Limited Partners and the elimination of non-controlling interests.

**Table of Contents****Private Equity**

The following table presents the results of operations for our Private Equity segment:

	Three Months Ended June 30,		2014 vs. 2013		Six Months Ended June 30,		2014 vs. 2013	
	2014	2013	\$	%	2014	2013	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
<b>Management Fees, Net</b>								
Base Management Fees	\$ 103,204	\$ 86,621	\$ 16,583	19%	\$ 201,788	\$ 172,867	\$ 28,921	17%
Transaction and Other Fees, Net	27,616	38,348	(10,732)	-28%	70,463	62,801	7,662	12%
Management Fee Offsets	(4,246)	(1,950)	(2,296)	-118%	(5,959)	(2,430)	(3,529)	-145%
<b>Total Management Fees, Net</b>	<b>126,574</b>	<b>123,019</b>	<b>3,555</b>	<b>3%</b>	<b>266,292</b>	<b>233,238</b>	<b>33,054</b>	<b>14%</b>
<b>Performance Fees</b>								
<b>Realized</b>								
Carried Interest	212,394	3,899	208,495	N/M	332,199	143,791	188,408	131%
<b>Unrealized</b>								
Carried Interest	502,210	182,926	319,284	175%	669,275	98,972	570,303	576%
<b>Total Performance Fees</b>	<b>714,604</b>	<b>186,825</b>	<b>527,779</b>	<b>282%</b>	<b>1,001,474</b>	<b>242,763</b>	<b>758,711</b>	<b>313%</b>
<b>Investment Income</b>								
<b>Realized</b>								
Realized	74,812	21,586	53,226	247%	135,347	45,748	89,599	196%
<b>Unrealized</b>								
Unrealized	17,662	21,088	(3,426)	-16%	8,629	52,799	(44,170)	-84%
<b>Total Investment Income</b>	<b>92,474</b>	<b>42,674</b>	<b>49,800</b>	<b>117%</b>	<b>143,976</b>	<b>98,547</b>	<b>45,429</b>	<b>46%</b>
Interest and Dividend Revenue	4,666	3,251	1,415	44%	9,894	6,235	3,659	59%
Other	564	366	198	54%	1,428	790	638	81%
<b>Total Revenues</b>	<b>938,882</b>	<b>356,135</b>	<b>582,747</b>	<b>164%</b>	<b>1,423,064</b>	<b>581,573</b>	<b>841,491</b>	<b>145%</b>
<b>Expenses</b>								
<b>Compensation and Benefits</b>								
Compensation	73,038	63,747	9,291	15%	146,345	123,950	22,395	18%
<b>Performance Fee Compensation</b>								
<b>Realized</b>								
Carried Interest	112,720	877	111,843	N/M	198,491	17,123	181,368	N/M
<b>Unrealized</b>								
Carried Interest	66,194	88,111	(21,917)	-25%	39,046	104,730	(65,684)	-63%
<b>Total Compensation and Benefits</b>	<b>251,952</b>	<b>152,735</b>	<b>99,217</b>	<b>65%</b>	<b>383,882</b>	<b>245,803</b>	<b>138,079</b>	<b>56%</b>
Other Operating Expenses	39,193	32,178	7,015	22%	72,199	61,346	10,853	18%
<b>Total Expenses</b>	<b>291,145</b>	<b>184,913</b>	<b>106,232</b>	<b>57%</b>	<b>456,081</b>	<b>307,149</b>	<b>148,932</b>	<b>48%</b>
<b>Economic Income</b>	<b>\$ 647,737</b>	<b>\$ 171,222</b>	<b>\$ 476,515</b>	<b>278%</b>	<b>\$ 966,983</b>	<b>\$ 274,424</b>	<b>\$ 692,559</b>	<b>252%</b>

N/M Not meaningful.

*Revenues*

Revenues were \$938.9 million for the three months ended June 30, 2014, an increase of \$582.7 million compared to \$356.1 million for the three months ended June 30, 2013. The increase in revenues was primarily attributable to increases in Performance Fees and Investment Income of \$527.8 million and \$49.8 million, respectively.

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Performance Fees, which are determined on a fund by fund basis, were \$714.6 million for the three months ended June 30, 2014, an increase of \$527.8 million compared to \$186.8 million for the three months ended June 30, 2013, driven by BCP V, which generated a net return of 9% and crossed the preferred return threshold. The performance of the corporate private equity funds was mainly driven by our public holdings, led by the initial public offering of Michaels Stores and strong appreciation of our already public holdings of Pinnacle Foods, Hilton and Cheniere. Our private portfolio also demonstrated strong performance from investments in the healthcare and energy sectors. Realized Performance Fees of \$212.4 million during the quarter were driven by realizations in several investments including the secondary offerings of Merlin Entertainments, Hilton, PBF Energy, SeaWorld and Nielsen, in addition to the strategic sale of Mivisa.

Investment Income was \$92.5 million for the three months ended June 30, 2014, an increase of \$49.8 million compared to \$42.7 million for the three months ended June 30, 2013, driven by performance across all our funds, as a result of the strong returns in our public holdings described above as well as from our private investments in the healthcare and energy sectors.

Revenues were \$1.4 billion for the six months ended June 30, 2014, an increase of \$841.5 million compared to \$581.6 million for the six months ended June 30, 2013. The increase in revenues was attributable to increases in Performance Fees, Investment Income and Total Management Fees of \$758.7 million, \$45.4 million and \$33.1 million, respectively.

Performance Fees, which are determined on a fund by fund basis, were \$1.0 billion for the six months ended June 30, 2014, an increase of \$758.7 million, compared to \$242.8 million for the six months ended June 30, 2013, as all corporate private equity funds appreciated during the period, mainly BCP V and BCP VI, which generated respective net returns of 14% and 19% for the six months ended June 30, 2014. BCP V crossed its preferred return threshold and is now fully generating performance fees. The performance of the funds was a result of the strong performance of our private holdings in the healthcare, services and energy sectors as well as appreciation of our public portfolio, including the initial public offering of Michaels Stores. Realized Performance Fees of \$332.2 million during the six months ended June 30, 2014 were driven by realizations in several investments across our energy portfolio including GeoSouthern, Cheniere, PBF Energy and Royal Resources, alongside other strategic and public exits in the remaining private equity portfolio.

Investment Income was \$144.0 million for the six months ended June 30, 2014, an increase of \$45.4 million, compared to \$98.5 million for the six months ended June 30, 2013, driven by performance across all our funds, as a result of the strong returns in our public holdings as well as from our private investments in the healthcare, services and energy sectors.

Total Management Fees were \$266.3 million for the six months ended June 30, 2014, an increase of \$33.1 million compared to \$233.2 million for the six months ended June 30, 2013, primarily driven by an increase in Base Management Fees and Transaction and Other Fees. Base Management Fees were \$201.8 million for the six months ended June 30, 2014, an increase of \$28.9 million compared to \$172.9 million for the six months ended June 30, 2013, primarily due to the addition of the Strategic Partners secondary private fund of funds business that closed during 2013 as well as the increase in funds raised for our Tactical Opportunities investment vehicles. Transaction and Other Fees were \$70.5 million for the six months ended June 30, 2014, an increase of \$7.7 million compared to \$62.8 million for the six months ended June 30, 2013, principally as a result of several new portfolio investments that closed during the six months ended June 30, 2014.

***Expenses***

Expenses were \$291.1 million for the three months ended June 30, 2014, an increase of \$106.2 million, compared to \$184.9 million for the three months ended June 30, 2013. The increase was attributable to increases of \$89.9 million in Performance Fee Compensation, \$9.3 million in Compensation and \$7.0 million in Other Operating Expenses. Performance Fee Compensation increased as a result of the increase in Performance Fees Revenue.

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Compensation increased primarily due to the acquisition of Strategic Partners, which occurred in August 2013. Other Operating Expenses increased mainly due to the acquisition of Strategic Partners and interest expense allocated to the segment.

Expenses were \$456.1 million for the six months ended June 30, 2014, an increase of \$148.9 million compared to \$307.1 million for the six months ended June 30, 2013. The increase was attributable to increases of \$115.7 million in Performance Fee Compensation, \$22.4 million in Compensation and \$10.9 million in Other Operating Expenses. Performance Fee Compensation increased as a result of the increase in Performance Fees Revenue. Compensation increased primarily due to the acquisition of Strategic Partners as well as an increase in headcount to support the growth of the business. Other Operating Expenses increased mainly due to the acquisition of Strategic Partners and interest expense allocated to the segment.

*Fund Returns*

Fund returns information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table presents the internal rates of return of our significant private equity funds:

Fund (b)	Three Months Ended June 30,				Six Months Ended June 30,				June 30, 2014 Inception to Date			
	2014		2013 (a)		2014		2013 (a)		Realized		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BCP IV	1%	1%	9%	8%	4%	4%	6%	5%	60%	45%	50%	37%
BCP V	11%	9%	5%	5%	17%	14%	17%	16%	11%	8%	9%	8%
BCP VI	10%	8%	5%	3%	25%	19%	10%	5%	62%	44%	31%	19%
BEP	16%	14%	11%	10%	23%	20%	40%	29%	54%	45%	61%	52%
Tactical Opportunities	7%	5%	6%	4%	10%	8%	10%	6%	16%	12%	21%	16%
Strategic Partners	6%	6%	N/A	N/A	10%	10%	N/A	N/A	N/A	N/A	17%	14%

**The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

N/A Not applicable.

- (a) Changes in previous period returns are due to the repayment of fund level financing with capital drawn down from the respective fund's general and limited partners.
- (b) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and Carried Interest allocations.

The corporate private equity funds within the Private Equity segment have three contributed funds with closed investment periods: BCP IV, BCP V and BCOM. As of June 30, 2014, BCP IV was above its Carried Interest threshold (i.e., the preferred return payable to its limited partners before the general partner is eligible to receive Carried Interest) and would still be above its Carried Interest threshold even if all remaining investments were valued at zero. BCP V is comprised of two fund classes based on the timings of fund closings, the BCP V main fund and BCP V-AC fund. Within these fund classes, the general partner ( GP ) is subject to equalization such that (a) the GP accrues Carried Interest when the total Carried Interest for the combined fund classes is positive and (b) the GP realizes Carried Interest so long as clawback obligations, if any, for the combined fund classes are fully satisfied. During the quarter, both fund classes were above their respective Carried Interest thresholds. BCOM is currently above its Carried Interest threshold and has generated inception to date positive returns. We are entitled to retain previously realized Carried Interest up to 20% of BCOM's net gains. As a result, Performance Fees are recognized from BCOM on current period gains and losses.

**Table of Contents****Real Estate**

The following table presents the results of operations for our Real Estate segment:

	Three Months Ended		2014 vs. 2013		Six Months Ended		2014 vs. 2013	
	2014	2013	\$	%	2014	2013	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
<b>Management Fees, Net</b>								
Base Management Fees	\$ 157,869	\$ 137,000	\$ 20,869	15%	\$ 317,205	\$ 275,346	\$ 41,859	15%
Transaction and Other Fees, Net	13,514	19,013	(5,499)	-29%	27,078	28,153	(1,075)	-4%
Management Fee Offsets	(7,702)	(6,312)	(1,390)	-22%	(16,926)	(13,598)	(3,328)	-24%
<b>Total Management Fees, Net</b>	<b>163,681</b>	<b>149,701</b>	<b>13,980</b>	<b>9%</b>	<b>327,357</b>	<b>289,901</b>	<b>37,456</b>	<b>13%</b>
<b>Performance Fees</b>								
<b>Realized</b>								
Carried Interest	417,826	143,481	274,345	191%	612,484	212,254	400,230	189%
Incentive Fees	6,070	31,102	(25,032)	-80%	6,044	34,194	(28,150)	-82%
<b>Unrealized</b>								
Carried Interest	119,461	259,972	(140,511)	-54%	259,698	540,048	(280,350)	-52%
Incentive Fees	(3,483)	(32,279)	28,796	89%	(746)	(29,879)	29,133	98%
<b>Total Performance Fees</b>	<b>539,874</b>	<b>402,276</b>	<b>137,598</b>	<b>34%</b>	<b>877,480</b>	<b>756,617</b>	<b>120,863</b>	<b>16%</b>
<b>Investment Income (Loss)</b>								
<b>Realized</b>								
Realized	122,664	18,577	104,087	560%	154,021	28,111	125,910	448%
<b>Unrealized</b>								
Unrealized	(50,437)	30,636	(81,073)	N/M	(45,058)	90,939	(135,997)	N/M
<b>Total Investment Income</b>	<b>72,227</b>	<b>49,213</b>	<b>23,014</b>	<b>47%</b>	<b>108,963</b>	<b>119,050</b>	<b>(10,087)</b>	<b>-8%</b>
Interest and Dividend Revenue	8,009	4,396	3,613	82%	14,119	8,694	5,425	62%
Other	(218)	(274)	56	20%	99	(407)	506	N/M
<b>Total Revenues</b>	<b>783,573</b>	<b>605,312</b>	<b>178,261</b>	<b>29%</b>	<b>1,328,018</b>	<b>1,173,855</b>	<b>154,163</b>	<b>13%</b>
<b>Expenses</b>								
<b>Compensation and Benefits</b>								
Compensation	85,582	73,792	11,790	16%	165,815	143,251	22,564	16%
<b>Performance Fee Compensation</b>								
<b>Realized</b>								
Carried Interest	143,442	55,005	88,437	161%	195,275	80,868	114,407	141%
Incentive Fees	3,081	15,733	(12,652)	-80%	3,065	17,457	(14,392)	-82%
<b>Unrealized</b>								
Carried Interest	27,339	78,604	(51,265)	-65%	84,324	167,661	(83,337)	-50%
Incentive Fees	(1,783)	(16,329)	14,546	89%	(401)	(15,295)	14,894	97%
<b>Total Compensation and Benefits</b>	<b>257,661</b>	<b>206,805</b>	<b>50,856</b>	<b>25%</b>	<b>448,078</b>	<b>393,942</b>	<b>54,136</b>	<b>14%</b>
Other Operating Expenses	36,542	27,617	8,925	32%	69,649	56,079	13,570	24%
<b>Total Expenses</b>	<b>294,203</b>	<b>234,422</b>	<b>59,781</b>	<b>26%</b>	<b>517,727</b>	<b>450,021</b>	<b>67,706</b>	<b>15%</b>
<b>Economic Income</b>	<b>\$ 489,370</b>	<b>\$ 370,890</b>	<b>\$ 118,480</b>	<b>32%</b>	<b>\$ 810,291</b>	<b>\$ 723,834</b>	<b>\$ 86,457</b>	<b>12%</b>



N/M Not meaningful.

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*Revenues*

Revenues were \$783.6 million for the three months ended June 30, 2014, an increase of \$178.3 million compared to \$605.3 million for the three months ended June 30, 2013. The increase in revenues was primarily attributable to increases of \$137.6 million in Performance Fees, \$23.0 million in Investment Income and \$14.0 million in Total Management Fees.

Performance Fees, which are determined on a fund by fund basis, were \$539.9 million for the three months ended June 30, 2014, an increase of \$137.6 million compared to \$402.3 million for the three months ended June 30, 2013. Performance Fees increased due to the increase in the net appreciation of investments from our BREP carry funds. For the three months ended June 30, 2014, the carrying value of assets for Blackstone's contributed Real Estate funds, including fee-paying co-investments, increased 6.0% driven by appreciation in the private portfolio of 6.7% or \$1.9 billion from improving fundamentals and public portfolio appreciation of 4.8% or \$1.0 billion. Our BREDS drawdown and real estate hedge funds appreciated 2.9% and 2.6%, respectively.

Investment Income was \$72.2 million for the three months ended June 30, 2014, an increase of \$23.0 million compared to \$49.2 million for the three months ended June 30, 2013. The increase in Investment Income was primarily driven by the year over year net increase in the appreciation of investments across our global Real Estate funds.

Total Management Fees were \$163.7 million for the three months ended June 30, 2014, an increase of \$14.0 million compared to \$149.7 million for the three months ended June 30, 2013, primarily attributable to an increase in Base Management Fees and partially offset by a decrease in Transaction and Other Fees. Base Management Fees were \$157.9 million for the three months ended June 30, 2014, an increase of \$20.9 million compared to \$137.0 million for the three months ended June 30, 2013. The increase was primarily due to fees generated from fundraising within BREP Europe IV and our first Asia fund, partially offset by a decrease due to the expiration of BREP V. Transaction and Other Fees were \$13.5 million for the three months ended June 30, 2014, a decrease of \$5.5 million compared to \$19.0 million for the three months ended June 30, 2013. The decrease in Transaction and Other Fees was primarily related to a decrease in the acquisition fees charged on completed transactions.

Revenues were \$1.3 billion for the six months ended June 30, 2014, an increase of \$154.2 million compared to \$1.2 billion for the six months ended June 30, 2013. The increase in revenues was primarily attributable to increases of \$120.9 million in Performance Fees and \$37.5 million in Total Management Fees, partially offset by a decrease of \$10.1 million in Investment Income.

Performance Fees, which are determined on a fund by fund basis, were \$877.5 million for the six months ended June 30, 2014, an increase of \$120.9 million compared to \$756.6 million for the six months ended June 30, 2013. Performance Fees increased due to the increase in the net appreciation of investments from our BREP carry funds. For the six months ended June 30, 2014, the carrying value of assets for Blackstone's contributed Real Estate funds, including fee-paying co-investments, increased 9.7% driven by improving fundamentals in the private portfolio (10.6%, \$3.2 billion) and public portfolio appreciation (8.2%, \$1.6 billion). Our BREDS drawdown and real estate hedge funds appreciated 5.4% and 6.1%, respectively.

Total Management Fees were \$327.4 million for the six months ended June 30, 2014, an increase of \$37.5 million compared to \$289.9 million for the six months ended June 30, 2013, primarily attributable to an increase in Base Management Fees. Base Management Fees were \$317.2 million for the six months ended June 30, 2014, an increase of \$41.9 million compared to \$275.3 million for the six months ended June 30, 2013. The increase was primarily due to fees generated from fundraising within BREP Europe IV and our first Asia fund, partially offset by a decrease due to the expiration of BREP V.

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Investment Income was \$109.0 million for the six months ended June 30, 2014, a decrease of \$10.1 million compared to \$119.1 million for the six months ended June 30, 2013. The decrease in Investment Income was primarily driven by the year over year net decrease in the appreciation of investments within the BREP VI fund.

*Expenses*

Expenses were \$294.2 million for the three months ended June 30, 2014, an increase of \$59.8 million, compared to \$234.4 million for the three months ended June 30, 2013. The increase was attributable to increases of \$39.1 million in Performance Fee Compensation, \$11.8 million in Compensation and \$8.9 million in Other Operating Expenses. The increase in Performance Fee Compensation was due to the increase in Performance Fees Revenue. The increase in Compensation was due to an increase in headcount to support the growth of the business as well as an increase in Total Management Fees, on which a portion of compensation is based. The increase in Other Operating Expenses was due to an increase in interest expense allocated to the segment as well as increases in business development and professional fees.

Expenses were \$517.7 million for the six months ended June 30, 2014, an increase of \$67.7 million, compared to \$450.0 million for the six months ended June 30, 2013. The increase was attributable to increases of \$31.6 million in Performance Fee Compensation, \$22.6 million in Compensation and \$13.6 million in Other Operating Expenses. The increase in Performance Fee Compensation was due to the increase in Performance Fees Revenue. The increase in Compensation was due to an increase in headcount to support the growth of the business as well as an increase in Total Management Fees, on which a portion of compensation is based. The increase in Other Operating Expenses was primarily due to interest expense allocated to the segment as well as increases in business development and professional fees.

*Fund Returns*

Fund return information for our significant funds is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future performance of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

The following table presents the internal rates of return of our significant real estate funds:

Fund (a)	Three Months Ended				Six Months Ended				June 30, 2014			
	June 30,		2013		June 30,		2013		Inception to Date		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Realized	Net	Gross	Net
BREP International (b)	0%	0%	0%	0%	46%	37%	0%	0%	35%	25%	33%	23%
BREP IV	-0%	-0%	9%	7%	4%	3%	12%	9%	98%	66%	24%	14%
BREP V	5%	4%	5%	4%	9%	8%	9%	7%	29%	21%	14%	10%
BREP International II (b)	4%	4%	-1%	-1%	7%	7%	10%	9%	12%	10%	4%	3%
BREP VI	6%	5%	6%	5%	7%	6%	12%	10%	21%	17%	18%	14%
BREP Europe III (b)	7%	5%	5%	4%	12%	9%	11%	8%	44%	32%	30%	18%
BREP VII	8%	6%	9%	7%	15%	11%	20%	14%	55%	38%	40%	28%
BREP Asia	4%	2%	N/A	N/A	10%	6%	N/A	N/A	N/A	N/A	37%	20%
BREP Europe IV (b)	7%	4%	N/A	N/A	15%	8%	N/A	N/A	155%	104%	33%	15%
BREDS	4%	3%	5%	4%	7%	5%	8%	6%	19%	15%	17%	12%
BSSF I	7%	5%	-1%	-1%	8%	6%	5%	3%	N/A	N/A	15%	11%
CMBS	4%	3%	-1%	-1%	7%	5%	3%	2%	N/A	N/A	17%	12%
BREP Co-Investment	7%	7%	5%	5%	12%	11%	13%	12%	16%	14%	19%	17%

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The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.

N/A Not applicable.

N/M Not meaningful.

- (a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations.
- (b) Euro-based internal rates of return.

The following table presents the Carried Interest status of our real estate carry funds with expired investment periods which are currently not generating performance fees as of June 30, 2014:

Fully Invested Funds	Amount (Amounts in Millions)	Gain to Cross Carried Interest Threshold (a)	
		% Change in Total Enterprise Value (b)	% Change in Equity Value
BREP Int I II (Sep 2005 / Jun 2008)	897	25%	71%

- (a) The general partner of each fund is allocated Carried Interest when the annualized returns, net of management fees and expenses, exceed the preferred return as dictated by the fund agreements. The preferred return is calculated for each limited partner individually. The Gain to Cross Carried Interest Threshold represents the increase in equity at the fund level (excluding our side-by-side investments) that is required for the general partner to begin accruing Carried Interest, assuming the gain is earned pro rata across the fund's investments and is achieved at the reporting date.
- (b) Total Enterprise Value is the respective fund's pro rata ownership of the privately held portfolio companies' Enterprise Value. The Real Estate segment has six funds in their investment period, which were above their respective Carried Interest thresholds as of June 30, 2014: BREP VII, BREP Asia, BREP Europe IV and three funds within BREDS II.

**Table of Contents****Hedge Fund Solutions**

The following table presents the results of operations for our Hedge Fund Solutions segment:

	Three Months Ended June 30,		2014 vs. 2013		Six Months Ended June 30,		2014 vs. 2013	
	2014	2013	\$	%	2014	2013	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
Management Fees, Net								
Base Management Fees	\$ 123,008	\$ 100,113	\$ 22,895	23%	\$ 236,392	\$ 192,904	\$ 43,488	23%
Transaction and Other Fees, Net	126	61	65	107%	219	65	154	237%
Management Fee Offsets	(1,531)	(714)	(817)	-114%	(2,986)	(1,038)	(1,948)	-188%
<b>Total Management Fees, Net</b>	<b>121,603</b>	<b>99,460</b>	<b>22,143</b>	<b>22%</b>	<b>233,625</b>	<b>191,931</b>	<b>41,694</b>	<b>22%</b>
<b>Performance Fees</b>								
Realized								
Incentive Fees	7,973	13,845	(5,872)	-42%	47,818	27,554	20,264	74%
Unrealized								
Incentive Fees	30,556	20,989	9,567	46%	48,641	76,490	(27,849)	-36%
<b>Total Performance Fees</b>	<b>38,529</b>	<b>34,834</b>	<b>3,695</b>	<b>11%</b>	<b>96,459</b>	<b>104,044</b>	<b>(7,585)</b>	<b>-7%</b>
<b>Investment Income (Loss)</b>								
Realized	2,394	13,668	(11,274)	-82%	19,214	14,520	4,694	32%
Unrealized	1,057	(12,054)	13,111	N/M	5,488	(8,141)	13,629	N/M
<b>Total Investment Income</b>	<b>3,451</b>	<b>1,614</b>	<b>1,837</b>	<b>114%</b>	<b>24,702</b>	<b>6,379</b>	<b>18,323</b>	<b>287%</b>
Interest and Dividend Revenue	2,340	1,878	462	25%	5,001	3,094	1,907	62%
Other	(203)	(254)	51	20%	(81)	(169)	88	52%
<b>Total Revenues</b>	<b>165,720</b>	<b>137,532</b>	<b>28,188</b>	<b>20%</b>	<b>359,706</b>	<b>305,279</b>	<b>54,427</b>	<b>18%</b>
<b>Expenses</b>								
<b>Compensation and Benefits</b>								
Compensation	43,341	36,844	6,497	18%	83,912	70,712	13,200	19%
<b>Performance Fee Compensation</b>								
Realized								
Incentive Fees	2,918	5,116	(2,198)	-43%	16,189	10,138	6,051	60%
Unrealized								
Incentive Fees	11,252	7,666	3,586	47%	18,013	27,502	(9,489)	-35%
<b>Total Compensation and Benefits</b>	<b>57,511</b>	<b>49,626</b>	<b>7,885</b>	<b>16%</b>	<b>118,114</b>	<b>108,352</b>	<b>9,762</b>	<b>9%</b>
Other Operating Expenses	25,101	16,535	8,566	52%	44,581	31,694	12,887	41%
<b>Total Expenses</b>	<b>82,612</b>	<b>66,161</b>	<b>16,451</b>	<b>25%</b>	<b>162,695</b>	<b>140,046</b>	<b>22,649</b>	<b>16%</b>
<b>Economic Income</b>	<b>\$ 83,108</b>	<b>\$ 71,371</b>	<b>\$ 11,737</b>	<b>16%</b>	<b>\$ 197,011</b>	<b>\$ 165,233</b>	<b>\$ 31,778</b>	<b>19%</b>

N/M Not meaningful.

*Revenues*

Revenues were \$165.7 million for the three months ended June 30, 2014, an increase of \$28.2 million compared to \$137.5 million for the three months ended June 30, 2013. The increase in revenues was primarily attributable to an increase of \$22.1 million in Total Management Fees.

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Total Management Fees were \$121.6 million for the three months ended June 30, 2014, an increase of \$22.1 million compared to \$99.5 million for the three months ended June 30, 2013, primarily due to an increase in Base Management Fees. Base Management Fees were \$123.0 million for the three months ended June 30, 2014, an increase of \$22.9 million compared to \$100.1 million for the three months ended June 30, 2013. This increase was driven by an increase in Fee-Earning Assets Under Management of 22% from the prior year period, which was from net inflows and market appreciation.

Revenues were \$359.7 million for the six months ended June 30, 2014, an increase of \$54.4 million compared to \$305.3 million for the six months ended June 30, 2013. The increase in revenues was primarily attributable to increases of \$41.7 million in Total Management Fees and \$18.3 million in Investment Income, partially offset by a decrease of \$7.6 million in Performance Fees.

Total Management Fees were \$233.6 million for the six months ended June 30, 2014, an increase of \$41.7 million compared to \$191.9 million for the six months ended June 30, 2013, primarily due to an increase in Base Management Fees. Base Management Fees were \$236.4 million for the six months ended June 30, 2014, an increase of \$43.5 million compared to \$192.9 million for the six months ended June 30, 2013. This was driven by an increase in Fee-Earning Assets Under Management of 22% from the prior year period, which was from net inflows and market appreciation.

Investment Income was \$24.7 million for the six months ended June 30, 2014, an increase of \$18.3 million compared to \$6.4 million for the six months ended June 30, 2013. The increase was primarily driven by the year over year increase in the net appreciation of investments of which Blackstone owns a share.

Performance Fees were \$96.5 million for the six months ended June 30, 2014, a decrease of \$7.6 million compared to \$104.0 million for the six months ended June 30, 2013. This was primarily due to lower returns. The net returns of the underlying assets within BAAM's Principal Solutions Composite funds were 3.6% during the six months ended June 30, 2014 compared to 6.0% during the six months ended June 30, 2013.

### *Expenses*

Expenses were \$82.6 million for the three months ended June 30, 2014, an increase of \$16.5 million compared to the three months ended June 30, 2013. The increase in expenses was primarily attributable to increases of \$8.6 million in Other Operating Expenses and \$6.5 million in Compensation. The increase in Other Operating Expenses was due primarily to increases in interest expense allocated to the segment and business development costs. The increase in Compensation was primarily due to an increase in headcount to support the growth of the business and an increase in Total Management Fees, on which a portion of compensation is based.

Expenses were \$162.7 million for the six months ended June 30, 2014, an increase of \$22.6 million compared to the six months ended June 30, 2013. The increase in expenses was primarily attributable to a \$13.2 million increase in Compensation and a \$12.9 million increase in Other Operating Expenses. The increase in Compensation was primarily due to an increase in headcount to support the growth of the business and an increase in Total Management Fees, on which a portion of compensation is based. The increase in Other Operating Expenses resulted primarily from increases in interest expense allocated to the segment and business development costs.

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*Operating Metrics*

The following table presents information regarding our Incentive Fee-Earning Assets Under Management:

	Fee-Earning Assets Under Management Eligible for Incentive Fees		Estimated % Above High Water Mark and/or Hurdle (a)	
	As of June 30,		As of June 30,	
	2013	2014	2013	2014
	(Dollars in Thousands)			
BAAM Managed Funds (b)	\$ 25,904,388	\$ 31,286,770	96%	85%

Note: Totals in graph may not add due to rounding.

- (a) Estimated % Above High Water Mark and/or Hurdle represents the percentage of Fee-Earning Assets Under Management Eligible for Incentive Fees that as of the dates presented would earn incentive fees when the applicable BAAM managed fund has positive investment performance (relative to a hurdle, where applicable). Incremental positive performance in the applicable Blackstone Funds may cause additional assets to reach their respective High Water Mark and/or Hurdle, thereby resulting in an increase in Estimated % Above High Water Mark and/or Hurdle.
- (b) For the BAAM managed funds, at June 30, 2014 the incremental appreciation needed for the 15% of Fee-Earning Assets Under Management below their respective High Water Marks and/or Hurdle to reach their respective High Water Marks and/or Hurdle was \$67.9 million, an increase of \$19.2 million, or 40%, compared to \$48.7 million at June 30, 2013. Of the Fee-Earning Assets Under Management below their respective High Water Marks and/or Hurdle as of June 30, 2014, 97% were within 5% of reaching their respective High Water Mark and/or Hurdle.

*Composite Returns*

Composite returns information is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The composite returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future results of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds or composites. There can be no assurance that any of our funds or composites or our other existing and future funds or composites will achieve similar returns.



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The following table presents the return information of the BAAM Managed Funds, BAAM Principal Solutions Composite:

Composite	Three Months Ended June 30,				Six Months Ended June 30,				Average Annual Returns (a)							
	2014		2013		2014		2013		One Year		Three Year		Five Year		Historical	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BAAM Managed Funds, BAAM Principal Solutions Composite (b)	2%	2%	2%	2%	4%	4%	7%	6%	11%	9%	8%	7%	9%	8%	8%	7%

**The returns presented represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

- (a) Composite returns present a summarized asset-weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- (b) BAAM's Principal Solutions Composite covers the period from January 2000 to present, although BAAM's inception date is September 1990. BAAM's Principal Solutions Composite does not include BAAM's long-only equity, long-biased commodities, seed, strategic opportunities (external investments) and advisory platforms.

**Table of Contents****Credit**

The following table presents the results of operations for our Credit segment:

	Three Months Ended June 30,		2014 vs. 2013		Six Months Ended June 30,		2014 vs. 2013	
	2014	2013	\$	%	2014	2013	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
Management Fees, Net								
Base Management Fees	\$ 112,489	\$ 101,940	\$ 10,549	10%	\$ 218,063	\$ 193,304	\$ 24,759	13%
Transaction and Other Fees, Net	7,064	9,002	(1,938)	-22%	10,408	13,376	(2,968)	-22%
Management Fee Offsets	(6,739)	(1,559)	(5,180)	-332%	(10,991)	(3,131)	(7,860)	-251%
Total Management Fees, Net	112,814	109,383	3,431	3%	217,480	203,549	13,931	7%
<b>Performance Fees</b>								
Realized								
Carried Interest	11,439	35,908	(24,469)	-68%	30,599	121,413	(90,814)	-75%
Incentive Fees	25,248	29,920	(4,672)	-16%	39,266	37,846	1,420	4%
Unrealized								
Carried Interest	39,041	13,808	25,233	183%	62,027	(4,967)	66,994	N/M
Incentive Fees	29,703	15,648	14,055	90%	70,147	65,502	4,645	7%
Total Performance Fees	105,431	95,284	10,147	11%	202,039	219,794	(17,755)	-8%
<b>Investment Income</b>								
Realized								
Carried Interest	2,223	901	1,322	147%	5,294	4,229	1,065	25%
Incentive Fees	4,521	4,381	140	3%	7,600	5,474	2,126	39%
Unrealized								
Carried Interest	6,744	5,282	1,462	28%	12,894	9,703	3,191	33%
Interest and Dividend Revenue	4,892	4,071	821	20%	10,753	8,618	2,135	25%
Other	11	(1,063)	1,074	N/M	(248)	765	(1,013)	N/M
Total Investment Income	229,892	212,957	16,935	8%	442,918	442,429	489	0%
<b>Expenses</b>								
Compensation and Benefits								
Compensation	51,310	55,941	(4,631)	-8%	102,062	101,462	600	1%
Performance Fee Compensation								
Realized								
Carried Interest	4,139	20,028	(15,889)	-79%	15,933	67,356	(51,423)	-76%
Incentive Fees	12,510	14,165	(1,655)	-12%	22,890	17,927	4,963	28%
Unrealized								
Carried Interest	20,803	6,109	14,694	241%	31,656	(4,095)	35,751	N/M
Incentive Fees	15,223	11,747	3,476	30%	30,611	35,355	(4,744)	-13%
Total Compensation and Benefits	103,985	107,990	(4,005)	-4%	203,152	218,005	(14,853)	-7%
Other Operating Expenses	22,159	22,961	(802)	-3%	54,998	43,923	11,075	25%
Total Expenses	126,144	130,951	(4,807)	-4%	258,150	261,928	(3,778)	-1%
Economic Income	\$ 103,748	\$ 82,006	\$ 21,742	27%	\$ 184,768	\$ 180,501	\$ 4,267	2%

N/M Not meaningful.

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### *Revenues*

Revenues were \$229.9 million for the three months ended June 30, 2014, an increase of \$16.9 million compared to the three months ended June 30, 2013. This change was primarily attributable to a \$10.1 million increase in Performance Fees.

Performance Fees were \$105.4 million for the three months ended June 30, 2014, an increase of \$10.1 million compared to \$95.3 million for the three months ended June 30, 2013. This change was primarily attributable to greater performance fees in our BDCs. The net returns of Blackstone's significant Credit segment funds were 1.4% for the hedge funds, 2.8% for the mezzanine funds and 4.7% for the rescue lending funds for the three months ended June 30, 2014.

Revenues were \$442.9 million for the six months ended June 30, 2014 compared to \$442.4 million for the six months ended June 30, 2013. While the Total Revenues were nearly unchanged, Total Management Fees increased by \$13.9 million and Investment Income increased by \$3.2 million, mostly offset by a decrease of \$17.8 million in Performance Fees.

Total Management Fees were \$217.5 million for the six months ended June 30, 2014, an increase of \$13.9 million compared to \$203.5 million for the six months ended June 30, 2013. This change was primarily attributable to an increase of \$24.8 million in Base Management Fees resulting from the growth in our Fee-Earning Assets Under Management and partially offset by an increase of \$7.9 million in Management Fee Offsets.

Performance Fees were \$202.0 million for the six months ended June 30, 2014, a decrease of \$17.8 million compared to the six months ended June 30, 2013. This change was primarily attributable to a lower rate of appreciation in our funds. The net returns of Blackstone's significant Credit segment funds were 4.3% for the hedge funds, 6.1% for the mezzanine funds and 8.8% for the rescue lending funds for the six months ended June 30, 2014.

### *Expenses*

Expenses were \$126.1 million for the three months ended June 30, 2014, a decrease of \$4.8 million compared to \$131.0 million for the three months ended June 30, 2013. The decrease in expenses was primarily attributable to a decrease of \$4.6 million in Compensation attributable to lower accrual levels.

Expenses were \$258.2 million for the six months ended June 30, 2014, a decrease of \$3.8 million compared to \$261.9 million for the six months ended June 30, 2013. The decrease in expenses was primarily attributable to a decrease of \$15.5 million in Performance Fee Compensation, partially offset by an \$11.1 million increase in Other Operating Expenses. The decrease in Performance Fee Compensation was due to the decrease in Performance Fees Revenue. The increase in Other Operating Expenses was driven by a non-recurring fundraising expense.

### *Fund Returns*

Fund return information for our significant businesses is included throughout this discussion and analysis to facilitate an understanding of our results of operations for the periods presented. The fund returns information reflected in this discussion and analysis is not indicative of the financial performance of The Blackstone Group L.P. and is also not necessarily indicative of the future results of any particular fund. An investment in The Blackstone Group L.P. is not an investment in any of our funds. There can be no assurance that any of our funds or our other existing and future funds will achieve similar returns.

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The following table presents the return information of the segment's Flagship Hedge Funds:

Fund	Three Months Ended June 30,				Six Months Ended June 30,				Average Annual Returns (a)							
	2014		2013		2014		2013		One Year		Three Year		Five Year		Historical	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Flagship Hedge Funds (b)	2%	1%	7%	5%	6%	4%	13%	10%	17%	12%	15%	11%	20%	15%	13%	9%

**The returns presented represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

- (a) Average annual returns present a summarized asset-weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- (b) The Flagship Hedge Funds' returns represent the weighted-average return for U.S. domestic and offshore funds included in this return. The historical return is from August 1, 2005, which is before Blackstone's acquisition of GSO in March 2008.

The following table presents the internal rates of return of our significant Credit drawdown funds:

Fund (a)	Three Months Ended June 30,				Six Months Ended June 30,				June 30, 2014 Inception to Date	
	2014		2013		2014		2013		Gross	Net
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Mezzanine Funds (b)	4%	3%	6%	4%	8%	6%	16%	12%	26%	19%
Rescue Lending Funds (c)	5%	5%	5%	4%	11%	9%	11%	9%	24%	18%

**The returns presented herein represent those of the applicable Blackstone Funds and not those of The Blackstone Group L.P.**

- (a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations, net of tax advances.
- (b) The Mezzanine Funds' returns represent the weighted-average return for the U.S. domestic and offshore funds, as applicable, for the significant mezzanine funds. The inception to date return is from July 16, 2007, which is before Blackstone's acquisition of GSO in March 2008.
- (c) The Rescue Lending Funds' returns represent the weighted-average return for the U.S. domestic and offshore funds included in this return. The inception to date returns are from September 29, 2009, which is when the funds commenced investing.

As of June 30, 2014, the significant Credit drawdown funds were above their respective Carried Interest thresholds.

**Table of Contents****Financial Advisory**

The following table presents the results of operations for our Financial Advisory segment:

	Three Months Ended		2014 vs. 2013		Six Months Ended		2014 vs. 2013	
	June 30, 2014	June 30, 2013	\$	%	June 30, 2014	June 30, 2013	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
Advisory Fees	\$ 114,914	\$ 120,734	\$ (5,820)	-5%	\$ 184,877	\$ 187,754	\$ (2,877)	-2%
Transaction and Other Fees, Net	876	40	836	N/M	938	43	895	N/M
Total Advisory and Transaction Fees	115,790	120,774	(4,984)	-4%	185,815	187,797	(1,982)	-1%
<b>Investment Income (Loss)</b>								
Realized	106	(146)	252	N/M	240	88	152	173%
Unrealized	969	(1,518)	2,487	N/M	1,663	(1,877)	3,540	N/M
Total Investment Income (Loss)	1,075	(1,664)	2,739	N/M	1,903	(1,789)	3,692	N/M
Interest and Dividend Revenue	2,187	1,746	441	25%	4,689	3,362	1,327	39%
Other	(160)	61	(221)	N/M	(335)		(335)	N/M
Total Revenues	118,892	120,917	(2,025)	-2%	192,072	189,370	2,702	1%
<b>Expenses</b>								
<b>Compensation and Benefits</b>								
Compensation	69,744	76,153	(6,409)	-8%	131,426	134,079	(2,653)	-2%
Other Operating Expenses	22,116	20,861	1,255	6%	43,458	41,554	1,904	5%
Total Expenses	91,860	97,014	(5,154)	-5%	174,884	175,633	(749)	-0%
Economic Income	\$ 27,032	\$ 23,903	\$ 3,129	13%	\$ 17,188	\$ 13,737	\$ 3,451	25%

N/M Not meaningful.

**Revenues**

Revenues were \$118.9 million for the three months ended June 30, 2014, a decrease of \$2.0 million compared to \$120.9 million for the three months ended June 30, 2013. The decrease in revenues was driven by a decrease in Restructuring and Reorganization and partially offset by increases in our fund placement business, Blackstone Advisory Partners ( BAP ) and our capital markets business. The decrease in Restructuring and Reorganization was driven by a lower amount of transaction fees recorded relative to the prior year period; however the pipeline for Restructuring and Reorganization remains steady across a diverse group of industries. The increase in fees earned by Blackstone's fund placement business was due primarily to an increase in the volume and size of the secondary transactions that closed during the period. BAP's business increased modestly due to a higher number of transactions that closed compared to the prior year period. Our capital markets business increased due to a higher amount of transaction fees recorded relative to the prior year period as the capital markets business participated in a number of debt and equity transactions during the three months ended June 30, 2014.

Revenues were \$192.1 million for the six months ended June 30, 2014, an increase of \$2.7 million compared to \$189.4 million for the six months ended June 30, 2013. The increase in revenues was driven primarily by increases in our BAP, fund placement and capital markets businesses, partially offset by a decrease in Restructuring and Reorganization. During the six months ended June 30, 2014, the BAP business experienced an increase in revenues primarily driven by an increase in the number of transactions that closed compared to the prior year period.

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The increase in fees earned by Blackstone's fund placement business was due primarily to an increase in the volume and

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size of the secondary transactions that closed during the period and partially offset by a decrease in the number of private equity transactions that closed during the period. Blackstone's capital markets business participated in a number of debt and equity transactions compared to the prior year period. The decrease in Restructuring and Reorganization was primarily driven by a lower amount of transaction fees recorded relative to the prior year period.

*Expenses*

Expenses were \$91.9 million for the three months ended June 30, 2014, a decrease of \$5.2 million compared to \$97.0 million for the three months ended June 30, 2013, primarily due to a decrease in Compensation. Compensation decreased \$6.4 million compared to \$76.2 million for the three months ended June 30, 2013, principally due to an overall decrease in total fee revenue across the segment.

Expenses were \$174.9 million for the six months ended June 30, 2014, relatively flat compared to the six months ended June 30, 2013.

**Liquidity and Capital Resources**

*General*

Blackstone's business model derives revenue primarily from third party assets under management and from advisory businesses. Blackstone is not a capital or balance sheet intensive business and targets operating expense levels such that total management and advisory fees exceed total operating expenses each period. As a result, we require limited capital resources to support the working capital or operating needs of our businesses. We draw primarily on the long-term committed capital of our limited partner investors to fund the investment requirements of the Blackstone Funds and use our own realizations and cash flows to invest in growth initiatives, make commitments to our own funds, where our minimum general partner commitments are generally less than 5% of the limited partner commitments of a fund, or pay distributions to unitholders.

Fluctuations in our statement of financial condition result primarily from activities of the Blackstone Funds which are consolidated as well as business transactions, such as the issuance of senior notes described below. The majority economic ownership interests of the Blackstone Funds are reflected as Redeemable Non-Controlling Interests in Consolidated Entities, Non-Controlling Interests in Consolidated Entities and Appropriated Partners' Capital in the Condensed Consolidated Financial Statements. The consolidation of these Blackstone Funds has no net effect on the Partnership's Net Income or Partners' Capital. Additionally, fluctuations in our statement of financial condition also include appreciation or depreciation in Blackstone investments in the Blackstone Funds, additional investments and redemptions of such interests in the Blackstone Funds and the collection of receivables related to management and advisory fees.

Total assets were \$30.1 billion as of June 30, 2014, an increase of \$380.7 million from December 31, 2013. The increase in total assets was primarily attributable to a \$391.1 million increase in Cash and Cash Equivalents driven by the proceeds from the \$500 million bond offering during the second quarter of 2014. The \$215.0 million increase in Cash Held by Blackstone Funds and Other is due to the fluctuation of cash balances held by the consolidated Blackstone funds. These increases were partially offset by decreases of \$142.8 million in Due from Affiliates and \$118.3 million in Reverse Repurchase Agreements. The decrease in Due from Affiliates was primarily due to a decrease in redemptions receivable from investments redeemed in our non-consolidated BAAM funds. The decrease in Reverse Repurchase Agreements is driven by repositioning within the Treasury Management Strategies portfolio at June 30, 2014 compared to December 31, 2013.

Total liabilities were \$14.2 billion as of June 30, 2014, a decrease of \$1.1 billion from December 31, 2013. The decrease in total liabilities was primarily due to a decrease in Loans Payable of \$1.5 billion resulting from the deconsolidation of certain CLO vehicles and loan repayments and partially offset by an increase in Accounts Payable, Accrued Expenses and Other Liabilities of \$518.5 million due to an increase in payables relating to unsettled purchases.



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For the three months ended June 30, 2014, we had Total Fee Related Revenues of \$669.2 million and related expenses of \$468.1 million, generating Fee Related Earnings of \$201.1 million and Distributable Earnings of \$770.8 million. For the six months ended June 30, 2014, we had Total Fee Related Revenues of \$1.3 billion and related expenses of \$914.4 million, generating Fee Related Earnings of \$375.9 million and Distributable Earnings of \$1.3 billion.

### ***Sources of Liquidity***

We have multiple sources of liquidity to meet our capital needs, including annual cash flows, accumulated earnings in the businesses, investments in our own Treasury and liquid funds and access to our debt capacity, including our \$1.1 billion committed revolving credit facility and the proceeds from our issuances of senior notes. On May 29, 2014, Blackstone Holdings Finance Co. L.L.C., an indirect subsidiary of Blackstone, amended its revolving credit facility to, among other things, extend the maturity date of the credit facility from July 13, 2017 to May 29, 2019. As of June 30, 2014, we had \$1.2 billion in cash and cash equivalents, \$1.3 billion invested in Blackstone's Treasury Cash Management Strategies, \$141.4 million invested in liquid Blackstone Funds, \$2.7 billion invested in illiquid Blackstone Funds and \$247.0 million invested in other investments, against \$2.1 billion in borrowings from our bond issuances, and no borrowings outstanding under our revolving credit facility.

In addition to the cash we received in connection with our IPO, debt offerings and our borrowing facilities, we expect to receive (a) cash generated from operating activities, (b) Carried Interest and incentive income realizations, and (c) realizations on the carry and hedge fund investments that we make. The amounts received from these three sources in particular may vary substantially from year to year and quarter to quarter depending on the frequency and size of realization events or net returns experienced by our investment funds. Our available capital could be adversely affected if there are prolonged periods of few substantial realizations from our investment funds accompanied by substantial capital calls for new investments from those investment funds. Therefore, Blackstone's commitments to our funds are taken into consideration when managing our overall liquidity and cash position.

We use Distributable Earnings, which is derived from our segment reported results, as a supplemental non-GAAP measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Related Payables including the Payable Under Tax Receivable Agreement.

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The following table calculates Blackstone's Fee Related Earnings, Distributable Earnings and Economic Net Income:

- (a) Represents the total segment amounts of the respective captions. See Note 18. Segment Reporting in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1, Financial Statements of this filing.
- (b) Detail on this amount is included in the table below.
- (c) Represents the current tax provision calculated on Income Before Provision for Taxes and the Payable Under Tax Receivable Agreement.
- (d) Represents equity-based award expense included in Economic Income.
- (e) Represents tax-related payables including the Payable Under Tax Receivable Agreement.

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The following calculates the components of Fee Related Earnings, Distributable Earnings and Economic Net Income in the above table identified by note (b):

- (a) Represents the total segment amounts of the respective captions. See Note 18. Segment Reporting in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.
- (b) This adjustment represents the realized and unrealized gain on Blackstone's Treasury Cash Management Strategies which are a component of Investment Income (Loss) but included in Fee Related Earnings.
- (c) Represents the elimination of Realized Investment Income (Loss) attributable to Blackstone's Treasury Cash Management Strategies, which is a component of both Fee Related Earnings and Realized Investment Income (Loss).

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- (d) Represents equity-based award expense included in Economic Income.
- (e) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represent the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes and the Payable Under Tax Receivable Agreement.
- (f) Represents tax-related payables including the Payable Under Tax Receivable Agreement.

The following table is a reconciliation of Net Income Attributable to The Blackstone Group L.P. to Economic Income, of Economic Income to Economic Net Income, of Economic Net Income to Fee Related Earnings, of Fee Related Earnings to Distributable Earnings and of Distributable Earnings to Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization:

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- (a) The adjustment adds back to Income Before Provision for Taxes amounts for Transaction-Related Charges which include principally equity-based compensation charges associated with Blackstone's initial public offering and long-term retention programs outside of annual deferred compensation and other corporate actions.
- (b) This adjustment adds back to Income Before Provision for Taxes amounts for the Amortization of Intangibles which are associated with Blackstone's initial public offering and other corporate actions.
- (c) This adjustment adds back to Income Before Provision for Taxes the amount of (Income) Loss Associated with Non-Controlling Interests in (Income) Loss of Consolidated Entities and includes the amount of Management Fee Revenues associated with Consolidated CLO Entities.
- (d) Taxes represent the current tax provision calculated on Income Before Provision for Taxes.
- (e) This adjustment removes from EI the total segment amount of Performance Fees.
- (f) This adjustment removes from EI the total segment amount of Investment Income (Loss).
- (g) This adjustment represents the realized and unrealized gain on Blackstone's Treasury Cash Management Strategies which are a component of Investment Income (Loss) but included in Fee Related Earnings.
- (h) This adjustment removes from expenses the compensation and benefit amounts related to Blackstone's profit sharing plans related to Performance Fees.
- (i) Represents the adjustment for realized Performance Fees net of corresponding actual amounts due under Blackstone's profit sharing plans related thereto.
- (j) Represents the adjustment for Blackstone's Investment Income Realized.
- (k) Represents the elimination of Realized Investment Income (Loss) attributable to Blackstone's Treasury Cash Management Strategies which is a component of both Fee Related Earnings and Realized Investment Income (Loss).
- (l) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represent the current tax provision calculated on Income Before Provision for Taxes and the Payable Under Tax Receivable Agreement.
- (m) Represents equity-based award expense included in Economic Income.

**Table of Contents****Liquidity Needs**

We expect that our primary liquidity needs will be cash to (a) provide capital to facilitate the growth of our existing businesses which principally includes funding our general partner and co-investment commitments to our funds, (b) provide capital to facilitate our expansion into new businesses that are complementary, (c) pay operating expenses, including cash compensation to our employees and other obligations as they arise, (d) fund modest capital expenditures, (e) repay borrowings and related interest costs, (f) pay income taxes, and (g) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. Our own capital commitments to our funds, the funds we invest in and our investment strategies as of June 30, 2014 consisted of the following:

Fund	Blackstone and General Partner		Senior Managing Directors and Certain Other Professionals (a)	
	Original Commitment	Remaining Commitment	Original Commitment	Remaining Commitment
(Dollars in Thousands)				
<b>Private Equity</b>				
BCP VI	\$ 719,718	\$ 433,068	\$ 250,000	\$ 150,430
BCP V	629,356	70,745		
BEP	50,000	26,299		
Tactical Opportunities	106,931	62,031	23,628	8,741
Strategic Partners	122,809	115,661	18,000	16,854
Other (b)	204,575	9,554		
<b>Real Estate</b>				
BREP VII	300,000	104,634	100,000	34,878
BREP VI	750,000	41,177	150,000	13,726
BREP Europe III	100,000	14,652	35,000	4,844
BREP Europe IV	100,000	55,863	33,333	18,621
BREP Asia	50,000	37,537	16,667	12,512
BREDS II	50,000	28,881	16,667	9,627
CT Opportunity Partners I	25,000	22,912		
Other (b)	108,015	13,693		
<b>Hedge Fund Solutions</b>				
Strategic Alliance II	50,000	12,796		
Strategic Alliance	50,000	2,033		
BAAM Strategic Holdings LP	50,000	44,659		
Other (b)	300	200		
<b>Credit</b>				
Capital Opportunities Fund II L.P.	120,000	87,751	110,011	80,447
GSO Capital Solutions II	125,000	122,353	94,555	92,553
Blackstone/GSO Capital Solutions	50,000	9,670	27,666	5,351
Blackstone Credit Liquidity Partners	32,244	1,612		
BMezz II	17,692	3,085		
Other (b)	60,039	42,319	2,909	2,064
<b>Other</b>				
Treasury	130,008	109,270		
<b>Total</b>	<b>\$ 4,001,687</b>	<b>\$ 1,472,455</b>	<b>\$ 878,436</b>	<b>\$ 450,648</b>

- (a) For some of the general partner commitments shown in the table above, we require our senior managing directors and certain other professionals to fund a portion of the commitment even though the ultimate obligation to fund the aggregate commitment is ours pursuant to the governing agreements of the respective funds. The amounts of the aggregate applicable general partner original and remaining commitment are shown in the table above. In addition, certain senior managing directors and other professionals are required to fund a de minimis amount of the commitment in the other private equity, real estate and credit-focused carry funds.





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We expect our commitments to be drawn down over time and to be funded by available cash and cash generated from operations and realizations. Taking into account prevailing market conditions and both the liquidity and cash or liquid investment balances, we believe that the sources of liquidity described above will be more than sufficient to fund our working capital requirements.

(b) Represents capital commitments to a number of other funds in each respective segment.

Blackstone, through indirect subsidiaries, has a \$1.1 billion unsecured revolving credit facility (the *Credit Facility*) with Citibank, N.A., as Administrative Agent with a maturity date of May 29, 2019. Borrowings may also be made in U.K. sterling, euros, Swiss francs or Japanese yen, in each case subject to certain sub-limits. The *Credit Facility* contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee-earning assets under management, each tested quarterly.

In August 2009, Blackstone Holdings Finance Co. L.L.C. issued \$600 million in aggregate principal amount of 6.625% Senior Notes which will mature on August 15, 2019, unless earlier redeemed or repurchased. In September 2010, Blackstone Holdings Finance Co. L.L.C. issued \$400 million in aggregate principal amount of 5.875% Senior Notes which will mature on March 15, 2021, unless earlier redeemed or repurchased. In August 2012, Blackstone Holdings Finance Co. L.L.C. issued \$400 million in aggregate principal amount of 4.75% Senior Notes which will mature on February 15, 2023 and \$250 million in aggregate principal amount of 6.25% Senior Notes which will mature on August 15, 2042. In April 2014, Blackstone Holdings Finance Co. L.L.C. issued \$500 million in aggregate principal amount of 5.000% Senior Notes which will mature on June 15, 2044, unless earlier redeemed or repurchased. (These issuances of Senior Notes are collectively referred to as the *Notes*.) The *Notes* are unsecured and unsubordinated obligations of Blackstone Holdings Finance Co. L.L.C. and are fully and unconditionally guaranteed, jointly and severally, by The Blackstone Group L.P. and each of the Blackstone Holdings Partnerships. The *Notes* contain customary covenants and financial restrictions that, among other things, limit Blackstone Holdings Finance Co. L.L.C. and the guarantors' ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The *Notes* also contain customary events of default. All or a portion of the *Notes* may be redeemed at our option, in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the *Notes*. If a change of control repurchase event occurs, the *Notes* are subject to repurchase at the repurchase price as set forth in the *Notes*.

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of our common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the three months ended June 30, 2014, no units were repurchased. As of June 30, 2014, the amount remaining under this program available for repurchases was \$335.8 million.

***Distributions***

Distributable Earnings, which is derived from Blackstone's segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships. Distributable Earnings is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings, which is a component of Economic Net Income, is the sum across all segments of: (a) Total Management and Advisory Fees, (b) Interest and Dividend Revenue, (c) Other Revenue, (d) Realized Performance Fees, and (e) Realized Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses, and (d) Taxes and Related Payables Including the Payable Under Tax Receivable Agreement.

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Our current intention is to distribute to common unitholders each quarter substantially all of our Net Cash Available for Distribution to Common Unitholders, subject to a base quarterly distribution of \$0.12 per unit. Net Cash Available for Distribution to Common Unitholders is The Blackstone Group L.P.'s share of Distributable Earnings, less realized investment gains and returns of capital from investments and acquisitions, in excess of amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter. The amount to be distributed could also be adjusted upward in any one quarter, taking into account both the extent of realized investment gains and returns of capital from investments and acquisitions, and the amounts determined by Blackstone's general partner to be necessary or appropriate as described in the preceding sentence.

In circumstances in which the Net Cash Available for Distribution to Common Unitholders for a quarter falls short of the amount necessary to support the base distribution of \$0.12 per unit, Blackstone intends to correspondingly reduce subsequent quarterly distributions below the amounts supported by the Net Cash Available for Distribution to Common Unitholders by the amount of the shortfall, but not below \$0.12 per unit.

All of the foregoing is subject to the qualification that the declaration and payment of any distributions are at the sole discretion of our general partner and our general partner may change our distribution policy at any time, including, without limitation, to reduce the quarterly distribution payable to our common unitholders to less than \$0.12 per unit or even to eliminate such distributions entirely.

Because the subsidiaries of The Blackstone Group L.P. must pay taxes and make payments under the tax receivable agreements, the amounts ultimately distributed by The Blackstone Group L.P. to its common unitholders in respect of each fiscal year are expected to be less, on a per unit basis, than the amounts distributed by the Blackstone Holdings Partnerships to the Blackstone personnel and others who are limited partners of the Blackstone Holdings Partnerships in respect of their Blackstone Holdings Partnership Units.

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The following chart shows fiscal quarterly and annual per common unitholder distributions for 2013 and 2014. Distributions are declared and paid in the quarter subsequent to the quarter in which they are earned.

With respect to fiscal year 2014, we have paid to common unitholders a distribution of \$0.55 in respect of the second quarter, aggregating \$0.90 per common unit in respect of the six months ended June 30, 2014. With respect to fiscal year 2013, we paid aggregate common unitholder distributions of \$1.34 per common unit.

### ***Leverage***

We may under certain circumstances use leverage opportunistically and over time to create the most efficient capital structure for Blackstone and our public common unitholders. In addition to the borrowings from our bond issuances and our revolving credit facility, our Treasury Cash Management Strategies may use reverse repurchase agreements, repurchase agreements and securities sold, not yet purchased. All of these positions are held in a separately managed portfolio. Reverse repurchase agreements are entered into primarily to take advantage of opportunistic yields otherwise absent in the overnight markets and also to use the collateral received to cover securities sold, not yet purchased. Repurchase agreements are entered into primarily to opportunistically yield higher spreads on purchased securities. The balances held in these financial instruments fluctuate based on Blackstone's liquidity needs, market conditions and investment risk profiles.

Generally our private equity funds, real estate funds, funds of hedge funds and credit-focused funds have not utilized substantial leverage at the fund level other than for (a) short-term borrowings between the date of an investment and the receipt of capital from the investing fund's investors, and (b) long-term borrowings for certain investments in aggregate amounts which are generally 2% to 20% of the capital commitments of the respective fund. Our carry funds make direct or indirect investments in companies that utilize leverage in their capital structure. The degree of leverage employed varies among portfolio companies.

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Certain of our Real Estate debt hedge funds, Hedge Fund Solutions and Credit funds use leverage in order to obtain additional market exposure, enhance returns on invested capital and/or to bridge short-term cash needs. The forms of leverage primarily employed by these funds include purchasing securities on margin, utilizing collateralized financing and using derivative instruments.

The following table presents information regarding these financial instruments in our Condensed Consolidated Statements of Financial Condition:

	Reverse Repurchase Agreements	Repurchase Agreements (a) (Dollars in Millions)	Securities Sold, Not Yet Purchased (a)
Balance, June 30, 2014	\$ 30.7	\$ 41.8	\$ 130.8
Balance, December 31, 2013	\$ 149.0	\$ 316.3	\$ 76.2
Six Months Ended June 30, 2014			
Average Daily Balance	\$ 89.1	\$ 155.8	\$ 142.7
Maximum Daily Balance	\$ 197.0	\$ 375.0	\$ 296.4

(a) The balances presented as of June 30, 2014 include the consolidation of certain Blackstone Funds that occurred on March 31, 2014.

**Contractual Obligations, Commitments and Contingencies**

The following table sets forth information relating to our contractual obligations as of June 30, 2014 on a consolidated basis and on a basis deconsolidating the Blackstone Funds:

Contractual Obligations	July 1, 2014 to					Total	
	December 31, 2014	2015	2016	2017	2018		Thereafter
	(Dollars in Thousands)						
Operating Lease Obligations (a)	\$ 37,660	\$ 135,023		\$ 115,287		\$ 553,937	\$ 841,907
Purchase Obligations	10,484	12,518		574			23,576
Blackstone Issued Notes and Revolving Credit Facility (b)						2,135,000	2,135,000
Interest on Blackstone Issued Notes and Revolving Credit Facility (c)	60,944	243,762		243,762		1,160,092	1,708,560
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)		6,544		315,000		7,352,078	7,673,622
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	38,747	154,775		146,879		228,208	568,609
Blackstone Funds Capital Commitments to Investee Funds (f)	45,209						45,209
Due to Certain Non-Controlling Interest Holders in Connection with Tax Receivable Agreements (g)		154,080		191,455		904,831	1,250,366
Unrecognized Tax Benefits, Including Interest and Penalties (h)	223	510					733
Blackstone Operating Entities Capital Commitments to Blackstone Funds and Other (i)	1,472,455						1,472,455
<b>Consolidated Contractual Obligations</b>	<b>1,665,722</b>	<b>707,212</b>		<b>1,012,957</b>		<b>12,334,146</b>	<b>15,720,037</b>
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)		(6,544)		(315,000)		(7,352,078)	(7,673,622)
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	(38,747)	(154,775)		(146,879)		(228,208)	(568,609)
Blackstone Funds Capital Commitments to Investee Funds (f)	(45,209)						(45,209)

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Blackstone Operating Entities Contractual Obligations	\$ 1,581,766	\$ 545,893	\$ 551,078	\$ 4,753,860	\$ 7,432,597
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- (a) We lease our primary office space under agreements that expire through 2032. In connection with certain lease agreements, we are responsible for escalation payments. The contractual obligation table above includes only guaranteed minimum lease payments for such leases and does not project potential escalation or other lease-related payments. These leases are classified as operating leases for financial statement purposes and as such are not recorded as liabilities on the Condensed Consolidated Statements of Financial Condition. The amounts are presented net of contractual sublease commitments.
- (b) Represents the principal amount due on the senior notes we issued. As of June 30, 2014, we had no outstanding borrowings under our revolver.
- (c) Represents interest to be paid over the maturity of our senior notes and borrowings under our revolving credit facility which has been calculated assuming no pre-payments will be made and debt will be held until its final maturity date. These amounts exclude commitment fees for unutilized borrowings under our revolver.
- (d) These obligations are those of the Blackstone Funds including the consolidated CLO vehicles.
- (e) Represents interest to be paid over the maturity of the related consolidated Blackstone Funds and CLO vehicles debt obligations which has been calculated assuming no pre-payments will be made and debt will be held until its final maturity date. The future interest payments are calculated using variable rates in effect as of June 30, 2014, at spreads to market rates pursuant to the financing agreements, and range from 0.30% to 10.78%. The majority of the borrowings are due on demand and for purposes of this schedule are assumed to mature within one year. Interest on the majority of these borrowings rolls over into the principal balance at each reset date.
- (f) These obligations represent commitments of the consolidated Blackstone Funds to make capital contributions to investee funds and portfolio companies. These amounts are generally due on demand and are therefore presented in the less than one year category.
- (g) Represents obligations by the Partnership's corporate subsidiary to make payments under the Tax Receivable Agreements to certain non-controlling interest holders for the tax savings realized from the taxable purchases of their interests in connection with the reorganization at the time of Blackstone's initial public offering in 2007 and subsequent purchases. The obligation represents the amount of the payments currently expected to be made, which are dependent on the tax savings actually realized as determined annually without discounting for the timing of the payments. As required by GAAP, the amount of the obligation included in the Condensed Consolidated Financial Statements and shown in Note 16. Related Party Transactions (see Part I. Item 1. Financial Statements) differs to reflect the net present value of the payments due to certain non-controlling interest holders.
- (h) The total represents gross unrecognized tax benefits of \$0.3 million and interest and penalties of \$0.4 million. In addition, Blackstone is not able to make a reasonably reliable estimate of the timing of payments in individual years in connection with gross unrecognized benefits of \$18.9 million and interest of \$5.8 million; therefore, such amounts are not included in the above contractual obligations table.
- (i) These obligations represent commitments by us to provide general partner capital funding to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. These amounts are generally due on demand and are therefore presented in the less than one year category; however, a substantial amount of the capital commitments are expected to be called over the next three years. We expect to continue to make these general partner capital commitments as we raise additional amounts for our investment funds over time.

***Guarantees***

Blackstone and certain of its consolidated funds provide financial guarantees. The amounts and nature of these guarantees are described in Note 17. Commitments and Contingencies Contingencies Guarantees in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.

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### ***Indemnifications***

In many of its service contracts, Blackstone agrees to indemnify the third party service provider under certain circumstances. The terms of the indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined and has not been included in the table above or recorded in our Condensed Consolidated Financial Statements as of June 30, 2014.

### ***Clawback Obligations***

Carried Interest is subject to clawback to the extent that the Carried Interest received to date with respect to a fund exceeds the amount due to Blackstone based on cumulative results of that fund. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability. The lives of the carry funds with a potential clawback obligation, including available contemplated extensions, are currently anticipated to expire at various points through 2016. Further extensions of such terms may be implemented under given circumstances.

For financial reporting purposes, the general partners have recorded a liability for potential clawback obligations to the limited partners of some of the carry funds due to changes in the unrealized value of a fund's remaining investments and where the fund's general partner has previously received Carried Interest distributions with respect to such fund's realized investments.

As of June 30, 2014, the total clawback obligations were \$4.1 million, of which \$1.5 million related to Blackstone Holdings and \$2.6 million related to current and former Blackstone personnel. (See Note 16. Related Party Transactions and Note 17. Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.)

### ***Critical Accounting Policies***

We prepare our Condensed Consolidated Financial Statements in accordance with GAAP. In applying many of these accounting principles, we need to make assumptions, estimates and/or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our condensed consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and/or judgments, however, are often subjective. Actual results may be affected negatively based on changing circumstances. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates and/or judgments. (See Note 2. Summary of Significant Accounting Policies in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.)

### ***Principles of Consolidation***

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner is presumed to have control. Although the Partnership has a non-controlling interest in the Blackstone Holdings Partnerships, the limited partners do not have the right to dissolve the partnerships or have substantive kick out rights or participating rights that would overcome the presumption of control by the Partnership. Accordingly, the Partnership consolidates Blackstone Holdings and records non-controlling interests to reflect the economic interests of the limited partners of Blackstone Holdings.

In addition, the Partnership consolidates all variable interest entities ( VIE ) in which it is the primary beneficiary. An enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly

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impact the entity's economic performance, and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The consolidation guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a VIE, and (b) whether the Partnership's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. VIEs qualify for the deferral of the consolidation guidance if all of the following conditions have been met:

The entity has all of the attributes of an investment company as defined in the American Institute of Certified Public Accountants Accounting and Auditing Guide, *Investment Companies* (Investment Company Guide), or does not have all the attributes of an investment company but it is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the Investment Company Guide,

The reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and

The entity is not a securitization or asset-backed financing entity or an entity that was formerly considered a qualifying special purpose entity.

Where the VIEs have qualified for the deferral of the current consolidation guidance as discussed in Note 2. Summary of Significant Accounting Policies in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements, the analysis is based on previous consolidation guidance. This guidance requires an analysis to determine (a) whether an entity in which the Partnership holds a variable interest is a variable interest entity and (b) whether the Partnership's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (for example, management and performance related fees), would be expected to absorb a majority of the variability of the entity. Under both guidelines, the Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion continually. In evaluating whether the Partnership is the primary beneficiary, Blackstone evaluates its economic interests in the entity held either directly by the Partnership and its affiliates or indirectly through employees. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Partnership, affiliates of the Partnership or third parties) or amendments to the governing documents of the respective Blackstone Funds could affect an entity's status as a VIE or the determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

Assets of consolidated VIEs that can only be used to settle obligations of the consolidated VIE and liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of Blackstone are presented in a separate section in the Condensed Consolidated Statements of Financial Condition.

***Revenue Recognition***

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to Part I. Item 1. Business Incentive Arrangements / Fee Structure in our 2013 Annual Report on Form 10-K for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

*Management and Advisory Fees, Net* Management and Advisory Fees, Net are comprised of management fees, including base management fees, transaction and other fees, advisory fees and management fee reductions and offsets.



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The Partnership earns base management fees from limited partners of funds in each of its managed funds, at a fixed percentage of assets under management, net asset value, total assets, committed capital or invested capital, or in some cases, a fixed fee. Base management fees are recognized based on contractual terms specified in the underlying investment advisory agreements. The range of management fee rates and the calculation base from which they are earned, generally, are as follows:

On private equity, real estate, and certain credit-focused funds:

0.30% to 1.50% of committed capital or invested capital during the investment period,

0.50% to 1.75% of invested capital or investment fair value subsequent to the investment period for private equity and real estate funds, and

1.00% to 1.50% of invested capital or net asset value for certain credit-focused funds.

On real estate and credit-focused funds structured like hedge funds:

1.50% to 2.00% of net asset value.

On credit-focused separately managed accounts:

0.30% to 1.35% of net asset value.

On real estate separately managed accounts:

0.75% to 2.00% of invested capital or net operating income.

On funds of hedge funds and separately managed accounts invested in hedge funds:

0.50% to 1.25% of net asset value.

On CLO vehicles:

0.40% to 1.25% of total assets.

On credit-focused registered and non-registered investment companies:

0.50% to 1.50% of fund assets or net asset value.

The investment adviser of BXMT receives annual management fees based upon 1.5% of BXMT's net proceeds received from equity offerings and accumulated core earnings (which is generally equal to its GAAP net income excluding certain non-cash and other items), subject to certain adjustments.

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Transaction and other fees (including monitoring fees) are fees charged directly to managed funds and portfolio companies. The investment advisory agreements generally require that the investment adviser reduce the amount of management fees payable by the limited partners to the Partnership ( management fee reductions ) by an amount equal to a portion of the transaction and other fees directly paid to the Partnership by the portfolio companies. The amount of the reduction varies by fund, the type of fee paid by the portfolio company and the previously incurred expenses of the fund.

Management fee offsets are reductions to management fees payable by our limited partners, which are granted based on the amount they reimburse Blackstone for placement fees.

Advisory fees consist of advisory retainer and transaction-based fee arrangements related to financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and fund placement services for alternative investment funds. Advisory retainer fees are recognized when services for the transactions are complete, in accordance with terms set forth in individual agreements. Transaction-based fees are recognized when (a) there is evidence of an arrangement with a client, (b) agreed upon services have been provided, (c) fees are fixed or determinable, and (d) collection is reasonably assured. Fund placement fees are recognized as earned upon the acceptance by a fund of capital or capital commitments.

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Accrued but unpaid Management and Advisory Fees, net of management fee reductions and management fee offsets, as of the reporting date are included in Accounts Receivable or Due from Affiliates in the Condensed Consolidated Statements of Financial Condition. Management fees paid by limited partners to the Blackstone Funds and passed on to Blackstone are not considered affiliate revenues.

*Performance Fees* Performance Fees earned on the performance of Blackstone's hedge fund structures ( Incentive Fees ) are recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each hedge fund's governing agreements. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone's offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Condensed Consolidated Statements of Financial Condition. Accrued but unpaid Incentive Fees on onshore funds as of the reporting date are reflected in Investments in the Condensed Consolidated Statements of Financial Condition. Incentive Fees are realized at the end of a measurement period, typically annually. Once realized, such fees are not subject to clawback or reversal.

In certain fund structures, specifically in private equity, real estate and certain Hedge Fund Solutions and credit-focused funds ( Carry Funds ), performance fees ( Carried Interest ) are allocated to the general partner based on cumulative fund performance to date, subject to a preferred return to limited partners. At the end of each reporting period, the Partnership calculates the Carried Interest that would be due to the Partnership for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have been realized. As the fair value of underlying investments varies between reporting periods, it is necessary to make adjustments to amounts recorded as Carried Interest to reflect either (a) positive performance resulting in an increase in the Carried Interest allocated to the general partner or (b) negative performance that would cause the amount due to the Partnership to be less than the amount previously recognized as revenue, resulting in a negative adjustment to Carried Interest allocated to the general partner. In each scenario, it is necessary to calculate the Carried Interest on cumulative results compared to the Carried Interest recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Carried Interest allocations once previously recognized Carried Interest allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Carried Interest over the life of a fund. Accrued but unpaid Carried Interest as of the reporting date is reflected in Investments in the Condensed Consolidated Statements of Financial Condition.

Carried Interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Blackstone Carry Funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

*Investment Income (Loss)* Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership's principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments and other principal investments. Investment Income (Loss) is realized when the Partnership redeems all or a portion of its investment or when the Partnership receives cash income, such as dividends or distributions. Unrealized Investment Income (Loss) results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

*Interest and Dividend Revenue* Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by Blackstone.

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*Other Revenue* Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

***Expenses***

Our expenses include compensation and benefits expense and general and administrative expenses. Our accounting policies related thereto are as follows:

*Compensation and Benefits Compensation* Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis. Equity-based awards that do not require future service are expensed immediately. Cash settled equity-based awards are classified as liabilities and are remeasured at the end of each reporting period.

*Compensation and Benefits Performance Fee* Performance Fee Compensation consists of Carried Interest and Incentive Fee allocations, and may in future periods also include allocations of investment income from Blackstone's firm investments, to employees and senior managing directors participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and Incentive Fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. Compensation received from advisory clients in the form of securities of such clients may also be allocated to employees and senior managing directors.

***Fair Value of Financial Instruments***

GAAP establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination of fair values, as follows:

Level I Quoted prices are available in active markets for identical financial instruments as of the reporting date. The type of financial instruments in Level I include listed equities, listed derivatives and mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.

Level II Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, government and agency securities, less liquid and restricted equity securities, certain over-the-counter derivatives where the fair value is based on observable inputs, and certain funds of hedge funds and proprietary investments in which Blackstone has the ability to redeem its investment at net asset value at, or within three months of, the reporting date.

Level III Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in

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this category generally include general and limited partnership interests in private equity and real estate funds, credit-focused funds, distressed debt and non-investment grade residual interests in securitizations, certain corporate bonds and loans held within CLO vehicles, certain over-the-counter derivatives where the fair value is based on unobservable inputs and certain funds of hedge funds that use net asset value per share to determine fair value in which Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date. Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date if an investee fund manager has the ability to limit the amount of redemptions, and/or the ability to side pocket investments, irrespective of whether such ability has been exercised. Senior and subordinate notes issued by CLO vehicles are classified within Level III of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Transfers between levels of the fair value hierarchy are recognized at the beginning of the reporting period.

### ***Level II Valuation Techniques***

Financial instruments classified within Level II of the fair value hierarchy comprise debt instruments, including corporate loans and bonds held by Blackstone's consolidated CLO vehicles, those held within Blackstone's Treasury Cash Management Strategies and debt securities sold, not yet purchased and interests in investment funds. Certain equity securities and derivative instruments valued using observable inputs are also classified as Level II.

The valuation techniques used to value financial instruments classified within Level II of the fair value hierarchy are as follows:

Debt Instruments and Equity Securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments. The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.

Investment Funds held by the consolidated Blackstone Funds are valued using net asset value per share as described in Level III Valuation Techniques Funds of Hedge Funds. Certain investments in investment funds are classified within Level II of the fair value hierarchy as the investment can be redeemed at, or within three months of, the reporting date.

Freestanding Derivatives and Derivative Instruments Used in Fair Value Hedging Strategies are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.

### ***Level III Valuation Techniques***

In the absence of observable market prices, Blackstone values its investments using valuation methodologies applied on a consistent basis. For some investments little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors, including the appropriate risk adjustments for non-performance and liquidity risks. Investments for which market prices are not observable include private investments in the equity of operating companies, real estate properties, certain funds of hedge funds and credit-focused investments.

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*Private Equity Investments* The fair values of private equity investments are determined by reference to projected net earnings, earnings before interest, taxes, depreciation and amortization ( EBITDA ), the discounted cash flow method, public market or private transactions, valuations for comparable companies and other measures which, in many cases, are unaudited at the time received. Valuations may be derived by reference to observable valuation measures for comparable companies or transactions (for example, multiplying a key performance metric of the investee company such as EBITDA by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to EBITDA or price/earnings exit multiples.

*Real Estate Investments* The fair values of real estate investments are determined by considering projected operating cash flows, sales of comparable assets, if any, and replacement costs, among other measures. The methods used to estimate the fair value of real estate investments include the discounted cash flow method and/or capitalization rates ( cap rates ) analysis. Valuations may be derived by reference to observable valuation measures for comparable companies or assets (for example, multiplying a key performance metric of the investee company or asset, such as EBITDA, by a relevant valuation multiple observed in the range of comparable companies or transactions), adjusted by management for differences between the investment and the referenced comparables, and in some instances by reference to option pricing models or other similar methods. Where a discounted cash flow method is used, a terminal value is derived by reference to an exit EBITDA multiple or capitalization rate. Additionally, where applicable, projected distributable cash flow through debt maturity will be considered in support of the investment's fair value.

*Funds of Hedge Funds* The investments of consolidated Blackstone Funds in funds of hedge funds ( Investee Funds ) are valued at net asset value ( NAV ) per share of the Investee Fund. In limited circumstances, the Partnership may determine, based on its own due diligence and investment procedures, that NAV per share does not represent fair value. In such circumstances, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with its valuation policies.

Certain investments of Blackstone and of the consolidated Blackstone funds of hedge funds and credit-focused funds measure their investments in underlying funds at fair value using NAV per share without adjustment. The terms of the investee's investment generally provide for minimum holding periods or lock-ups, the institution of gates on redemptions or the suspension of redemptions or an ability to side pocket investments, at the discretion of the investee's fund manager, and as a result, investments may not be redeemable at, or within three months of, the reporting date. A side pocket is used by hedge funds and funds of hedge funds to separate investments that may lack a readily ascertainable value, are illiquid or are subject to liquidity restriction. Redemptions are generally not permitted until the investments within a side pocket are liquidated or it is deemed that the conditions existing at the time that required the investment to be included in the side pocket no longer exist. As the timing of either of these events is uncertain, the timing at which the Partnership may redeem an investment held in a side pocket cannot be estimated. Investments for which fair value is measured using NAV per share are reflected within the fair value hierarchy based on the existence of redemption restrictions, if any, as described above. Further disclosure on instruments for which fair value is measured using NAV per share is presented in Note 5. Net Asset Value as Fair Value in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.

*Credit-Focused Investments* The fair values of credit-focused investments are generally determined on the basis of prices between market participants provided by reputable dealers or pricing services. In some instances, Blackstone may utilize other valuation techniques, including the discounted cash flow method or a market approach.

*Credit-Focused Liabilities* Credit-focused liabilities comprise senior and subordinate loans issued by Blackstone's consolidated CLO vehicles. Such liabilities are valued using a discounted cash flow method.

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**Table of Contents*****Level III Valuation Process***

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration any changes in Blackstone's weighted-average cost of capital assumptions, discounted cash flow projections and exit multiple assumptions, as well as any changes in economic and other relevant conditions, and valuation models are updated accordingly. The valuation process also includes a review by an independent valuation party, at least annually for all investments, and quarterly for certain investments, to corroborate the values determined by management. The valuations of Blackstone's investments are reviewed quarterly by a valuation committee which is chaired by Blackstone's Vice Chairman and includes senior heads of each of Blackstone's businesses, as well as representatives of legal and finance. Each quarter, the valuations of Blackstone's investments are also reviewed by the Audit Committee in a meeting attended by the chairman of the valuation committee. The valuations are further tested by comparison to actual sales prices obtained on disposition of the investments.

***Investments, at Fair Value***

The Blackstone Funds are accounted for as investment companies under the Investment Company Guide, and reflect their investments, including majority-owned and controlled investments (the "Portfolio Companies"), at fair value. Blackstone has retained the specialized accounting for the consolidated Blackstone Funds. Thus, such consolidated funds' investments are reflected in Investments on the Condensed Consolidated Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Fund Investment Activities in the Condensed Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price).

Blackstone's principal investments are presented at fair value with unrealized appreciation or depreciation and realized gains and losses recognized in the Condensed Consolidated Statements of Operations within Investment Income (Loss).

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables that otherwise would not have been carried at fair value with gains and losses recorded in net income. Accounting for these financial instruments at fair value is consistent with how the Partnership accounts for its other principal investments. Loans extended to third parties are recorded within Accounts Receivable within the Condensed Consolidated Statements of Financial Condition. Debt securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-focused and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Condensed Consolidated Statements of Operations. Interest income on interest bearing loans and receivables on which the fair value option has been elected is based on stated coupon rates adjusted for the accretion of purchase discounts and the amortization of purchase premiums. This interest income is recorded within Interest and Dividend Revenue.

In addition, the Partnership has elected the fair value option for the assets and liabilities of CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts or the acquisition of the share capital of CLO managers. The adjustment resulting from the difference between the fair value of assets and liabilities for each of these events is presented as a transition and acquisition adjustment to Appropriated Partners' Capital. Assets of the consolidated CLOs are presented within Investments within the Condensed Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. The methodology for measuring the fair value of such assets and liabilities is consistent with the methodology applied to private equity, real estate and credit-focused investments. Changes in the fair value

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of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains (Losses) from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses. Amounts attributable to Non-Controlling Interests in Consolidated Entities have a corresponding adjustment to Appropriated Partners' Capital.

The Partnership has elected the fair value option for certain proprietary investments that would otherwise have been accounted for using the equity method of accounting. The fair value of such investments is based on quoted prices in an active market or using the discounted cash flow method. Changes in fair value are recognized in Investment Income (Loss) in the Condensed Consolidated Statements of Operations.

Further disclosure on instruments for which the fair value option has been elected is presented in Note 7, Fair Value Option, in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1, Financial Statements of this filing.

### ***Intangibles and Goodwill***

Blackstone's intangible assets consist of contractual rights to earn future fee income, including management and advisory fees, Incentive Fees and Carried Interest. Identifiable finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from 3 to 20 years, reflecting the contractual lives of such assets. Amortization expense is included within General, Administrative and Other in the accompanying Condensed Consolidated Statements of Operations. The Partnership does not hold any indefinite-lived intangible assets. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill comprises goodwill arising from the contribution and reorganization of the Partnership's predecessor entities in 2007 immediately prior to its IPO, the acquisition of GSO in 2008 and the acquisition of Strategic Partners in 2013.

The carrying value of goodwill was \$1.8 billion as of June 30, 2014 and December 31, 2013. Goodwill is reviewed for impairment at least annually, and more frequently if circumstances indicate impairment may have occurred. As of June 30, 2014 and December 31, 2013, we evaluated that it was not more likely than not that the fair value of the Partnership's operating segments was less than their respective carrying values.

We test goodwill for impairment at the operating segment level (the same as our segments). Management has organized the firm into five operating segments. All of the components in each segment have similar economic characteristics and management makes key operating decisions based on the performance of each segment. Therefore, we believe that operating segment is the appropriate reporting level for testing the impairment of goodwill. Blackstone performed a qualitative assessment as of June 30, 2014 and December 31, 2013 to determine if it was more likely than not that the fair value of its operating segments was less than their respective carrying values.

### **Off-Balance Sheet Arrangements**

In the normal course of business, we enter into various off-balance sheet arrangements including sponsoring and owning limited or general partner interests in consolidated and non-consolidated funds, entering into derivative transactions, entering into operating leases and entering into guarantee arrangements. We also have ongoing capital commitment arrangements with certain of our consolidated and non-consolidated drawdown funds. We do not have any off-balance sheet arrangements that would require us to fund losses or guarantee target returns to investors in our funds.



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Further disclosure on our off-balance sheet arrangements is presented in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1. Financial Statements of this filing as follows:

Note 6. Derivative Financial Instruments ,

Note 9. Variable Interest Entities , and

Note 17. Commitments and Contingencies Commitments Investment Commitments and Contingencies Guarantees .

**Recent Accounting Developments**

Information regarding recent accounting developments and their impact on Blackstone can be found in Note 2. Summary of Significant Accounting Policies in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1. Financial Statements of this filing.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our predominant exposure to market risk is related to our role as general partner or investment adviser to the Blackstone Funds and the sensitivities to movements in the fair value of their investments, including the effect on management fees, performance fees and investment income.

Although the Blackstone Funds share many common themes, each of our alternative asset management operations runs its own investment and risk management processes, subject to our overall risk tolerance and philosophy:

The investment process of our carry funds involves a detailed analysis of potential investments, and asset management teams are assigned to oversee the operations, strategic development, financing and capital deployment decisions of each portfolio investment. Key investment decisions are subject to approval by the applicable investment committee, which is comprised of Blackstone senior managing directors and senior management.

In our capacity as adviser to certain funds in our Hedge Fund Solutions and Credit segments, we continuously monitor a variety of markets for attractive trading opportunities, applying a number of traditional and customized risk management metrics to analyze risk related to specific assets or portfolios. In addition, we perform extensive credit and cash flow analyses of borrowers, credit-based assets and underlying hedge fund managers, and have extensive asset management teams that monitor covenant compliance by, and relevant financial data of, borrowers and other obligors, asset pool performance statistics, tracking of cash payments relating to investments and ongoing analysis of the credit status of investments.

**Effect on Fund Management Fees**

Our management fees are based on (a) third parties' capital commitments to a Blackstone Fund, (b) third parties' capital invested in a Blackstone Fund or (c) the net asset value, or NAV, of a Blackstone Fund, as described in our Condensed Consolidated Financial Statements. Management fees will only be directly affected by short-term changes in market conditions to the extent they are based on NAV or represent permanent impairments of value. These management fees will be increased (or reduced) in direct proportion to the effect of changes in the fair value of our investments in the related funds. The proportion of our management fees that are based on NAV is dependent on the number and types of Blackstone Funds in existence and the current stage of each fund's life cycle. For the six months ended June 30, 2014 and June 30, 2013, the approximate percentages of our fund management fees based on the NAV of the applicable funds or separately managed accounts, were as follows:

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	Six Months Ended June 30,	
	2014	2013
Fund Management Fees Based on the NAV of the Applicable Funds or Separately Managed Accounts	34%	30%

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**Market Risk**

The Blackstone Funds hold investments which are reported at fair value. Based on the fair value as of June 30, 2014 and June 30, 2013, we estimate that a 10% decline in fair value of the investments would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	2014		June 30,		2013	
	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)
10% Decline in Fair Value of the Investments	\$ 80,238	\$ 1,219,254	\$ 282,859	\$ 57,356	\$ 914,955	\$ 277,635

(a) Represents the annualized effect of the 10% decline.

(b) Represents the reporting date effect of the 10% decline.

Total Assets Under Management, excluding undrawn capital commitments and the amount of capital raised for our CLOs, by segment, and the percentage amount classified as Level III investments as defined within the fair value standards of GAAP, are as follows:

	June 30, 2014	
	Total Assets Under Management, Excluding Undrawn Capital Commitments and the Amount of Capital Raised for CLOs (Dollars in Thousands)	Percentage Amount Classified as Level III Investments
Private Equity	\$ 45,832,364	65%
Real Estate	\$ 62,887,167	66%
Hedge Fund Solutions	\$ 59,608,776	64%
Credit	\$ 38,298,488	42%

The fair value of our investments and securities can vary significantly based on a number of factors that take into consideration the diversity of the Blackstone Funds investment portfolio and on a number of factors and inputs such as similar transactions, financial metrics, and industry comparatives, among others. (See Part I. Item 1A. Risk Factors in our 2013 Annual Report on Form 10-K. Also see Part I. Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Investments, at Fair Value. ) We believe these fair value amounts should be utilized with caution as our intent and strategy is to hold investments and securities until prevailing market conditions are beneficial for investment sales.

Investors in all of our carry funds (and certain of our credit-focused funds and funds of hedge funds) make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their related obligations when due, including management fees. We have not had investors fail to honor capital calls to any meaningful extent and any investor that did not fund a capital call would be subject to having a significant amount of its existing investment forfeited in that fund; however, if investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, those funds could be materially and adversely affected.

**Exchange Rate Risk**

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The Blackstone Funds hold investments that are denominated in non-U.S. dollar currencies that may be affected by movements in the rate of exchange between the U.S. dollar and non-U.S. dollar currencies. Additionally,

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a portion of our management fees are denominated in non-U.S. dollar currencies. We estimate that as of June 30, 2014 and June 30, 2013, a 10% decline in the rate of exchange of all foreign currencies against the U.S. dollar would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	June 30,					
	Management Fees (a)	2014 Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	2013 Performance Fees, Net of Related Compensation Expense (b)	Investment Income (b)
	(Dollars in Thousands)					
10% Decline in the Rate of Exchange of All Foreign Currencies Against the U.S. Dollar	\$ 20,316	\$ 246,445	\$ 39,329	\$ 11,672	\$ 145,321	\$ 33,721

- (a) Represents the annualized effect of the 10% decline.
- (b) Represents the reporting date effect of the 10% decline.

**Interest Rate Risk**

Blackstone has debt obligations payable that accrue interest at variable rates. Interest rate changes may therefore affect the amount of our interest payments, future earnings and cash flows. Based on our debt obligations payable as of June 30, 2014 and June 30, 2013, we estimate that interest expense relating to variable rates would increase on an annual basis, in the event interest rates were to increase by one percentage point, as follows:

	June 30,	
	2014	2013
	(Dollars in Thousands)	
Annualized Increase in Interest Expense Due to a One Percentage Point Increase in Interest Rates	\$ 65	\$ 210

Blackstone's Treasury Cash Management Strategies consists of a diversified portfolio of liquid assets to meet the liquidity needs of various businesses (the Treasury Liquidity Portfolio). This portfolio includes cash, open-ended money market mutual funds, open-ended bond mutual funds, marketable investment securities, freestanding derivative contracts, repurchase and reverse repurchase agreements and other investments. If interest rates were to increase by one percentage point, we estimate that our annualized investment income would decrease, offset by an estimated increase in interest income on an annual basis from interest on floating rate assets, as follows:

	June 30,			
	2014	2013		2013
	Annualized Decrease in Investment Income	Annualized Increase in Interest Income from Floating Rate Assets	Annualized Decrease in Investment Income	Annualized Increase in Interest Income from Floating Rate Assets
	(Dollars in Thousands)			
One Percentage Point Increase in Interest Rates	\$ 12,483(a)	\$ 10,581	\$ 25,099(a)	\$ 4,695

- (a) As of June 30, 2014 and 2013, this represents 0.5% and 1.2% of the Treasury Liquidity Portfolio, respectively.

**Credit Risk**

Certain Blackstone Funds and the Investee Funds are subject to certain inherent risks through their investments.



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The Treasury Liquidity Portfolio contains certain credit risks including, but not limited to, exposure to uninsured deposits with financial institutions, unsecured corporate bonds and mortgage-backed securities. These exposures are actively monitored on a continuous basis and positions are reallocated based on changes in risk profile, market or economic conditions.

We estimate that our annualized investment income would decrease, if credit spreads were to increase by one percentage point, as follows:

	June 30,	
	2014	2013
	(Dollars in Thousands)	
Decrease in Annualized Investment Income Due to a One Percentage Point Increase in Credit Spreads (a)	\$ 28,904	\$ 26,277

(a) As of June 30, 2014 and 2013, this represents 1.2% and 1.2% of the Treasury Liquidity Portfolio, respectively.

Certain of our entities hold derivative instruments that contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. We minimize our risk exposure by limiting the counterparties with which we enter into contracts to banks and investment banks who meet established credit and capital guidelines. We do not expect any counterparty to default on its obligations and therefore do not expect to incur any loss due to counterparty default.

**ITEM 4. CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective at the reasonable assurance level to accomplish their objectives of ensuring that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

No change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during our most recent quarter, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We may from time to time be involved in litigation and claims incidental to the conduct of our business. Our businesses are also subject to extensive regulation, which may result in regulatory proceedings against us. See Part I. Item 1A. Risk Factors in our 2013 Annual Report on Form 10-K. We are not currently subject to any pending judicial, administrative or arbitration proceedings that we expect to have a material impact on our consolidated financial statements. However, given the inherent unpredictability of these types of proceedings and the potentially large and/or indeterminate amounts that could be sought, it is possible that an adverse outcome in certain matters could have a material effect on Blackstone's financial results in any particular period.

In December 2007, a purported class of shareholders in public companies acquired by one or more private equity firms filed a lawsuit against a number of private equity firms and investment banks, including The Blackstone Group L.P., in the United States District Court in Massachusetts (*Kirk Dahl, et al. v. Bain Capital Partners, LLC, et al.*). The suit alleges that, from mid-2003 through 2007, eleven defendants violated the antitrust laws by allegedly conspiring to rig bids, restrict the supply of private equity financing, fix the prices for target companies at artificially low levels, and divide up an alleged market for private equity services for leveraged buyouts. On July 28, 2014, Blackstone entered into a settlement agreement to resolve all of plaintiffs' claims without any admission of wrongdoing. On August 7, 2014, plaintiffs filed a motion for preliminary approval of the settlement agreement, which is expected to be heard in early September 2014. The settlement agreement provides for a settlement payment to the class that was substantially covered by insurance and did not have a material effect on our financial condition or results of operations. The settlement agreement is subject to final approval by the court.

**ITEM 1A. RISK FACTORS**

For a discussion of our potential risks and uncertainties, see the information under the heading Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013 and in our subsequently filed Quarterly Reports on Form 10-Q, all of which are accessible on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov).

See Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Business Environment in this report for a discussion of the conditions in the financial markets and economic conditions affecting our businesses. This discussion updates, and should be read together with, the risk factor entitled Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments made by our investment funds, reducing the ability of our investment funds to raise or deploy capital and reducing the volume of the transactions involving our financial advisory business, each of which could materially reduce our revenue and cash flow and adversely affect our financial condition in our Annual Report on Form 10-K for the year ended December 31, 2013.

The risks described in our Form 10-K and in our subsequently filed Quarterly Reports on Form 10-Q are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of Blackstone common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. The unit repurchase program may be suspended or



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discontinued at any time and does not have a specified expiration date. During the three months ended June 30, 2014, no units were repurchased. As of June 30, 2014, the amount remaining available for repurchases was \$335.8 million under this program. See Part I. Item 1. Financial Statements Notes to Condensed Consolidated Financial Statements Note 14. Net Income Per Common Unit and Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity Needs for further information regarding this unit repurchase program.

As permitted by our policies and procedures governing transactions in our securities by our directors, executive officers and other employees, from time to time some of these persons may establish plans or arrangements complying with Rule 10b5-1 under the Exchange Act, and similar plans and arrangements relating to our common units and Blackstone Holdings Partnership Units.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRA), which added Section 13(r) of the Exchange Act, Blackstone hereby incorporates by reference herein Exhibit 99.1 of this report, which includes disclosures publicly filed and/or provided to us by Travelport Limited, which may be considered our affiliate.

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<b>Exhibit Number</b>	<b>Exhibit Description</b>
4.1	Fifth Supplemental Indenture dated as of April 7, 2014 among Blackstone Holdings Finance Co. L.L.C., The Blackstone Group L.P., Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and The Bank of New York Mellon, as trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on April 7, 2014).
4.2	Form of 5.000% Senior Note due 2044 (included in Exhibit 4.1 hereto).
10.1	Amended and Restated Credit Agreement dated as of March 23, 2010, as amended and restated as of May 29, 2014, among Blackstone Holdings Finance Co. L.L.C., as borrower, Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P., as guarantors, Citibank, N.A., as administrative agent and the lenders party thereto (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-33551) filed with the SEC on June 4, 2014).
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
99.1	Section 13(r) Disclosure.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 8, 2014

**The Blackstone Group L.P.**

By: Blackstone Group Management L.L.C.,  
its General Partner

*/s/ Laurence A. Tosi*  
**Name: Laurence A. Tosi**  
**Title: Chief Financial Officer**  
**(Principal Financial Officer and Authorized Signatory)**