

25 Years of Fresh Thinking...

Blackstone

Annual Report 2010

OUR GUIDING PRINCIPLES

ACCOUNTABILITY

Our capital and reputation are
always on the line

EXCELLENCE

Nothing less is ever acceptable

INTEGRITY

Leadership demands responsibility

TEAMWORK

Always makes us better

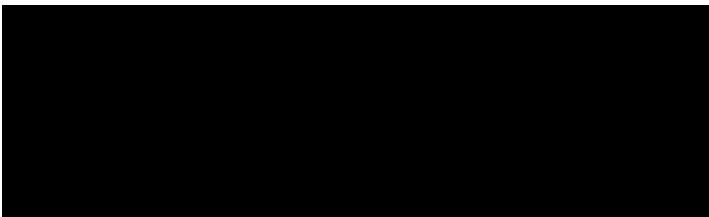
ENTREPRENEURSHIP

Using creativity to find opportunities
others overlook

Drives Meaningful Results Today.

Blackstone's ability to bring fresh thinking to everything we do is the product of a unique blend of diverse and complementary businesses, extensive global relationships, a long-term perspective and most of all, a dynamic culture that prizes entrepreneurship, innovation, teamwork and integrity.

Fresh thinking – going beyond conventional wisdom – has enabled Blackstone to uncover opportunity, nurture good ideas, help businesses grow stronger, develop markets, protect value and give back to the community for a quarter century and will continue to drive our performance in the decades to come.



Michael Sotirhos
Senior Managing Director
Investor Relations & Business Development



*IMPROVING COMPANY
PERFORMANCE*

One of the ways we unlock opportunities is by taking a hands-on role in improving the companies in our private equity portfolio. Our Portfolio Operations Group works with our investment teams and portfolio company executives to help acquired businesses become more productive and competitive. In the process, we build stronger enterprises, preserve and create jobs and enable our companies to achieve lasting value for investors. Overall, the Portfolio Operations Group has supported senior management teams and provided operational leadership in generating or being on track to generate \$4 billion in annualized gross EBITDA increases spanning the last six years.

Within the Group, dedicated teams drive improvements in many areas. One team focuses on growing revenues through pricing, marketing and sales force strategies. Another looks at operational excellence such as lean manufacturing, distribution and information technology. The Group also leads and supports comprehensive transformational initiatives where we focus our full resources and deploy multiple capabilities. Our Group Purchasing Program has achieved over \$325 million in cumulative savings

FRESH THINKING

UNCOVERING OPPORTUNITIES

Our strong performance
track record reflects
our ability to identify and
grow the value of great
businesses.



SAVED ON GOODS
AND SERVICES WITH
HELP FROM
OUR GROUP PURCHASING
PROGRAM

on goods and services. Equity Healthcare facilitates the purchase of comprehensive health plans, which improve the quality of health care for over 290,000 portfolio company employees and their families through better disease management while lowering overall costs. Early in 2011, we launched a program to provide leadership development, talent management and best in class human resources practices.

FINANCING INNOVATION

Across Blackstone’s businesses, we help uncover opportunities in enterprising ways. Our Financial Advisory practice assisted Digital Cinema Implementation Partners, LLC (DCIP), a joint venture involving AMC Entertainment Inc., Regal Entertainment Group and Cinemark Holdings Inc., in raising \$660 million to deploy state-of-the-art digital projection equipment at 14,000 movie screens. This transaction was recognized by *Investment Dealers’ Digest* as 2010’s Media Deal of the Year for its transformative impact on the industry.

“We have a highly integrated approach with our portfolio company managements. We collaborate with them and ask ourselves, ‘What would great performance look like?’ and then apply our resources to help our portfolio company managements get there by driving revenue growth, operational improvement and leadership development.”

James A. Quella
Senior Managing Director
Co-Head Portfolio Operations Group



Jeff Overly
Executive Director
Portfolio Operations Group



INVESTING IN RECOVERY

Blackstone’s real estate funds, seeing opportunities in the recovering U.S. economy, have made significant investments in sectors such as retail and lodging. We joined other investors to help recapitalize General Growth Properties, Inc., a leading shopping mall owner, to support the company’s emergence from bankruptcy through a \$500 million investment. General Growth owns 169 shopping malls in 43 states, including Boston’s Faneuil Hall Marketplace, Chicago’s Water Tower Place and Washington, D.C.’s Tysons Galleria. General Growth has already begun to see higher tenant sales and is moving forward after a successful re-listing in November 2010 under a strong management team.

We are also part of an investor group that acquired Extended Stay Hotels out of bankruptcy. Despite a bankruptcy brought about by the impact of the recession, Extended Stay has remained a leader in its market segment. Blackstone was familiar with the company’s potential, having owned the business from 2001 to 2007. Our recent \$500 million investment has enabled Extended Stay to emerge from bankruptcy with a focus on making significant improvements to its portfolio of hotels.

Identifying good businesses – and actively working to make them even better – has been a hallmark of Blackstone’s approach for a quarter century.

Martin Brand
Managing Director
Private Equity

UNCOVERING OPPORTUNITIES

BRINGING MAGIC TO LIFE

The Wizarding World of Harry Potter™

Thousands of fans lined up in June 2010 for the grand opening of The Wizarding World of Harry Potter™ at Universal Orlando Resort. The attraction has been a major draw for the more than 11 million people who visited the park last year, as they savor the Harry Potter™ experience, from Hogwarts™ Castle to Hogsmeade™ Village.

When management proposed to build a highly themed, authentic environment based on this entertainment franchise, Blackstone, as an investor in Universal Orlando, supported the plan as a game-changing source of growth.

The economic impact has been magical. While The Wizarding World of Harry Potter™ has been open for less than a year, it provided a significant boost to Universal Orlando's financial results, with fourth-quarter revenue rising 81% and operating profit nearly quadrupling. The attraction has also boosted the regional economy, helping to create over 1,500 new jobs in the community and generating revenue for other area businesses.

HARRY POTTER, characters, names and related indicia are trademarks of and © Warner Bros. Entertainment Inc. Harry Potter Publishing Rights © JKR. (s11)





FRESH THINKING

NURTURING GOOD IDEAS

At Blackstone we take pride in supporting good ideas that over time, become sources of great value.

Vijay Bharadia
Finance & International CFO



Good ideas may lead to the creation of an industry-leading market franchise, the launch of a pioneering technology, or the development of an innovative business model. We take an active approach in nurturing good ideas by adding talented management, making strategic investments in growth and, most importantly, applying intellectual capital.

SUPPORTING CONSOLIDATION

At Summit Materials, we joined forces with management to create a leading vertically integrated, heavy building materials business by consolidating a fragmented industry. In the past two years, Summit has acquired seven regional companies and made five bolt-on acquisitions, primarily focused on aggregates and related downstream products. We committed a total of \$750 million to support Summit's acquisition strategy, which has taken the company to \$635 million in revenues and operations in 11 states.

SEEDING NEW INVESTMENT FUNDS

Blackstone Alternative Asset Management (BAAM), our hedge funds solutions business, has one of the largest platforms in

\$3.5
BILLION

INVESTED IN 2010
IN NEWLY-FORMED
HEDGE FUNDS

Gideon Berger
Senior Managing Director
Blackstone Alternative Asset Management

the industry for seeding the development of new hedge funds. Through its Strategic Alliance Funds, BAAM has raised \$3.5 billion to invest in newly-formed funds. We identify portfolio managers who have established strong track records with leading firms and enable these aspiring entrepreneurs to strike out on their own.

LONG-ONLY SOLUTIONS

Responding to clients' needs, BAAM has worked with selected hedge fund managers to develop long-only investment solutions. Our first product focused on commodity indices, eliminating many of the inefficiencies of these indices by relying on managers that trade in the underlying commodity markets. We also are developing long-only equity solutions, utilizing hedge fund managers with strong track records of performing fundamental research on their highest conviction long positions.

ADVISING A YOUNG BUSINESS

BuyVIP, the leading Pan-European online fashion buying community, worked with our Financial Advisory team to realize the value of its premier luxury e-commerce offering. The company built a strong franchise, with over six million members in seven countries, by offering private sales on premium brands such as Dolce & Gabbana, Dior, Fendi and Versace. We advised BuyVIP on its sale to Amazon.com, where it will have additional resources to expand its growth.



OUR CULTURE: A SOURCE OF IDEAS

Blackstone's culture is distinguished by our unique ability to recognize and nurture innovative ideas. Defined by teamwork, entrepreneurship, drive, excellence and unquestioned integrity, our culture is truly differentiated by the exceptional trust we place in our people. We attract the best talent and build confidence and forward thinking among team members. We encourage diversity of thought across all levels of the firm, with the belief that working collaboratively and sharing ideas ultimately drives the success of the organization.

"We have a culture of exceptional trust, which creates an environment where people can freely express themselves with passion and conviction. We seek out those who have confidence in their ability to add value and drive superior results."

Laura J. Waitz
Managing Director
Human Resources

Sean V. Madnani
Managing Director
Blackstone Advisory Partners LP





NURTURING GOOD IDEAS

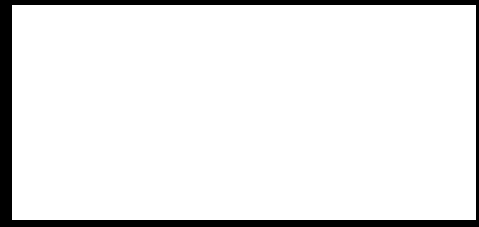
HOUSING EUROPE'S STUDENTS

Nido Student Living

With an investment from Blackstone Real Estate Partners (BREP), Nido Student Living has gained a leading position in Europe's student housing market.

Nido has been a pioneer in creating new student apartments that are attractive and well-equipped with amenities such as recreational space, internet and study rooms, cafes and related services. There are even residential assistants to create a vibrant, supportive student environment.

In recent years Nido has expanded to two U.K. locations and a site in Barcelona, Spain, with a third London property due to open this summer in Notting Hill. When Blackstone developed the Nido brand and management team with the idea of creating the premier student living company in Europe, there was nothing like it on the market. Soon, Nido will have over 3,400 beds providing unique environments for living, studies and social activities.



FRESH THINKING

HELPING BUSINESSES RECOVER

By investing in, recapitalizing and advising troubled companies, we help revitalize their strength and viability, and support economic growth.

Jonathan Kaufman
Vice President
Restructuring & Reorganization



Fresh thinking has enabled Blackstone to assist otherwise viable companies in need of restructuring, reorganization or business transformation. Restoring such businesses to health has helped preserve jobs, stabilize communities, spur economic growth and generate investment value.

REVITALIZING A REFINERY

In Delaware, PBF Energy Partners, LP, is putting an idled petroleum refinery back into operation. Blackstone is a 49% equity partner in PBF, whose management team, led by Thomas O'Malley, has an exceptional track record of acquiring refineries, operating them safely and efficiently, building scale and creating jobs while delivering attractive returns for investors. Blackstone's prior investment in the petroleum refining business, Premcor, returned 5.9 times its invested capital. Premcor's senior management team was comprised of Thomas O'Malley and many of the senior executives of PBF. PBF purchased the Delaware City refinery in April 2010 and will refurbish and reopen the facility, an initiative that enjoys the full support of Delaware officials and the United Steelworkers union. PBF has reconfigured the refinery to reduce carbon dioxide emissions by as much as 1 million tons a year as well as reduce nitrogen oxide emissions by as much as 35%. The refinery will employ over 450 people and can produce 190,000 barrels per day of petroleum products.

Beth Chartoff
Senior Managing Director
GSO Capital Partners



\$565
MILLION

FINANCED BY GSO TO FORTIFY GLOBAL
ALUMINA LEADER, ALMATIS GROUP

**FINANCING AN ALUMINA
INDUSTRY LEADER**

Financing from GSO Capital Partners enabled Almatris Group, a global provider of specialty alumina products based in Frankfurt, Germany, to emerge from bankruptcy in only five months. With \$565 million in new credit, plus a significant equity investment by an existing majority shareholder, Almatris and its nearly 900 employees have found a solid financial footing.

**RESTORING STABILITY TO AN
INTEGRATED OIL COMPANY**

We advised Flying J Inc., an integrated oil products company and at the time the nation's second-largest operator of truck

Joshua Mason
Managing Director
Real Estate



stops, throughout a Chapter 11 filing caused by the dramatic volatility in oil prices in the fall of 2008. Our Restructuring team worked with management to obtain financing to stabilize the company's businesses, sold non-core assets and assisted in negotiating a merger of its truck stop operations with Pilot Travel Centers LLC. Flying J emerged from bankruptcy in 2010 with a plan of reorganization that paid its creditors 100% in cash and left its shareholders unimpaired with an ongoing investment in a collection of vibrant and growing businesses.

RESTRUCTURING SKI RESORTS

Blackstone advised senior lenders in Intrawest Holdings, one of the largest ski resort operators in the world, with holdings in Whistler Blackcomb, Tremblant, Steamboat and Winter Park, among others, in the restructuring of in excess of \$1.4 billion of debt. As a result of the restructuring process, Intrawest was able to refinance its entire capital structure, thereby allowing the company to focus on the growth and expansion of its resort businesses.

"What makes us unique is our ability to fully understand our client's business and potential so that we may implement a restructuring framework that brings consensus amongst multiple competing interests in a manner that maximizes value for all stakeholders."

Steven Zelin
Senior Managing Director
Restructuring & Reorganization

HELPING BUSINESSES RECOVER

TRANSFORMING A PAPER GIANT

AbitibiBowater

With Blackstone's assistance, AbitibiBowater, a leader in the global forest products industry, dramatically reduced its debt, strengthened its liquidity and significantly improved its competitive position.

Formed in a 2007 merger of the two largest newsprint producers in North America, AbitibiBowater was impacted by the financial crisis, a collapse in the advertising and housing markets, rising energy costs and unfavorable foreign exchange movements. These factors, combined with a heavy debt burden, resulted in the company filing for bankruptcy in April 2009 in both Canada and the U.S.

Blackstone assisted AbitibiBowater in executing a comprehensive, cross-border restructuring plan that reduced debt by \$6 billion while preserving the company's ability to meet its pension obligations. We also worked with management to develop a strategic plan that preserved merger synergies, dramatically reduced costs and optimized the company's operating profile. Lastly, we advised on the raising of \$1.45 billion of exit financing for the company's successful emergence from bankruptcy in December 2010.





FRESH THINKING

INVESTING IN EMERGING MARKETS

Blackstone has taken a global view of investment opportunity and is well positioned in growing markets worldwide.

Eric McAlpine
Managing Director
Blackstone Advisory Partners LP



Market potential is not limited to a single region, and neither is Blackstone's business activity. With 21 offices and an extensive network of relationships around the world, we have pursued opportunities on a global scale. We have been particularly focused on China, India and Brazil, which along with Russia have produced approximately one-third of the world's GDP growth in the past 10 years.

CHINA

We have a unique perspective on the Chinese market due in part to our relationship with the China Investment Corporation, which made a strategic equity investment in Blackstone at the time of our initial public offering. Blackstone has invested in China National Bluestar Corporation, one of the leading specialty chemical companies. We are partnering with the Shanghai-Pudong district government to establish the first 100% foreign-owned local currency (RMB) private equity fund to invest in high growth domestic companies. We established a joint venture with Hong Kong developer Great Eagle Holdings to build more than 1,000 homes and 400 hotel rooms in the coastal city of Dalian. Our Advisory practice assisted European automaker PSA Peugeot Citroën in establishing one of the largest automobile joint ventures in China to design, manufacture, sell and service premium passenger and commercial vehicles.

\$3.3
BILLION

COMMITTED
INVESTMENTS IN INDIA
SINCE 2005

INDIA

Blackstone managed funds have committed \$3.3 billion to investments in India since 2005 across our private equity, real estate and mutual fund businesses. Recently, we committed over \$600 million to three power generation companies. Power is an extremely important sector for India's continued economic development with the country facing a significant energy deficit and base load supply being at 10% less than demand. In addition, we have invested in a range of businesses, including the largest cash logistics company and one of the top business process outsourcing companies. We also have invested in the largest producer of hybrid cotton seeds, which will contribute to India's agricultural output, the top private sector container rail logistics company, and one of India's major construction services companies. We are committed to increasing our investment in India in the next few years helping to finance companies that will build the country's infrastructure and sustain its tremendous growth.

BRAZIL

In Brazil, we have launched a partnership with Pátria, one of Brazil's largest differentiated investment management and



Akhil K. Gupta
Chairman of Blackstone India

Menes Chee
Managing Director
GSO Capital Partners



corporate advisory firms. This relationship, cultivated over the last 10 years, will enable us to participate in the robust growth of Brazil, which is powered by demand for natural resources, an increasingly open economy and rising domestic consumption. Working together with Pátria, we will focus our combined expertise in private equity, real estate, wealth management and cross-border M&A on ventures related to infrastructure, industrial and services businesses and development of the country's financial markets.

As we participate in the dynamic expansion of these and other emerging markets, we are keenly focused on the ways Blackstone can add value to their growing and developing economies.

"Our strategic investment in Pátria reflects our global perspective. It allows us to participate in the growth of a major economy and also establishes a further link in our overall network of relationships and opportunities."

Martin Alderson Smith
Senior Managing Director
Blackstone Advisory Partners LP





INVESTING IN EMERGING MARKETS

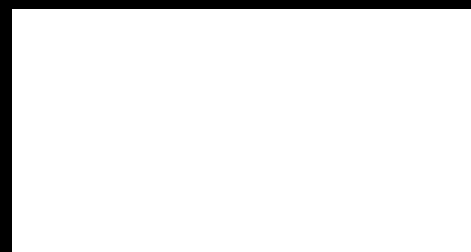
POWERING A RAPIDLY GROWING ECONOMY

Moser Baer Projects

Moser Baer Projects, based in New Delhi, India, is targeting the development of 5,000 megawatts (MW) of power generation capacity by 2016 with a diversified platform of thermal, solar and hydroelectric plants and associated coal mines. Moser Baer is India's largest developer of solar power projects with 300MW of capacity under construction and a further 700MW under development. With significant power shortages and structural new supply bottlenecks, the investment fundamentals for the Indian power market remain very attractive. The combination of strong market fundamentals, an experienced management team, and alignment of interests amongst shareholders, led Blackstone to commit \$295 million to the Moser Baer Projects.

Blackstone has provided extensive domain expertise, as well as financial resources, to these projects. Technical experts from our portfolio company, Sithe Global Power, have aided Moser Baer in negotiating a lump-sum turnkey contract for the construction of their flagship 1,200MW thermal power plant.

As the Indian economy grows, driving continued increases in electricity consumption, Blackstone is well positioned to make additional equity investments in the Indian power sector in partnership with exceptional local entrepreneurs.



FRESH THINKING

PROTECTING VALUE

We are active stewards of our clients' assets and have consistently preserved value across market cycles.

Robert Schoder
Managing Principal
Park Hill Real Estate



Clients such as corporate, public and union pension funds, monetary authorities, sovereign wealth funds and other institutional investors trust Blackstone to protect their assets. We have done so consistently by tailoring investments to address clients' objectives, delivering risk-adjusted returns and mitigating downside risk.

ENSURING LIQUIDITY FOR INVESTORS

During the downturn, when many investors sought liquidity, a number of managers restricted access to their investors' funds. In contrast, Blackstone Alternative Asset Management (BAAM) had structured its portfolios to provide sufficient liquidity and was able to fund \$10.2 billion in redemptions. By keeping our promises, we reinforced our strong relationships with investors. This is evidenced by the fact that over 50% of our annual investor inflows are typically from existing investor relationships.

Our ability to protect value is a result of our business model, our people and our process. BAAM is primarily institutionally focused, carefully selecting managers across a range of strategies to customize portfolios for leading institutional investors. Since BAAM also manages significant assets for Blackstone and its employees, our interests are aligned with our clients. We pride ourselves on the deep experience of our team members in trading, risk management, fund accounting and auditing, which enables us to avoid problems that have plagued other hedge fund managers.

Finally, we follow a rigorous process of identifying, qualifying and monitoring the funds in which our clients are invested.

ANTICIPATING AND RESPONDING TO THE REAL ESTATE CRISIS

Another example of our focus on protecting value is our Real Estate business, which weathered tremendous pressure in recent years, and further solidified its position as the world's premier private equity real estate investor. Blackstone sold over \$60 billion of real estate assets in 2005–2007, returning capital to investors and materially reducing investment debt levels as the recession struck. During 2010, we

\$5

BILLION

IN NEW CAPITAL DEPLOYED IN 2010 BY BLACKSTONE REAL ESTATE

Jonathan D. Gray
Senior Managing Director & Co-Head of Real Estate

“By focusing on top-quality assets and markets, selling aggressively prior to the crisis, and deploying capital in scale over the last 18 months, our Real Estate business has served our investors extremely well and emerged from the downturn in a strong position.”

Nadeem Meghji
Principal
Real Estate



extended the debt of Hilton Worldwide and Equity Office Properties, positioning those holdings for a rebound in the hotel and office markets. In addition, we deployed nearly \$5 billion in new capital in 2010, the vast majority of which has been invested in bankruptcies, recapitalizations and debt acquisitions. As a result of our actions, as well as the high-quality portfolio we own, our real estate funds recovered strongly from the downturn. For example, our BREP VI fund rose to a carrying value of \$1.23 on the invested dollar at the end of 2010 from \$0.46 a year earlier.

PROVIDING SOUND ADVICE

We have assisted other companies throughout the world in protecting value. In 2010 we served as financial advisor to E.ON, one of the world's largest investor-owned energy companies, to facilitate the sale of its U.S. utility operations for \$7.625 billion. The proceeds from the sale were a critical part of E.ON's strategy to streamline its asset portfolio and reduce debt.

John McCormick
Senior Managing Director
Blackstone Alternative Asset Management



PROTECTING VALUE
CUSTOMIZING HEDGE
FUND SOLUTIONS

Blackstone Alternative Asset Management

\$32.9

BILLION TOTAL AUM AT DECEMBER 31, 2010

44%

OF TOTAL AUM ARE CUSTOMIZED FUNDS

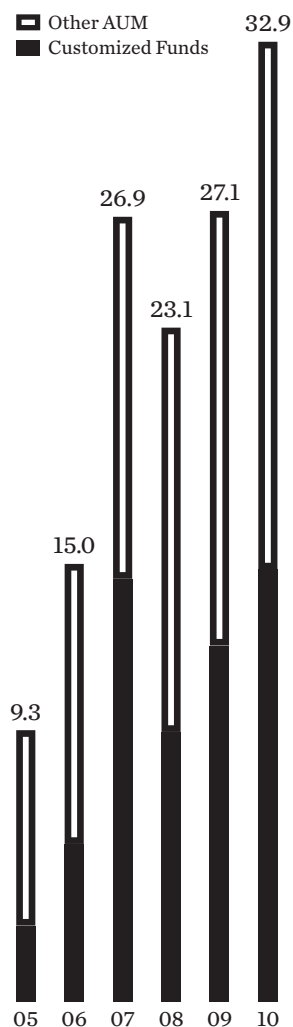
A clear example of our ability to protect the value of clients' assets is the long term performance of Blackstone Alternative Asset Management (BAAM), our Hedge Fund Solutions business. BAAM navigated a difficult economic downturn to become the largest investment vehicle of its kind, with total AUM of \$32.9 billion at December 31, 2010.

BAAM has achieved this leadership position by tailoring portfolios to our clients' investment objectives and developing solutions across a range of vehicles. As of December 31, 2010, 44% of BAAM's total assets under management were in customized client investment solutions,

including diversified, strategy-focused and opportunistic funds. This focus on addressing clients' needs has led to such innovations as long-biased commodity and equity replacement strategies and seeding of emerging hedge fund managers.

This approach has enabled BAAM to consistently outperform its hedge fund benchmarks. As of December 31, 2010, the 10-year composite return for BAAM funds was 7.0%¹ vs. 1.4% for the S&P Total Return Index. Its volatility was 5.0%, or less than one-third of the S&P Total Return Index of 16.3%.

BAAM AUM GROWTH, DOLLARS IN BILLIONS



"BAAM creates highly customized investment solutions for sophisticated institutional investors. Our team generates alpha in a variety of hedge fund and long-only formats. We also empower investors with infrastructure and advice to drive better investment outcomes across their portfolio."

J. Tomilson Hill
Vice Chairman, Blackstone
President & Chief Executive Officer
of Blackstone Alternative
Asset Management

¹ Past performance is not indicative of future results. The BAAM composite does not include BAAM's strategic alliance (seed) platform, long commodities platform or advisory accounts and does reflect profit/loss from currency fluctuations.

FRESH THINKING

SUPPORTING COMMUNITIES

We are putting
Blackstone's intellectual
and financial capital
to work to create value
for society and help
communities in need.



DEDICATED IN A
FIVE-YEAR EFFORT
TO FOSTER
ENTREPRENEURSHIP

The Blackstone Charitable Foundation was established in 2007 with a \$150 million commitment from the firm's employees. It supports a range of organizations and projects that have demonstrated innovative thinking in improving economic and social conditions.

*THE BLACKSTONE
ENTREPRENEURSHIP INITIATIVE*

Blackstone was built on the entrepreneurial vision of its two founders 25 years ago. Influenced by this enterprising heritage and the urgent need for job growth following the global economic collapse, the Foundation has dedicated \$50 million in a five-year effort to foster entrepreneurship and ignite the high-growth businesses that spark economic progress. The Foundation will direct its resources to producing enduring results in areas hardest hit by the economic crisis. Initiatives will include expanding the Blackstone LaunchPad, cultivating large-scale integrated regional programs, and supporting small entrepreneurial organizations making a difference around the country.

STARTUP AMERICA

The Foundation recently joined other major donors, corporations, universities and not-for-profit organizations to support the White House's Startup America initiative. Startup America is a public/private alliance created to nurture American entrepreneurs. It will provide private resources to scale up a portfolio of proven models, allowing innovative ideas and promising businesses to take root, grow and flourish.

MASSCHALLENGE

The Foundation provided a grant to MassChallenge, a global startup competition and accelerator that fosters

Caroline Widman
Vice President
Human Resources



the development of high-growth, high-impact new businesses in Massachusetts and beyond. This support allowed MassChallenge to award early-stage entrepreneurs with seed capital to launch innovative startup concepts.

PHILANTHROPIC LEADERSHIP

In the U.K., the Foundation and CNBC co-hosted the Global Youth Employment Agenda in December 2010. This assembly drew top business, government and non-governmental leaders to address the crisis of rising youth unemployment. It served as the start of a process to develop youth employment solutions by building a global network of support activities and sharing best practices, including highlighting entrepreneurship as a viable career path for unemployed youth.

NAACP

Blackstone donated Class A office space to the NAACP in two prime New York City office buildings rent-free for four years,

Vikrant Sawhney
Senior Managing Director
Private Equity



providing the organization's first permanent home since its former offices were destroyed in the World Trade Center tragedy. Blackstone was also the single largest contributor to the NAACP's centennial fund.

EMPLOYEE VOLUNTEERISM

The commitment to worthy causes runs deep within our organization, as our people give generously of their time, talent and energy in volunteer activities.

One example is our work with PENCIL, which fosters relationships between business leaders and New York City public schools. A number of our employees are helping Eagle Academy, in Brownsville, Brooklyn, by mentoring students, teaching Saturday classes and advising school staff on technology and administrative issues. Employees are active in many other programs, including United Way, The Leukemia & Lymphoma Society, the Futures and Options career program for New York City high school students, City Harvest and Habitat for Humanity.

"The Foundation's emphasis on entrepreneurship reflects Blackstone's unique perspective on the global economy and the company's heightened understanding of entrepreneurial activity as a crucial catalyst in the growth of successful businesses, industries and communities."

Amy Stursberg
Executive Director
Blackstone Charitable Foundation

GIVING BACK**ENERGIZING
ENTREPRENEURSHIP**

The Blackstone Charitable Foundation

Entrepreneurs, and the businesses they build, lead the way in job creation in the U.S. To jump start tomorrow's businesses, the Blackstone Entrepreneurship Initiative's first grant was a three-year, \$2 million pilot program to open Blackstone LaunchPads at two Detroit-area colleges, Wayne State University and Walsh College.

Based on a successful model at the University of Miami, Blackstone LaunchPad provides training in business practices, mentoring and networking of professional contacts. The goal: to help aspiring entrepreneurs transform their innovative ideas into thriving enterprises that will lead to economic growth and revitalization. In just the first few months of operation, more than 1,000 people have demonstrated interest and 27 new ventures are currently in formation.

Our efforts in bringing Blackstone LaunchPad to Detroit and our expansion plans for the program have been recognized by the White House. We are committed to bringing Blackstone LaunchPad to five new regions within the next five years.





FINANCIAL HIGHLIGHTS

AN UNPARALLELED RECORD OF
CONSISTENT GROWTH

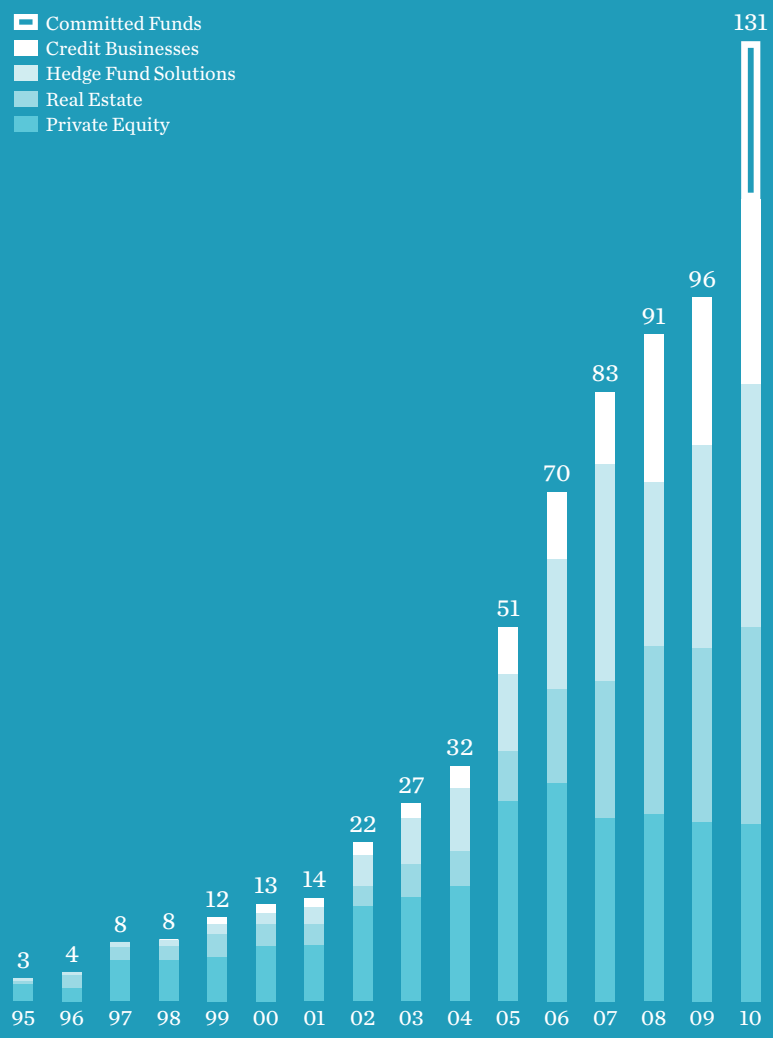
28%

COMPOUND ANNUAL GROWTH RATE

\$131

BILLION IN FEE-EARNING AUM AND COMMITTED FUNDS

BLACKSTONE FEE-EARNING AUM GROWTH, DOLLARS IN BILLIONS



Graph represents total Blackstone AUM through 2006 and fee-earning AUM thereafter.

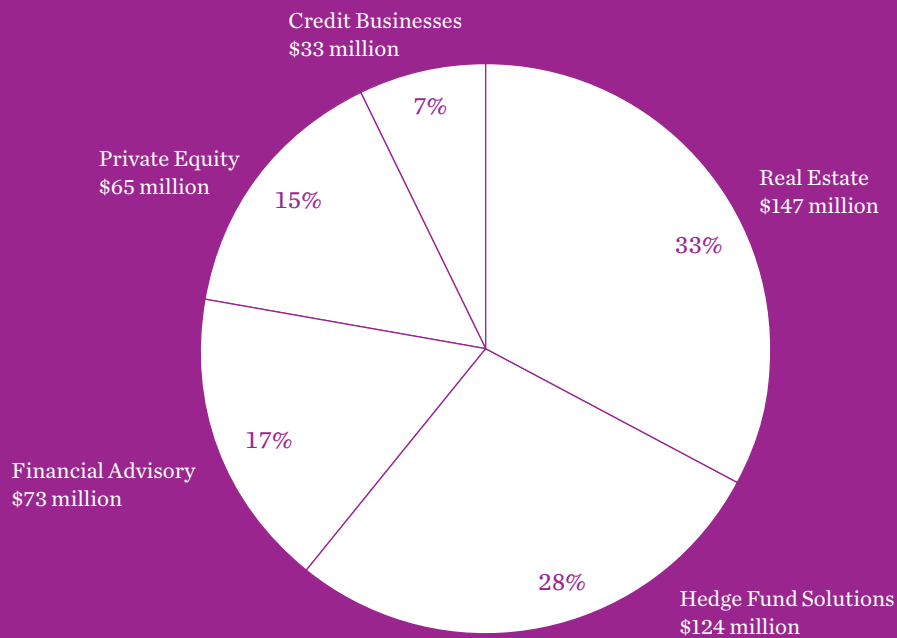
FINANCIAL HIGHLIGHTS

**BLACKSTONE'S BUSINESS
MIX HAS CONTINUED TO PROVIDE STABILITY**

\$3.1

BILLION TOTAL 2010 REVENUES

2010 NET FEE RELATED EARNINGS

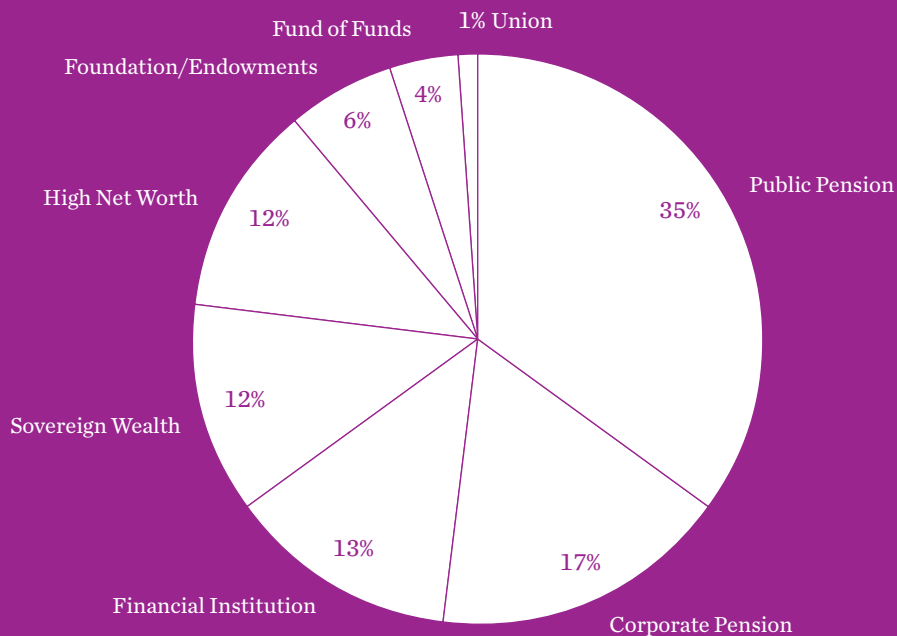


OUR CLIENT-FIRST APPROACH PROMOTES A LOYAL FOLLOWING AMONG INVESTORS

86%

OF BLACKSTONE'S CLIENTS INVEST IN SUCCESSIVE FUNDS
AS OF DECEMBER 31, 2010

LIMITED PARTNERS BY TYPE





DEAR UNITHOLDERS,

In 2010, Blackstone celebrated its 25th anniversary. Much has changed in the world since October 1, 1985, but our founding principles have not, and remain core to how we manage the firm, invest and serve our clients. Achieving consistent, outstanding results for investors and clients requires a culture that supports and demands excellence and accountability. For a quarter century we have put our own capital and reputations on the line every day, leveraging our collective expertise and creativity and finding opportunities overlooked by others to help businesses succeed and grow.

Blackstone has thrived in the face of dramatic shifts in the business landscape. We envisioned that alternative asset managers could become essential to institutional investors' strategies and would come to play a major role in driving economic growth and investment value. We believed intellectual capital and operating expertise were as essential as financial capital to grow great companies. We saw the wisdom in building a portfolio of complementary investment and advisory businesses that could inform our investment decisions and enable us to withstand the vagaries of the business cycle. Early on, we created a global network to access opportunities in emerging and established markets. We accessed additional capital through our initial public offering, enabling us to strengthen our balance sheet and to build global scale, by adding leading businesses such as GSO, our credit platform, and more recently Pátria, a leading alternative investment firm in Brazil.

Since 1985, the balance of fiscal power has shifted to the point that emerging economies produce more than one third of the world's GDP and are significantly

25 YEARS OF FRESH THINKING

'85

A New Kind of Investment Firm

Blackstone is founded by Stephen A. Schwarzman and Peter G. Peterson with \$400,000 in assets and a clear vision: to create an independent, entrepreneurial, nimble, long term-oriented investment firm closely aligned with its clients' interests.

'87

Forging Global Relationships

Nikko Securities Inc. invests \$100 million as a limited partner in the first Blackstone Capital Partners fund and later purchases an equity stake in Blackstone, providing the first of many global connections.

'90

Distinguished Hedge Fund Manager

The firm's Hedge Fund Solutions Business, Blackstone Alternative Asset Management (BAAM), launches internally. In 1993, it opens to outside investors with a strategy of providing custom-tailored solutions for institutional investors, becoming the world's largest independent alternative asset manager.

'92

Building a Real Estate Powerhouse

Blackstone adapts its private equity model to the real estate sector, establishing what is now the world's leading global real estate investment business.

outpacing the growth of established markets. A global economic crisis in 2008 caused a number of once formidable institutions to merge out of existence, seek government rescue or file for bankruptcy. The crisis also led to a torrent of new regulations that, while intended to reduce the likelihood of another meltdown, will have an uncertain impact on financial institutions worldwide. In such unpredictable times, the stability of our organization became even more important, and we were able to protect and grow our investors' assets.

BUILDING A STRONG PLATFORM

We take a long-term investment perspective with special emphasis on capital preservation. Consequently, we believe the dislocation caused by this economic downturn will, as in past cycles, lead to attractive opportunities for the future. By keeping our powder dry in the runup to the recession, we were in an excellent position to acquire quality assets at compelling valuations. In 2010, our funds committed nearly \$10 billion across real estate, private equity and credit.

In 2010, we strengthened our platform in fast growing markets and key aspects of our business. We agreed to manage \$2.1 billion in Asia-based real estate assets for Bank of America Merrill Lynch and serve as the new general partner of the Merrill Lynch Asia Real Estate Opportunity Fund. By applying our global real estate expertise to this portfolio, which encompasses China, Japan, India and South Korea, we gain a sizeable platform in this major growth region.

Deepening our presence in the Brazilian economy, the largest in Latin America, we purchased a 40% stake in Pátria, one of Brazil's leading alternative asset managers. We have known and respected Pátria and its principals for many years and share core values. Our two firms will now work in concert to advance opportunities for our investors in Brazil and throughout South America, in areas ranging from financial advisory services to real estate, private equity, credit and hedge fund investments.

To provide a broader platform to access opportunities on a global scale, we established several new offices in the past year, in Dubai, Sydney, Düsseldorf and Singapore. Our businesses continued to grow with the addition of several new funds. Our Hedge Fund Solutions business closed its second seeding platform, raising over \$2.3 billion to start new hedge fund managers. Our Credit business, GSO, closed its rescue financing fund with over \$3.2 billion of assets under management and launched two closed-end mutual funds, focusing on senior floating rate and long-short credit investments. GSO also closed the first CLO fund that attracted a majority of third-party equity since the financial crisis and at year-end had \$16 billion of fee-earning assets under management in its CLO business. Our Real Estate business has expanded its activities in the debt strategies area with \$3.7 billion of Assets Under Management as of March 31, 2011.

2010 FINANCIAL RESULTS: RETURN TO GROWTH

Our results for 2010 reflected a significant improvement in the carrying values of our investment funds during the year. Total Revenues were \$3.1 billion, an increase of 76% from 2009. The key factors driving revenue growth included a \$716.7 million increase in Performance Fees, a \$520.6 million rise in Investment Income and a \$102.5 million increase in Management and Advisory fees.

Economic Net Income (ENI) after taxes exceeded \$1.4 billion for 2010, more than doubling the prior year's \$703.1 million, primarily driven by higher Performance Fees and Investment Income.

'99

Forging a Diversified Credit Business
\$1.1 billion is raised for first mezzanine fund, establishing Blackstone's credit platform.

'04

Improving Portfolio Company Performance
Blackstone formalizes its approach to enhancing the strategic and operational performance of its private equity portfolio companies by creating the Portfolio Operations Group.

'05

Investing in India
Blackstone targets \$1 billion for investment in the rapidly growing economy of India and establishes a Mumbai office to spearhead this effort.

'06

Anticipating a Real Estate Downturn
Blackstone sells over \$60 billion in real estate assets from 2005 to 2007, using the proceeds to de-lever its real estate portfolio and extend debt maturities.

'07

IPO Milestone
The initial public offering is the first by a major alternative investment firm; it strengthens the firm's capital foundation while enhancing the global visibility of the Blackstone brand. In connection with the IPO, the China Investment Company takes an equity interest in Blackstone, forging an important strategic relationship that will advance investment opportunities in China.

Left to Right
David S. Blitzer
Timothy R. Coleman
Joan Solotar
John G. Finley
Kenneth C. Whitney
Bennett Goodman
Laurence A. Tosi
J. Tomilson Hill



Left to Right
Chad R. Pike
Chinh E. Chu
Stephen A. Schwarzman
Hamilton E. James
Jonathan D. Gray
John Studzinski
Antony Leung



Fee-Earning Assets Under Management rose to a record \$109.5 billion, an increase of \$13.4 billion from a year earlier. We are proud of this strong expression of confidence by leading global investors.

At year-end, we had cash and investments totaling \$3.6 billion, including \$1.9 billion invested in our own funds. We have long-term debt of \$1 billion in the form of borrowings from bond issuances. Our most recent bond issuance, \$400 million of 5.875% notes due in 2021, was rated “A” by Standard & Poor’s and “A+” by Fitch, the highest rating of any manager of alternative investments. We have no borrowings under our \$1 billion revolving credit facility.

Blackstone declared quarterly distributions totaling \$0.62 per common unit for 2010.

PERFORMANCE ACROSS ALL BUSINESS UNITS

Overall, our businesses had positive momentum and favorable results.

In Private Equity, revenues increased 7%, while ENI decreased slightly due to lower Performance Fees and Transaction Fees. We recorded appreciation in all our investment funds, and all funds have a carrying value above cost, including realized proceeds. Our solid performance track record in Private Equity continues to attract investors to our funds. As of March 31, 2011, Blackstone Capital Partners VI was a \$15.2 billion fund, making it the largest private equity fund to be raised since the start of the financial crisis.

Private Equity investments in 2010 spanned many different industries and sectors. We are a great believer in buying or establishing businesses with excellent management teams and growing them organically and through acquisitions. Taking the view that refineries were undervalued, we established PBF Energy to invest in these out of favor assets. In relatively short order, PBF purchased refineries in Delaware City, Delaware, and Paulsboro, New Jersey. We invested in the chemical sector with the acquisition of Polymer Group, Inc., a leading provider of nonwoven materials with a significant customer base in emerging markets. Recognizing the great need for power in India, we invested in several Indian power companies. We also capitalized on opportunities in the Asian media and communication sectors with a commitment to Jagran Media network, India’s largest media and communications group and an investment in eAccess Ltd, a major mobile data services company in Japan. In the U.S. we are focused on the aggregates and downstream market, and made several acquisitions through Summit Materials, a building materials company. In the U.K., we acquired ICS Group, a strong platform for consolidation in the healthcare staffing sector.

Our Real Estate business, which remained disciplined during the downturn, saw significant investment opportunities and appreciation in its funds, delivering over \$1 billion in revenues. ENI rose to \$639.5 million in 2010 from a loss of \$117.5 million in 2009. Through prudent management of the portfolio and the capital structures of our holdings, we weathered a near-catastrophic environment and have emerged as the premier real estate investment vehicle globally, with \$26.8 billion in Fee-Earning AUM. All of our real estate investment funds appreciated significantly during the past year; our global flagship fund, BREP VI, recovered to a carrying value of \$1.23 on the invested dollar at the end of 2010 from \$0.46 a year earlier.

A prime example of our ability to benefit from the resurgent real estate markets is Hilton Worldwide, which in early 2010 completed a restructuring of substantially all of its existing debt, extending the maturity of Hilton’s debt

'08

Leading Credit Platform

The acquisition of GSO Capital Partners, a diversified credit fund manager, complements Blackstone’s existing debt business and creates one of the largest platforms in the credit sector.

'10

Blackstone Entrepreneurship Initiative

A five-year, \$50 million commitment is announced by The Blackstone Charitable Foundation, to bring the benefits of entrepreneurship to disadvantaged communities.

Differentiated by Diversification

Today, the firm is exceptionally diverse in scope – with a range of alternative asset classes, such as private equity, real estate, debt and hedge funds, and a financial advisory segment – allowing Blackstone and its clients to benefit from the synergies among its businesses.

THANKS

On the occasion of our 25th anniversary, I would like to take this opportunity to thank our limited partners, clients, and unitholders for their enduring confidence; the managements of our portfolio companies for partnering with us; and our employees for their creativity, hard work and dedication to our values. Your support has sustained us from the beginning and will continue to inspire us to new heights as we move forward.

until November 2015 and reduced the total debt by nearly \$4 billion. Since then, Hilton's operating performance has rebounded strongly with the improving global economy. This is a clear indication that our initial confidence in the value of the Hilton brand – and its position as a leading player in the hospitality sector – was well placed.

Our Real Estate business has come through this challenging period in a stronger position than most, if not all, of our peers. We emerged with no material realized losses. In addition, we had dry powder at year-end of over \$9 billion, which we believe is the largest pool of committed and uninvested capital in the sector. We think size is a significant advantage and gives us a “first look” at the most compelling opportunities. Our real estate funds committed nearly \$5 billion in new capital in 2010. Among our real estate investments in 2010, we established an industrial platform through a series of acquisitions and now have a portfolio of 45 million square feet of industrial space in 21 states. Our funds purchased the Sunwest senior living portfolio and participated in the General Growth recapitalization and the acquisition of Extended Stay Hotels.

Our Hedge Fund Solutions and Credit businesses generated 34% higher revenues and a 40% increase in ENI. All of our major funds have positive returns and outperformed their benchmarks for the year. Both businesses continue to see strong inflows, with 22% growth in fee-earning assets over the past year, to reach a record \$58.5 billion.

Blackstone Alternative Asset Management (BAAM), which is the principal component of our Hedge Fund Solutions unit, enjoyed strong inflows and is now the largest asset manager in its class, with a record \$31.5 billion in total Fee Earning AUM. BAAM also has consistently outperformed the relevant indexes in total return and volatility. The 10-year composite return was 7.0% vs. 1.4% for S&P Total Return Index. Volatility for BAAM was 5.0%, or less than one-third of S&P Total Return Index of 16.3%.

We continue to grow our GSO Credit platform across all four of its businesses. GSO Capital Solutions Fund closed on more than \$3.2 billion in total commitments last year, demonstrating investors' high regard for our expertise in funding companies that face liquidity or capital structure challenges. In addition, we launched two closed-end mutual funds managed by GSO to offer income-oriented investors access to the market for senior floating rate loans. GSO Capital Partners LP enhanced its position to benefit from the recovery of the collateralized loan obligation (CLO) markets by acquiring the management agreements relating to nine CLO vehicles with total assets of \$3.3 billion previously managed by Callidus Capital Management LLC.

Our Advisory businesses had a 9% revenue increase, largely driven by a sharp rise in fees from our Park Hill funds placement business. Reflecting the cyclical balance of our Advisory business, merger and acquisition activity has increased while restructuring is down somewhat from the record volume of 2009. We expect M&A activity to accelerate in 2011 as businesses begin to deploy their large cash holdings toward acquisitions. Restructuring activity is not likely to match the levels seen during the recession, although we continue to expect a steady flow of assignments in the coming year.

INVESTING RESPONSIBLY

We believe that we have a responsibility to make investments that contribute to economic opportunity in those markets in which we operate. In particular,

THE PETER G. PETERSON AWARD



The Peter G. Peterson Award for Excellence in Business and Community Service honors the many contributions of our co-founder, Peter G. Peterson, who retired as our Senior Chairman in 2008. The award is given annually to an employee who has shown a deep commitment to excellence inside and outside the firm. Recipients are nominated by their peers and chosen by our Executive Committee.

The 2010 recipient is Scott Soussa, Managing Director of BAAM and Head of Due Diligence. Scott's professionalism, teamwork and commitment are widely regarded at Blackstone. Having helped create a mentoring program to advance the career and personal development of team members, Scott also has motivated colleagues to give financial support and time to organizations such as The Leukemia & Lymphoma Society, First Day New York, Eagle Academy and City Harvest. After his brother's passing from colorectal cancer, Scott, his family and friends formed Michael's Mission to enhance treatment options and improve the quality of life for colon and rectal cancer patients. Scott continues to expand fundraising efforts and increase awareness for the cause today.

we are proud of our investments in sectors such as energy and health care, which have broad benefits for society. For example, in 2010 we invested in the Monnet and Moser Baer projects in India, which will create much needed new thermal, solar and hydro-electric power facilities to support the country's continued development.

The Blackstone Charitable Foundation is also a key to our efforts to advance economic growth and opportunity, and provided over \$5 million in grants during 2010. One of the Foundation's key initiatives is the Blackstone LaunchPad program, with its first partnership with Wayne State University and Walsh College in southeast Michigan, which provides training and support for aspiring entrepreneurs. Blackstone also is a major contributor to the NAACP, and donated office space for the creation of the organization's first national development office in New York City. Throughout the year, hundreds of Blackstone employees have volunteered their time and energy to work for community projects and charitable organizations.

A QUARTER CENTURY OF COMMITMENT

I am extremely proud of the firm that Blackstone has become, thanks to the support of our limited partners, employees, portfolio company managements, unitholders and our network of relationships around the world. We are a much different firm in size and stature than we were in 1985, but our client focus and core values of accountability, excellence, integrity, teamwork and entrepreneurship remain constant.

Today, I believe Blackstone is in the best position in our history. We have a solid platform of diverse businesses, each of which is a major force in its market. We have continued to expand our global network. We have a strong capital base to withstand financial downturns and extensive resources available to be deployed. And we have enhanced our intellectual capital by adding exceptionally talented people to our team. We are committed to building on these strengths to enhance value, drive economic growth and create opportunities in the next 25 years and beyond.

Sincerely,



Stephen A. Schwarzman
Chairman, Chief Executive Officer
and Co-Founder

IN MEMORIAM

We are saddened by the loss of three of our colleagues during 2010.



Arthur B. Newman

A Blackstone partner, founder of our Restructuring Group and a highly respected advisor on corporate reorganization, Art passed away in December. Art worked on many of the world's largest and most complex corporate restructuring and bankruptcy cases during his distinguished career. Under his leadership since 1991, the Restructuring Group became recognized as one of the leading restructuring practices in the world. He was also a long-time member of our Executive Committee. Art had the unique facility to deal with difficult business situations while inspiring confidence in his judgment and his proposed solutions, and was viewed by one and all as a wise, charming, fair and thoughtful man.

Ravi Ramanan

Executive Director of the Private Equity Portfolio Operations Group, Ravi passed away in August. Since joining Blackstone in 2007, Ravi led a number of initiatives to improve operational performance and productivity at many portfolio companies. He was a talented individual whose passion for excellence will be deeply missed.

Brian Nabatian

An Associate of the GSO Division, Brian passed away in May after a heroic battle with leukemia. Since joining GSO Capital Partners in 2005, Brian was a financial analyst who covered portfolio investments in the property, home building and building materials industries. A bright, dedicated and hardworking person, he will be remembered for his contributions, brilliant smile and "can-do" attitude.

BLACKSTONE FINANCIAL SECTION

38

Economic Net Income,
Net Fee Related Earnings from Operations,
Distributable Earnings and Operating Metrics

40

Our Business

46

Segment Economic Net Income and
Net Fee Related Earnings from Operations

48

Distributable Earnings

49

Report of Independent Registered Public Accounting Firm

50

Consolidated Statements of Financial Condition

51

Consolidated Statements of Operations

52


Consolidated Statements of
Changes in Partners' Capital

56

Consolidated Statements of Cash Flows

58

Notes to Consolidated Financial Statements



ECONOMIC NET INCOME, NET FEE RELATED EARNINGS FROM OPERATIONS, DISTRIBUTABLE EARNINGS AND OPERATING METRICS

Our Economic Net Income, Net Fee Related Earnings from Operations and Distributable Earnings for the years ended December 31, 2010 and 2009 were as follows:

(Dollars in Thousands)	Year Ended December 31,	
	2010	2009
Economic Net Income, Total Segments	\$1,580,770	\$723,763
Provision for Income Taxes	163,109	20,628
Economic Net Income, After Taxes	\$1,417,661	\$703,135
Net Fee Related Earnings from Operations	\$ 442,314	\$410,410
Distributable Earnings	\$ 701,784	\$478,972

(Dollars in Thousands)	As of December 31,	
	2010	2009
Fee-Earning Assets Under Management		
Private Equity	\$ 24,188,555	\$24,521,394
Real Estate	26,814,714	23,708,057
Credit and Marketable Alternatives	58,496,953	47,867,546
Total Fee-Earnings Assets Under Management	\$109,500,222	\$96,096,997
Assets Under Management		
Private Equity	\$ 29,319,136	\$24,758,992
Real Estate	33,165,124	20,391,334
Credit and Marketable Alternatives	65,639,660	53,032,802
Total Assets Under Management	\$128,123,920	\$98,183,128

(Dollars in Thousands)	Year Ended December 31,	
	2010	2009
Limited Partner Capital Invested		
Private Equity	\$1,653,493	\$1,541,974
Real Estate	4,072,527	884,151
Credit and Marketable Alternatives	1,407,993	721,401
Total Limited Partner Capital Invested	\$7,134,013	\$3,147,526

Blackstone uses Economic Net Income (“ENI”) as a key measure of value creation and as a benchmark of its performance. Additionally, Blackstone presents certain other key financial measures that, when presented in conjunction with comparable measures prepared in accordance with generally accepted

accounting principles in the United States of America (“GAAP”), are useful for investors as appropriate measures for evaluating its operating performance.

ECONOMIC NET INCOME

ENI represents segment net income excluding the impact of income taxes and initial public offering (“IPO”) and acquisition-related items, including charges associated with equity-based compensation, the amortization of intangibles and corporate actions including acquisitions. For segment reporting purposes, revenues and expenses are presented on a basis that deconsolidates the investment funds we manage. Total Segment ENI equals the aggregate of ENI for all segments. ENI is used by management primarily in making resource deployment and compensation decisions across Blackstone’s four segments.

NET FEE RELATED EARNINGS FROM OPERATIONS

Blackstone uses Net Fee Related Earnings from Operations as a key 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 Net Fee Related Earnings from Operations as a measure to assess whether recurring revenue from our businesses is sufficient to adequately cover all of our operating expenses and generate profits.

Net Fee Related Earnings from Operations 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), (b) other operating expenses and (c) cash taxes due on earnings from operations as calculated using a similar methodology as applied in calculating the current tax provision (benefit) for The Blackstone Group L.P.

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 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, 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 Total 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, (b) Realized Performance Fee Compensation, (c) Other Operating Expenses and (d) Cash Taxes and Payables Under the Tax Receivable Agreement.

Distributable Earnings is reconciled to Blackstone's Consolidated Statement of Operations. It is Blackstone's current intention that on an annual basis it will distribute to unitholders all of its Distributable Earnings in excess of amounts determined by its 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 distributions to its unitholders for any ensuing quarter.

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.

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

- (a) the fair value of the investments held by our carry funds plus the capital that we are entitled to call from investors in those funds pursuant to the terms of their capital commitments to those funds (plus the fair value of co-investments arranged by us that were made by limited partners of our funds in portfolio companies of such funds and on which we receive fees or a Carried Interest allocation);
- (b) the net asset value of our funds of hedge funds, hedge funds and our closed-end mutual funds;
- (c) the fair value of assets we manage pursuant to separately managed accounts; and
- (d) the amount of capital raised for our collateralized loan obligation ("CLO") vehicles.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Interests related to our funds of hedge funds and certain of our credit-oriented funds are generally subject to annual, semi-annual or quarterly withdrawal or redemption by investors 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 incentive fees. Our Fee-Earning Assets Under Management generally equal the sum of:

- (a) for our Blackstone Capital Partners ("BCP") and Blackstone Real Estate Partners ("BREP") funds where the investment period has not expired, the amount of capital commitments;
- (b) for our BCP and BREP funds where the investment period has expired, the remaining amount of invested capital;
- (c) for our real estate debt investment funds ("BREDS"), the remaining amount of invested capital;
- (d) for our credit-oriented carry funds, the amount of invested capital (which may be calculated to include leverage) or net asset value;
- (e) the invested capital of co-investments arranged by us that were made by limited partners of our funds in portfolio companies of such funds and on which we receive fees;
- (f) the net asset value of our funds of hedge funds, hedge funds (except our credit-oriented closed-end registered investment companies) and our closed-end mutual funds;
- (g) the fair value of assets we manage pursuant to separately managed accounts;
- (h) the gross amount of underlying assets of our CLOs at cost; and
- (i) the gross amount of assets (including leverage) for our credit-oriented closed-end 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.

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 or the remaining amount of invested capital at cost, depending on whether the investment period has or has not expired. 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 that were invested by our carry 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.

We manage our business using traditional financial measures and our key operating metrics since we believe that these metrics measure the productivity of our investment activities.

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 four business segments:

- **Private Equity.** We are a world leader in private equity investing, having managed five general private equity funds, as well as one specialized fund focusing on media and communications related investments, since we established this business in 1987. In January 2011 we closed on our seventh private equity fund. We are also in the process of raising an investment fund focused on clean technology investments. 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 with an assortment of real estate funds that are diversified geographically and across a variety of sectors. We launched our first real estate fund in 1994 and have managed six opportunistic real estate funds, two internationally focused real estate funds, a European focused real estate fund and a number of real estate debt investment funds. In addition, in November 2010, we commenced our management of the Bank of America Merrill Lynch Asia Assets. Our real estate funds have made significant investments in lodging, major urban office buildings and a variety of real estate operating companies. In addition, our debt investment funds target non-controlling real estate debt related investment opportunities in the public and private markets, primarily in the United States and Europe.
- **Credit and Marketable Alternatives.** Our credit and marketable alternatives segment is comprised of our management of funds of hedge funds, credit-oriented funds, CLO vehicles and publicly-traded closed-end mutual funds and registered investment companies. Our funds of hedge funds operation was organized in 1990 and has developed into a leading manager of institutional fund of hedge fund assets across a wide variety of strategies. Our credit-oriented funds and CLOs are managed by our subsidiary, GSO Capital Partners (“GSO”), a major participant in the leveraged finance market. GSO manages a variety of credit-oriented funds including senior credit-oriented funds, distressed debt funds, mezzanine funds and general credit-oriented funds. These products are intended to provide investors with greater levels of current income and for certain products, a greater level of liquidity.

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

We generate our 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 advisory services, restructuring and reorganization advisory 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. The composition of our revenues will vary based on market conditions and the cyclicity 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. Our funds initially record fund investments at cost and then such investments are subsequently recorded at fair value. 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

World equity and debt markets continued to move higher in 2010 as the economic recovery progressed, although the pace and magnitude of the recovery varied by region. In developing markets, economic growth was robust throughout the year, characterized by increasing levels of domestic consumption and higher employment. In the United States and other developed economies, improvement was more muted due to sustained high levels of unemployment. However, better-than-average growth in corporate earnings, improving economic data, and further fiscal and monetary stimulus helped drive a sustained increase in equities starting in the second half of the year.

Credit indices rose in 2010 as well, benefiting from strong corporate earnings as well as higher demand and liquidity. High yield credit spreads narrowed modestly, while LIBOR and Treasury rates remained at historically low levels. Average leveraged loan prices rose from 87% of par at the end of 2009 to 94% at year-end 2010.

In commercial real estate, the fundamental picture improved in 2010. In the office sector, occupancy appears to be rising in most markets due to a combination of the modest economic recovery coupled with historically low levels of new supply. Some markets, such as New York and London, are demonstrating increases in both occupancy and rents. In the hospitality sector, hotels are rebounding from the sharp decline in demand they suffered in the 2008–2009 period. Industry RevPAR (Revenue Per Available Room), an important hospitality industry metric, grew 9.1% in the fourth quarter, and experienced positive growth since March 2010, following nearly two years of declines.

Commodity prices materially increased in 2010, with precious metals and agricultural products rising particularly sharply. Many commodities finished 2010 at new all-time highs or multi-year highs. The U.S. dollar rose against each of the euro and pound sterling by 8% and 5%, respectively. Monetary policy has remained accommodative in the United States, although certain foreign governments have taken action to counter inflationary pressures or control budget deficits. The outlook for global monetary policy is uncertain.

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

SEGMENT REVIEW

Private Equity

Private Equity had full year revenues of \$828.4 million, compared with revenues of \$775.2 million for the full year 2009, reflecting an increase in Investment Income to \$168.6 million from \$70.2 million in 2009.

Private Equity had Realized Performance Fees and Realized Investment Income of \$172.2 million resulting from realizations in its BCP IV fund. BCP IV has a net realized internal rate of return of 52% since inception and has \$5.6 billion of carrying value remaining.

The net return for Blackstone's contributed Private Equity funds was 26.5% for the full year 2010 reflecting an improved operating environment and an increase in cash flows and operating results across the portfolio companies compared to the prior year. The net return for Blackstone's contributed Private Equity funds was 1.4% in the fourth quarter of 2010. As of December 31, 2010, the unrealized value and cumulative realized proceeds,

before carried interest, fees and expenses, of Blackstone's contributed Private Equity funds represented 1.5 times investors' original investments. Excluding funds which were still in their Investment Period, the value was 2.3 times investors' original investments.

Economic Net Income was \$485.5 million for the full year 2010, down from \$490.4 million for the full year 2009, a result of lower Transaction Fees and Performance Fees.

BCP V closed its investment period on January 7, 2011, thereby commencing the investment period for BCP VI. BCP VI, which is a \$14.7 billion fund as of that date, will begin recognizing fees on the fee-earning portion, which will be included in Fee-Earning Assets Under Management in the first quarter of 2011 and is not included in full year 2010 results. Fee-Earning Assets Under Management were down slightly to \$24.2 billion compared with \$24.5 billion for 2009 due to the realization or exit of investments, primarily in BCP IV.

Dry powder for Private Equity, which is inclusive of amounts related to BCP VI, was \$16.5 billion as of December 31, 2010. Limited Partner Capital Invested during the full year 2010 totaled \$1.7 billion, an increase from \$1.5 billion invested during the full year 2009. Blackstone had \$1.9 billion of Limited Partner Capital committed to new or existing deals made by the segment's Private Equity funds as of December 31, 2010.

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 Net Internal Rates of Return of our significant BCP funds:

Fund	Net Total Change in Carrying Value (Realized and Unrealized) ^(a)				
	Year Ended December 31,			Inception to Date	
	2010	2009	2008	Total	Realized ^(b)
BCP IV	30%	35%	-17%	40%	52%
BCP V	27%	1%	-35%	-1%	5%

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

(a) Net total change in carrying value (realized and unrealized) is after management fees, expenses and Carried Interest allocations.

(b) Includes partially realized investments. Investments are considered partially realized when realized proceeds, excluding current income (dividends, interest, etc.), are a material portion of invested capital.

The net internal rate of return for BCP IV for the year ended December 31, 2010 was 30% compared to 35% for the previous year. The net internal rate of return for BCP V for the year ended December 31, 2010 of 27% significantly improved from 1% in the previous year due to continued improvement in operating performance of its private investments driven by companies in various sectors, especially hospitality/leisure, retail/consumer and healthcare.

The following table presents the investment record of the private equity funds from inception through December 31, 2010 for funds with closed investment periods:

Fund (Investment Period) (Dollars in Millions)	Fully Invested Funds							
	Total Investments				Realized/Partially Realized Investments ^(a)			
	Total		Net IRR ^(c)	MOIC ^(d)	Total		Net IRR ^(c)	MOIC ^(d)
	Invested Capital	Carrying Value ^(b)			Invested Capital	Carrying Value ^{(b)(e)}		
BCP I (Oct 1987/Oct 1993)	\$ 679	\$ 1,742	19%	2.6	\$ 679	\$ 1,742	19%	2.6
BCP II (Oct 1993/Aug 1997)	1,292	3,253	32%	2.5	1,201	3,123	37%	2.6
BCP III (Aug 1997/Nov 2002)	4,026	8,219	13%	2.0	3,402	7,151	18%	2.1
BCOM (June 2000/Jun 2006)	2,132	2,933	8%	1.4	1,215	2,149	24%	1.8
BCP IV (Nov 2002/Dec 2005)	7,300	18,664	40%	2.6	5,120	14,987	52%	2.9

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

(a) Investments are considered partially realized when realized proceeds, excluding current income (dividends, interest, etc.), are a material portion of invested capital.

(b) Carrying value includes realized proceeds and unrealized fair value.

(c) Net Internal Rate of Return ("IRR") represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized value after management fees, expenses and Carried Interest.

(d) Multiple of Invested Capital ("MOIC") represents carrying value, before management fees, expenses and Carried Interest, divided by total invested capital.

(e) The Realized/Partially Realized Carrying Value includes remaining unrealized value of \$2.7 billion.

The following table presents the investment record of the private equity funds from inception through December 31, 2010 for funds with open investment periods:

Fund (Investment Period) (Dollars in Millions)	Funds in the Investment Period								
	Available Capital ^(b)	Total Investments				Realized/Partially Realized Investments ^(a)			
		Total		Net IRR ^(d)	MOIC ^(e)	Total		Net IRR ^(d)	MOIC ^(e)
		Invested Capital	Carrying Value ^(c)			Invested Capital	Carrying Value ^{(c)(f)}		
BCP V (Dec 2005/Jan 2011)	\$3,281	\$18,148	\$18,490	-1%	1.0	\$1,857	\$2,370	5%	1.3

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

(a) Investments are considered partially realized when realized proceeds, excluding current income (dividends, interest, etc.) are a material portion of invested capital.

(b) Available Capital represents total capital commitments adjusted for certain expenses and expired or callable capital, less invested capital, and includes \$1.8 billion committed to deals but not yet invested. The segment has \$832.8 million of Available Capital that has been reserved for add-on investments in funds that are fully invested.

(c) Carrying value includes realized proceeds and unrealized fair value.

(d) Net Internal Rate of Return ("IRR") represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized value after management fees, expenses and Carried Interest.

(e) Multiple of Invested Capital ("MOIC") represents carrying value, before management fees, expenses and Carried Interest, divided by total invested capital.

(f) The Realized/Partially Realized Carrying Value includes remaining unrealized value of \$739 million.

Real Estate

Real Estate had full year revenues of \$1.0 billion, compared with negative revenues of \$13.6 million for the full year 2009. Improved operating performance across hospitality and office segments led to a rise in carrying values in the real estate portfolios which drove an increase in Performance Fees and Investment Income.

The net return for Blackstone's contributed Real Estate carry funds was 81% for 2010, while the net returns for the Real Estate debt hedge funds was 18% for 2010. The net return for Blackstone's contributed Real Estate carry funds was 19% for the fourth quarter of 2010, while the net returns for the Real Estate debt hedge funds was 2.9% for the fourth quarter of 2010. As of December 31, 2010, the unrealized value and cumulative realized proceeds, before carried interest, fees and expenses, of the Real Estate segment's carry funds represented 1.4 times investors' original investment. Excluding funds which were still in their Investment Period, the value was 1.6 times investors' original investments.

ENI for the Real Estate segment was \$639.5 million for the full year 2010 compared to a loss of \$117.5 million for 2009.

Fee-Earning Assets Under Management were \$26.8 billion, compared with \$23.7 billion for 2009, reflecting the continued fundraising of Blackstone's Real Estate debt platform, which reached \$1.5 billion in Fee-Earning Assets Under Management, up 80% from the prior year, and the commencement of Blackstone's management of the Merrill Lynch Asia assets, which added \$2.1 billion in Fee-Earning Assets Under Management.

Dry powder for Real Estate was \$9.1 billion as of December 31, 2010. Limited Partner Capital Invested during 2010 was \$4.1 billion, up from \$884.2 million in 2009. Limited Partner Capital Invested during the fourth quarter of 2010 was \$2.3 billion, up from \$381.3 million during the fourth quarter of 2009. Blackstone's Real Estate segment's funds had committed \$332.2 million of Limited Partner Capital to new transactions which had not yet closed as of December 31, 2010. This active investment pace has resulted in the segment's BREP VI fund reaching approximately 70% invested or committed capital at

the end of 2010. Accordingly, Blackstone expects to commence fundraising for its next real estate fund later in 2011.

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 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 Net Internal Rates of Return of our significant real estate funds:

Fund	Net Total Change in Carrying Value (Realized and Unrealized) ^(a)				
	Year Ended December 31,			December 31, 2010 Inception to Date	
	2010	2009	2008	Total	Realized ^(b)
BREP IV	30%	-32%	-39%	16%	68%
BREP V	61%	-35%	-31%	7%	74%
BREP International II ^(c)	84%	-32%	-40%	-4%	3%
BREP International ^(c)	8%	9%	-33%	23%	31%
BREP VI	137%	-40%	-43%	6%	95%
BREP Europe III ^(c)	147%	N/A	N/A	27%	N/A
BSSF II ^(d)	21%	23%	N/A	23%	42%
BSSF I ^(d)	15%	21%	-9%	13%	N/A
CMBS ^(d)	20%	17%	N/A	21%	N/A

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

- (a) Net total change in carrying value (realized and unrealized) is after management fees, expenses and performance fee allocations.
(b) Includes partially realized investments. Investments are considered partially realized when distributed proceeds, excluding current income (dividends, interest, etc.), are a material portion of invested capital.
(c) Euro based net internal rates of return.
(d) Represents returns for a partial year of investing, which commenced for the CMBS fund in May 2009, BSSF II in July 2009, and BSSF I in August 2008.

The real estate funds' net internal rates of return for the year ended December 31, 2010 were improved for all funds (except BSSF I, BSSF II and BREP International) compared to the year ended December 31, 2009. Generally, improvement in the fundamentals of the BREP funds' hotels, improving market conditions in the BREP funds' office investments and the opportunity to acquire certain property level debt below par, has led to increases in the valuation of our investments.

The following table presents the investment record of the real estate carry funds from inception through December 31, 2010 for funds with closed investment periods:

Fund (Investment Period) (Amounts in Millions)	Fully Invested Funds							
	Total Investments				Realized/Partially Realized Investments ^(a)			
	Invested Capital	Carrying Value ^(b)	Net IRR ^(c)	MOIC ^(d)	Invested Capital	Carrying Value ^{(b)(e)}	Net IRR ^(c)	MOIC ^(d)
Pre-BREP	\$ 141	\$ 345	33%	2.5	\$ 141	\$ 345	33%	2.5
BREP I (Sep 1994/Oct 1996)	\$ 467	\$1,328	40%	2.8	\$ 467	\$1,328	40%	2.8
BREP II (Oct 1996/Mar 1999)	\$1,219	\$2,525	19%	2.1	\$1,219	\$2,525	19%	2.1
BREP III (Apr 1999/Apr 2003)	\$1,415	\$3,328	21%	2.4	\$1,362	\$3,318	23%	2.4
BREP Int'l (Jan 2001/Sep 2005)	€ 658	€1,287	23%	2.0	€ 566	€1,236	31%	2.2
BREP IV (Apr 2003/Dec 2005)	\$2,737	\$3,979	16%	1.5	\$1,074	\$2,517	68%	2.3
BREP V (Dec 2005/Feb 2007)	\$5,515	\$7,067	7%	1.3	\$ 951	\$1,885	74%	2.0
BREP Int'l II (Sep 2005/Jun 2008)	€1,336	€1,270	-4%	1.0	€ 162	€ 193	3%	1.2

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

- (a) Investments are considered partially realized when distributed proceeds, excluding current income (rent, dividends, interest, etc.), are a material portion of invested capital.
(b) Carrying value includes realized proceeds and unrealized fair value.
(c) Net Internal Rate of Return ("IRR") represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized fair value after management fees, expenses and Carried Interest.
(d) Multiple of Invested Capital ("MOIC") represents carrying value, before management fees, expenses and Carried Interest, divided by total invested capital.
(e) The Total Realized/Partially Realized Carrying Value includes remaining unrealized value of \$652.5 million and €143.4 million.

The following table presents the investment record of the real estate carry funds, excluding separately managed accounts, from inception through December 31, 2010 for funds with open investment periods:

Fund (Investment Period) (Amounts in Millions)	Funds in the Investment Period				MOIC ^(d)
	Total Investments				
	Available Capital ^(a)	Invested Capital	Carrying Value ^(b)	Net IRR ^(c)	
BREP VI (Feb 2007/Aug 2012)	\$3,319	\$7,708	\$9,487	6%	1.2
BREP Europe III (Jun 2008/Dec 2013)	€3,140	€ 91	€ 293	27%	3.2
BSSF II (Jul 2009/Aug 2017)	\$ 581	\$ 588	\$ 732	23%	1.2

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

- (a) Available Capital represents total capital commitments, adjusted for certain expenses and expired or callable capital, less invested capital, and includes \$314 million committed to deals but not yet invested. Additionally, the segment has \$775 million of Available Capital that has been reserved for add-on investments in funds that are fully invested.
- (b) Carrying value includes realized proceeds and unrealized fair value.
- (c) Net Internal Rate of Return ("IRR") represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized fair value after management fees, expenses and Carried Interest.
- (d) Multiple of Invested Capital ("MOIC") represents carrying value, before management fees, expenses and Carried Interest, divided by total invested capital.

CREDIT AND MARKETABLE ALTERNATIVES (CAMA)

CAMA segment revenues were up 34% to \$845.4 million for the full year 2010 compared with revenues of \$632.3 million for the full year 2009. The increase from 2009 was due to strong inflows across CAMA's funds and asset classes. Strong fund performance drove sharp increases in Performance Fees, which more than doubled to \$320.7 million, and an increase in Total Management Fees of 21% to \$471.9 million.

The net core funds composite returns for Blackstone's funds of hedge funds was 3.6% for the fourth quarter of 2010 and 8.5% for the full year 2010.

The net core funds returns in Blackstone's credit-oriented business were 5.7% for the credit-oriented special situations hedge funds, 5.8% for the GSO legacy mezzanine debt drawdown funds and 6.1% for the GSO distressed drawdown funds for the fourth quarter of 2010. For the full year 2010, the net core funds returns in Blackstone's credit-oriented business were 15.7% for the credit-oriented special situations hedge funds, 17.9% for the GSO legacy mezzanine debt drawdown funds and 35.9% for the GSO distressed drawdown funds.

ENI for the CAMA segment was also up 40% to \$372.0 million for the full year 2010 compared to \$265.2 million for the full year 2009 as the strong fund performance drove sharp increases in Management and Performance Fees for both the funds of hedge funds and credit-oriented businesses.

Fee-Earning Assets Under Management for the segment grew 22% to a record \$58.5 billion from \$47.9 billion in 2009. The increase from 2009 was principally due to net inflows and market appreciation across the segment and the April 1, 2010 acquisition of \$3.5 billion in Fee-Earning Assets Under Management from Allied Capital's Callidus unit.

As of December 31, 2010, 76% of the Fee-Earnings Assets Under Management in Blackstone's funds of hedge funds which were eligible to earn performance fees were above their respective high water marks. As of December 31, 2010, 96% of the Fee-Earning Assets Under Management in Blackstone's credit-oriented special situations hedge funds which were eligible to earn performance fees were above their respective high water marks.

Dry powder for CAMA was \$4.5 billion as of December 31, 2010. Limited Partner Capital Invested in certain carry credit-oriented funds during the full year 2010 totaled \$1.4 billion, up from \$721.4 million for the full year 2009.

Composite and Fund Returns. Composite and 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 composite and fund returns information reflected in this discussion and analysis is not indicative of the 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.

Composite/Fund	Average Annual Net Returns ^(a)			
	Periods Ended December 31, 2010			
	One Year	Three Year	Five Year	Historical
Funds of Hedge Funds,				
Core Funds Composite ^(b)	9%	–	5%	7%
Credit-Oriented Special				
Situations Hedge Funds ^(c)	16%	6%	8%	8%

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) The Core Funds Composite excludes Blackstone's funds of hedge funds that employ a long-biased commodity strategy, funds whose primary objective is to provide capital to hedge fund start-up firms and funds managed under non-discretionary advisory arrangements. The historical return is from January 1, 2000 and excludes fluctuations due to foreign currency exchange rates.
- (c) The Credit-Oriented Special Situations Hedge Funds returns represent the weighted-average return for the 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 Net Internal Rates of Return of our significant Credit and Marketable Alternatives credit-oriented drawdown funds:

Fund	Net Total Change in Carrying Value (Realized and Unrealized) ^(a)			
	Year Ended December 31,			Inception to Date
	2010	2009	2008	
GSO Mezzanine Debt				
Drawdown Funds ^(b)	18%	15%	6%	15%
GSO Distressed				
Drawdown Funds ^(c)	36%	4%	N/A	35%

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

- (a) Net total change in carrying value (realized and unrealized) is after management fees, expenses and performance fee allocations.
- (b) The GSO Mezzanine Debt Drawdown Funds returns represent the weighted-average return for the U.S. domestic and offshore funds included in this return. The inception to date return is from August 1, 2005, which is before Blackstone's acquisition of GSO in March 2008.
- (c) The GSO Distressed Drawdown Funds returns represent the weighted-average return for the U.S. domestic and offshore funds included in this return. The inception to date and 2009 annual returns are from September 2009, which is when the funds commenced investing.

The following table presents the investment record of the significant Credit and Marketable Alternatives credit-oriented drawdown funds from inception through December 31, 2010 for funds with open investment periods:

Fund (Investment Period) (Dollars in Millions)	Funds in the Investment Period								
	Total Investments				Realized/Partially Realized Investments ^(a)				
	Available Capital ^(b)	Total			Net IRR ^(d)	MOIC ^(e)	Total		MOIC ^(e)
		Invested Capital	Carrying Value ^(c)				Invested Capital	Carrying Value ^{(c)(f)}	
GSO Mezzanine Debt									
Drawdown Funds (Jul 2007/Jul 2012)	\$ 823	\$1,935	\$2,470	15%	1.3	\$971	\$1,341	1.4	
GSO Distressed Drawdown									
Funds (May 2009/May 2013)	2,379	1,006	1,254	35%	1.3	143	164	1.2	

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

- (a) Investments are considered partially realized when realized proceeds, excluding current income (dividends, interest, etc.) are a material portion of invested capital.
- (b) Available Capital represents total capital commitments adjusted for certain expenses and expired or callable capital, less invested capital.
- (c) Carrying value includes realized proceeds and unrealized fair value.
- (d) Net Internal Rate of Return ("IRR") represents the annualized inception to date IRR on total invested capital based on realized proceeds and unrealized value after management fees, expenses and Carried Interest.
- (e) Multiple of Invested Capital ("MOIC") represents carrying value, before management fees, expenses and Carried Interest, divided by total invested capital.
- (f) The Realized/Partially Realized Carrying Value includes remaining unrealized value of \$464.3 million.

Financial Advisory

Revenues were \$431.9 million for the full year 2010, an increase from \$397.6 million for the full year 2009. The increase in segment revenues was primarily driven by a nearly 300% increase in the fees earned by Blackstone's fund placement businesses, which reflected the improving fundraising environment. Blackstone's financial and strategic advisory business revenues increased, in a continuing difficult environment for transactions, up 5% in 2010. These increases were partially offset by a decrease in fees from Blackstone's restructuring and reorganization business from the record year in 2009, but was still strong enough to be the second best year ever for this business.

ENI was \$83.7 million for the full year 2010 compared to \$85.7 million for the full year 2009 reflecting the cyclically balanced attributes of the segment.

SEGMENT ECONOMIC NET INCOME AND NET FEE RELATED EARNINGS FROM OPERATIONS

The tables below detail Blackstone's Economic Net Income and Net Fee Related Earnings from Operations. Net Fee Related Earnings from Operations is a supplemental measure of after tax performance used to highlight earnings from operations excluding the income from and related profit sharing expenses of Blackstone's performance fees and investment income, except for interest income.

(Dollars in Thousands)	Private Equity	
	Year Ended December 31,	
	2010	2009
Revenues		
Management and Advisory Fees		
Base Management Fees	\$263,307	\$270,509
Advisory Fees		
Transaction and Other Fees, Net*	72,243	86,336
Management Fee Offsets**	(188)	
Total Management Fees	335,362	356,845
Performance Fees		
Realized	156,869	34,021
Unrealized	151,494	303,491
Total Performance Fees	308,363	337,512
Realized	15,332	36,968
Unrealized	153,288	33,269
Total Investment Income (Loss)	168,620	70,237
Interest Income and Dividend Revenue	14,044	7,756
Other	2,021	2,845
Total Revenues	828,410	775,195
Expenses		
Compensation and Benefits		
Compensation	179,345	181,266
Performance Fee Compensation		
Realized	32,627	741
Unrealized	21,320	20,307
Total Compensation and Benefits	233,292	202,314
Other Operating Expenses	109,589	82,471
Total Expenses	342,881	284,785
Economic Net Income	\$485,529	\$490,410
Net Fee Related Earnings from Operations	\$ 64,996	\$ 97,826

* Transaction and Other Fees, Net, are net of amounts, if any, shared with limited partners including, for Private Equity, broken deal expenses.

** Primarily placement fees.

Credit and Marketable Real Estate		Economic Net Income Alternatives		Financial Advisory		Recap, Total Segments	
Year Ended December 31,		Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
2010	2009	2010	2009	2010	2009	2010	2009
\$ 338,428	\$ 328,447	\$467,736	\$400,873	\$ -	\$ -	\$1,069,471	\$ 999,829
				426,140	390,718	426,140	390,718
59,914	25,838	5,229	2,866	362	-	137,748	115,040
(1,071)	(2,467)	(1,054)	(14,694)	-	-	(2,313)	(17,161)
397,271	351,818	471,911	389,045	426,502	390,718	1,631,046	1,488,426
40,288	(3,039)	164,506	43,282	-	-	361,663	74,264
256,971	(252,180)	156,161	114,556	-	-	564,626	165,867
297,259	(255,219)	320,667	157,838	-	-	926,289	240,131
11,251	6,164	19,518	(15,031)	814	1,443	46,915	29,544
318,979	(125,624)	28,833	96,016	534	219	501,634	3,880
330,230	(119,460)	48,351	80,985	1,348	1,662	548,549	33,424
11,173	6,030	4,907	3,452	5,972	5,254	36,096	22,492
(336)	3,261	(391)	1,025	(1,912)	(35)	(618)	7,096
1,035,597	(13,570)	845,445	632,345	431,910	397,599	3,141,362	1,791,569
183,177	158,115	218,643	198,117	277,949	232,359	859,114	769,857
15,844	3,506	79,845	20,854	-	-	128,316	25,101
122,864	(113,981)	84,462	67,493	-	-	228,646	(26,181)
321,885	47,640	382,950	286,464	277,949	232,359	1,216,076	768,777
74,189	56,325	90,466	80,661	70,272	79,572	344,516	299,029
396,074	103,965	473,416	367,125	348,221	311,931	1,560,592	1,067,806
\$ 639,523	\$(117,535)	\$372,029	\$265,220	\$ 83,689	\$ 85,668	\$1,580,770	\$ 723,763
\$ 146,878	\$ 135,187	\$157,290	\$ 99,646	\$ 73,150	\$ 77,751	\$ 442,314	\$ 410,410

DISTRIBUTABLE EARNINGS

The following table calculates Blackstone's Distributable Earnings. Distributable Earnings is a supplemental measure of performance to assess amounts available for distributions to Blackstone unitholders, including Blackstone personnel.

(Dollars in Thousands)	Year Ended December 31,	
	2010	2009
Fee Related Earnings		
Revenues		
Total Management and Advisory Fees ^(a)	\$1,631,046	\$1,488,426
Interest and Dividend Revenue ^(a)	36,096	22,492
Other ^(a)	(618)	7,096
Investment Income – Blackstone's Treasury Cash Management Strategies ^(b)	15,277	12,368
Total Revenues	1,681,801	1,530,382
Expenses		
Compensation and Benefits – Compensation ^(a)	859,114	769,857
Other Operating Expenses ^(a)	344,516	299,029
Cash Taxes ^(c)	35,857	51,086
Total Expenses	1,239,487	1,119,972
Net Fee Related Earnings from Operations	442,314	410,410
Performance Fees, Net of Compensation		
Performance Fees – Realized ^(a)	361,663	74,264
Compensation and Benefits – Performance Fee Compensation – Realized ^(a)	(128,316)	(25,104)
Total Performance Fees, Net of Compensation	233,347	49,160
Investment Income and Other		
Investment Income (Loss) – Realized ^(a)	46,915	29,544
Adjustment Related to Realized Investment Income – Blackstone's Treasury Cash Management Strategies ^(d)	(7,782)	(10,142)
Other Payables Including Payable Under Tax Receivable Agreement	(13,010)	–
Total Investment Income and Other	26,123	19,402
Distributable Earnings	\$ 701,784	\$ 478,972

(a) Represents the total segment amounts of the respective captions.

(b) Represents the inclusion of Investment Income from Blackstone's Treasury cash management strategies.

(c) Represents the provisions for and/or adjustments to income taxes that were calculated using a similar methodology applied in calculating the current provision for The Blackstone Group L.P.

(d) Represents the elimination of Realized Investment Income attributable to Blackstone's Treasury cash management strategies which is a component of Net Fee Related Earnings from Operations.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE GENERAL PARTNER AND
UNITHOLDERS OF THE BLACKSTONE GROUP L.P.:

We have audited the accompanying consolidated statements of financial condition of The Blackstone Group L.P. and subsidiaries (“Blackstone”) as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in partners’ capital, and cash flows for each of the three years in the period ended December 31, 2010. We also have audited Blackstone’s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Blackstone’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on Blackstone’s internal control over financial reporting based on our audits.

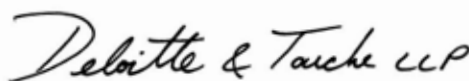
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Blackstone Group L.P. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Blackstone maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 2 to the consolidated financial statements, on January 1, 2010, Blackstone adopted guidance issued by the Financial Accounting Standards Board related to variable interest entities.



New York, New York
February 25, 2011

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in Thousands, Except Unit Data)	December 31, 2010	December 31, 2009
Assets		
Cash and Cash Equivalents	\$ 588,621	\$ 952,096
Cash Held by Blackstone Funds and Other (\$732,454)	790,399	86,084
Investments (\$8,192,327)	11,974,472	3,565,483
Accounts Receivable (\$41,148)	495,893	306,307
Reverse Repurchase Agreements	181,425	-
Due from Affiliates (\$62,227)	795,395	759,907
Intangible Assets, Net	779,311	919,477
Goodwill	1,703,602	1,703,602
Other Assets (\$19,925)	293,194	172,556
Deferred Tax Assets	1,242,293	943,512
Total Assets	\$18,844,605	\$9,409,024
Liabilities and Partners' Capital		
Loans Payable (\$6,154,179)	\$ 7,198,898	\$ 657,623
Due to Affiliates (\$307,279)	1,762,287	1,410,066
Accrued Compensation and Benefits	821,568	488,945
Securities Sold, Not Yet Purchased	116,688	357
Accounts Payable, Accrued Expenses and Other Liabilities (\$388,595)	691,807	308,500
Total Liabilities	10,591,248	2,865,491
Commitments and Contingencies		
Redeemable Non-Controlling Interests in Consolidated Entities	600,836	526,311
Partners' Capital		
Partners' Capital (common units: 416,092,022 issued and outstanding as of December 31, 2010; 319,939,772 issued and outstanding as of December 31, 2009)	3,888,211	3,376,707
Appropriated Partners' Capital	470,583	-
Accumulated Other Comprehensive Income	4,302	2,420
Non-Controlling Interests in Consolidated Entities	870,908	540,283
Non-Controlling Interests in Blackstone Holdings	2,418,517	2,097,812
Total Partners' Capital	7,652,521	6,017,222
Total Liabilities and Partners' Capital	\$18,844,605	\$9,409,024

Asset and liability amounts in parentheses represent the portion of the December 31, 2010 consolidated balance attributable to Blackstone Fund entities which are variable interest or voting interest entities.

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Thousands, Except Unit and Per Unit Data)	Year Ended December 31,		
	2010	2009	2008
Revenues			
Management and Advisory Fees	\$1,584,748	\$ 1,482,226	\$ 1,476,357
Performance Fees			
Realized	366,721	70,492	38,941
Unrealized	571,113	150,598	(1,286,261)
Total Performance Fees	937,834	221,090	(1,247,320)
Investment Income (Loss)			
Realized	29,157	44,320	(16,425)
Unrealized	532,004	(3,716)	(606,452)
Total Investment Income (Loss)	561,161	40,604	(622,877)
Interest and Dividend Revenue	36,218	22,680	30,879
Other	(619)	7,099	13,600
Total Revenues	3,119,342	1,773,699	(349,361)
Expenses			
Compensation and Benefits			
Compensation	3,253,226	3,778,686	4,062,238
Performance Fee Compensation			
Realized	128,316	25,102	4,997
Unrealized	228,647	(26,182)	(207,448)
Total Compensation and Benefits	3,610,189	3,777,606	3,859,787
General, Administrative and Other	466,358	443,573	440,776
Interest Expense	41,229	13,384	23,008
Fund Expenses	26,214	7,296	63,031
Total Expenses	4,143,990	4,241,859	4,386,602
Other Income			
Net Gains from Fund Investment Activities	501,994	176,694	(872,336)
Income (Loss) Before Provision (Benefit) for Taxes	(522,654)	(2,291,466)	(5,608,299)
Provision (Benefit) for Taxes	84,669	99,230	(14,145)
Net Income (Loss)	(607,323)	(2,390,696)	(5,594,154)
Net Income (Loss) Attributable to Redeemable			
Non-Controlling Interests in Consolidated Entities	84,837	131,097	(632,495)
Net Income (Loss) Attributable to Non-Controlling			
Interests in Consolidated Entities	346,312	(14,328)	(159,828)
Net Income (Loss) Attributable to Non-Controlling			
Interests in Blackstone Holdings	(668,444)	(1,792,174)	(3,638,799)
Net Income (Loss) Attributable to The Blackstone Group L.P.	\$ (370,028)	\$ (715,291)	\$(1,163,032)
Net Loss Per Common Unit, Basic and Diluted			
Common Units	\$ (1.02)	N/A	N/A
Common Units Entitled to Priority Distributions	N/A	\$ (2.46)	\$ (4.32)
Common Units Not Entitled to Priority Distributions	N/A	\$ (3.71)	\$ (3.06)
Weighted-Average Common Units Outstanding – Basic and Diluted			
Common Units	364,021,369	N/A	N/A
Common Units Entitled to Priority Distributions	N/A	285,163,954	266,876,031
Common Units Not Entitled to Priority Distributions	N/A	3,826,233	1,501,373
Revenues Earned from Affiliates			
Management and Advisory Fees	\$ 189,006	\$ 134,284	\$ 188,276

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' CAPITAL

(Dollars in Thousands, Except Unit Data)

Balance at December 31, 2007

Net Loss
 Currency Translation Adjustment
 Total Other Comprehensive Income (Loss)
 Less: Comprehensive Income (Loss) Attributable to Non-Controlling Interests
 Total Comprehensive Income (Loss) Attributable to The Blackstone Group L.P.
 Capital Contributions
 Capital Distributions
 Relinquished in Deconsolidation of Partnership
 Issuance of Blackstone Holdings Partnership Units for GSO Acquisition
 Purchase of Interests from Certain Non-Controlling Interest Holders
 Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders
 Equity-Based Compensation
 Net Delivery of Vested Common Units
 Repurchase of Common Units
 Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units
 Adjustment to Pre-IPO Reorganization Purchase Price
 Consolidation of Partnership
 Payable to Non-Controlling Interest Holders due to Consolidated Blackstone Funds in Liquidation
 Acquisition of Consolidated Blackstone Funds

Balance at December 31, 2008

Balance at December 31, 2008

Net Income (Loss)
 Currency Translation Adjustment
 Total Other Comprehensive Income (Loss)
 Less: Comprehensive Income (Loss) Attributable to Non-Controlling Interests
 Total Comprehensive Income (Loss) Attributable to The Blackstone Group L.P.
 Capital Contributions
 Capital Distributions
 Transfer of Non-Controlling Interests in Consolidated Entities
 Transfer Due to Reorganization
 Purchase of Interests from Certain Non-Controlling Interest Holders
 Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders
 Equity-Based Compensation
 Net Delivery of Vested Common Units
 Repurchase of Common Units and Blackstone Holdings Partnership Units
 Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units
 Loss Attributable to Consolidated Blackstone Funds in Liquidation

Balance at December 31, 2009

See notes to consolidated financial statements.

Common Units	Partners' Capital	Accumulated Other Comprehensive Income	Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Blackstone Holdings	Total Partners' Capital	Redeemable Non-Controlling Interests in Consolidated Entities	Comprehensive Income (Loss)
259,826,700	\$ 4,226,500	\$ 345	\$ 515,886	\$ 3,103,288	\$ 7,846,019	\$2,438,266	
-	(1,163,032)	-	(159,828)	(3,638,799)	(4,961,659)	(632,495)	\$(5,594,154)
-	-	(636)	(532)	-	(1,168)	-	(1,168)
-	-	-	-	-	-	-	(5,595,322)
-	-	-	-	-	-	-	(4,431,122)
-	-	-	-	-	-	-	<u>\$(1,164,200)</u>
-	-	-	76,884	-	76,884	317,884	
-	(319,897)	-	(128,217)	(410,104)	(858,218)	(749,233)	
-	-	-	-	-	-	(612,088)	
-	14,307	-	-	266,092	280,399	-	
-	(74,278)	-	-	(19,511)	(93,789)	-	
-	5,164	-	-	-	5,164	-	
-	818,076	-	-	2,473,236	3,291,312	-	
4,601,493	(26,525)	-	-	-	(26,525)	-	
(902,874)	(5,338)	-	-	-	(5,338)	-	
9,473,165	34,471	-	-	(34,471)	-	-	
-	-	-	-	82,028	82,028	-	
-	-	-	-	-	-	159,031	
-	-	-	-	-	-	(649,091)	
-	-	-	120,874	-	120,874	90,188	
272,998,484	\$ 3,509,448	\$ (291)	\$ 425,067	\$ 1,821,759	\$ 5,755,983	\$ 362,462	
272,998,484	\$ 3,509,448	\$ (291)	\$ 425,067	\$ 1,821,759	\$ 5,755,983	\$ 362,462	
-	(715,291)	-	(14,328)	(1,792,174)	(2,521,793)	131,097	\$(2,390,696)
-	-	2,711	-	-	2,711	-	2,711
-	-	-	-	-	-	-	(2,387,985)
-	-	-	-	-	-	-	(1,675,405)
-	-	-	-	-	-	-	<u>\$ (712,580)</u>
-	-	-	61,862	549	62,411	138,255	
-	(260,629)	-	(34,806)	(1)	(295,436)	(63,349)	
-	-	-	1,991	(1,991)	-	-	
-	-	-	100,497	-	100,497	-	
-	(10,020)	-	-	(13)	(10,033)	-	
-	21,447	-	-	-	21,447	-	
-	777,986	-	-	2,180,134	2,958,120	-	
3,117,774	(28,974)	-	-	-	(28,974)	-	
(4,375,094)	(27,008)	-	-	(703)	(27,711)	-	
48,198,608	109,748	-	-	(109,748)	-	-	
-	-	-	-	-	-	(42,154)	
319,939,772	\$ 3,376,707	\$2,420	\$ 540,283	\$ 2,097,812	\$ 6,017,222	\$ 526,311	

continued

CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' CAPITAL

(Dollars in Thousands, Except Unit Data)

	Common Units
Balance at December 31, 2009	319,939,772
Transition and Acquisition Adjustments Relating to Consolidation of CLO Entities	-
Net Income (Loss)	-
Currency Translation Adjustment	-
Total Other Comprehensive Income (Loss)	-
Less: Comprehensive (Income) Loss Attributable to Non-Controlling Interests	-
Total Comprehensive Income (Loss) Attributable to The Blackstone Group L.P.	-
Reclassification of Capital Due to Non-Controlling Interest Holders	-
Capital Contributions	-
Capital Distributions	-
Transfer of Non-Controlling Interests in Consolidated Entities	-
Purchase of Interests from Certain Non-Controlling Interest Holders	-
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders	-
Equity-Based Compensation	-
Relinquished in Deconsolidation of Partnership	-
Net Delivery of Vested Common Units	6,929,888
Repurchase of Common Units and Blackstone Holdings Partnership Units	(84,888)
Change in The Blackstone Group L.P.'s Ownership Interest	-
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	85,608,055
Issuance of Common Units to Pátria	3,699,195
Balance at December 31, 2010	416,092,022

See notes to consolidated financial statements.

Partners' Capital	Appropriated Partners' Capital	Accumulated Other Comprehensive Income	Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Blackstone Holdings	Total Partners' Capital	Redeemable Non-Controlling Interests in Consolidated Entities	Comprehensive Income (Loss)
\$3,376,707	\$ -	\$2,420	\$540,283	\$2,097,812	\$6,017,222	\$ 526,311	
-	406,858	-	58	-	406,916	-	
(370,028)	79,220	-	267,092	(668,444)	(692,160)	84,837	\$(607,323)
-	(15,495)	1,882	-	-	(13,613)	-	(13,613)
-	-	-	-	-	-	-	(620,936)
-	-	-	-	-	-	-	(252,790)
-	-	-	-	-	-	-	\$(368,146)
-	-	-	(73,862)	-	(73,862)	-	
-	-	-	196,481	-	196,481	98,908	
(210,395)	-	-	(37,147)	(388,994)	(636,536)	(104,823)	
-	-	-	(21,997)	21,997	-	-	
(573)	-	-	-	-	(573)	-	
67,893	-	-	-	-	67,893	-	
769,818	-	-	-	1,588,926	2,358,744	-	
-	-	-	-	-	-	(4,397)	
(23,943)	-	-	-	-	(23,943)	-	
(1,198)	-	-	-	(13)	(1,211)	-	
(19,346)	-	-	-	19,346	-	-	
252,113	-	-	-	(252,113)	-	-	
47,163	-	-	-	-	47,163	-	
\$3,888,211	\$470,583	\$4,302	\$870,908	\$2,418,517	\$7,652,521	\$ 600,836	

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)	Year Ended December 31,		
	2010	2009	2008
Operating Activities			
Net Income (Loss)	\$ (607,323)	\$(2,390,696)	\$(5,594,154)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Blackstone Funds Related:			
Unrealized Depreciation (Appreciation) on Investments Allocable to Non-Controlling Interests in Consolidated Entities	(720,716)	(267,433)	907,425
Net Realized (Gains) Losses on Investments	(337,932)	135,243	164,726
Changes in Unrealized (Gains) Losses on Investments Allocable to Blackstone Group	(460,450)	15,978	624,061
Unrealized Depreciation on Hedge Activities	23,852	(6,975)	-
Non-Cash Performance Fees	(379,156)	(269,152)	1,086,058
Non-Cash Performance Fee Compensation	356,962	(1,079)	(202,451)
Equity-Based Compensation Expense	2,440,148	3,048,108	3,302,617
Amortization of Intangibles	162,051	158,048	153,237
Other Non-Cash Amounts Included in Net Income	20,591	25,243	19,688
Cash Flows Due to Changes in Operating Assets and Liabilities:			
Cash Held by Blackstone Funds and Other	(447,084)	821,240	(743,628)
Cash Relinquished with Deconsolidation of Partnership	(4,398)	-	(1,092)
Accounts Receivable	(108,162)	35,050	45,281
Reverse Repurchase Agreements	(181,425)	-	-
Due from Affiliates	(68,761)	467,449	(186,121)
Other Assets	(46,606)	91,397	732,192
Accrued Compensation and Benefits	(101,377)	(94,931)	133,916
Securities Sold, Not Yet Purchased	114,683	(699)	(871,592)
Accounts Payable, Accrued Expenses and Other Liabilities	75,207	(987,241)	796,897
Due to Affiliates	3,286	(261,685)	182,090
Short Term Investments Purchased	(2,246,082)	(1,196,636)	-
Cash Proceeds from Sale of Investments	1,930,489	643,348	-
Blackstone Funds Related:			
Investments Purchased	(4,411,114)	(418,608)	(9,202,479)
Cash Proceeds from Sale or Pay Down of Investments	4,621,432	865,540	10,543,764
Net Cash Provided by (Used in) Operating Activities	(371,885)	411,509	1,890,435
Investing Activities			
Purchase of Furniture, Equipment and Leasehold Improvements	(54,160)	(23,627)	(50,113)
Cash Paid for Acquisitions, Net of Cash Acquired	(21,886)	-	(336,571)
Changes in Restricted Cash	(143)	4,801	5,004
Net Cash Used in Investing Activities	(76,189)	(18,826)	(381,680)
Financing Activities			
Distributions to Non-Controlling Interest Holders in Consolidated Entities	(113,872)	(92,531)	(2,124,621)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	262,006	205,558	520,494

See notes to consolidated financial statements.

continued

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)	Year Ended December 31,		
	2010	2009	2008
Purchase of Interests from Certain Non-Controlling Interest Holders	\$ (573)	\$ (10,033)	\$ (109,834)
Net Settlement of Vested Common Units and Repurchase of Common and Holdings Units	(25,154)	(56,685)	(31,863)
Proceeds from Loans Payable	415,828	593,989	1,172,236
Repayment of Loans Payable	(43,266)	(323,993)	(980,162)
Distributions to Unitholders	(599,390)	(260,629)	(319,897)
Blackstone Funds Related:			
Proceeds from Loans Payable	392,071	-	-
Repayment of Loans Payable	(203,026)	-	-
Net Cash Provided by (Used in) Financing Activities	84,624	55,676	(1,873,647)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(25)	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	(363,475)	448,359	(364,892)
Cash and Cash Equivalents, Beginning of Period	952,096	503,737	868,629
Cash and Cash Equivalents, End of Period	\$ 588,621	\$ 952,096	\$ 503,737
Supplemental Disclosure of Cash Flows Information			
Payments for Interest	\$ 3,554	\$ 5,097	\$ 22,038
Payments for Income Taxes	\$ 57,672	\$ 52,035	\$ 46,880
Supplemental Disclosure of Non-Cash Investing and Financing Activities			
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	\$ 16,670	\$ 6,261	\$ -
Net Assets Related to the Consolidation of CLO Vehicles	\$ 406,916	\$ -	\$ -
Reclassification of Capital Due to Non-Controlling Interest Holders	\$ (73,862)	\$ -	\$ -
Transfer Due to Reorganization	\$ -	\$ 100,497	\$ -
In-kind Redemption of Capital	\$ (28,098)	\$ (907)	\$ -
In-kind Contribution of Capital	\$ 54,289	\$ 907	\$ -
Notes Issuance Costs	\$ 2,000	\$ 4,761	\$ -
Transfer of Interests to Non-Controlling Interest Holders	\$ (21,996)	\$ 1,991	\$ -
Change in The Blackstone Group L.P.'s Ownership Interest	\$ (19,346)	\$ -	\$ -
Net Settlement of Vested Common Units	\$ 198,739	\$ 199,447	\$ 170,626
Conversion of Blackstone Holdings Units to Common Units	\$ 252,113	\$ 109,748	\$ 34,471
Reorganization of the Partnership			
Accounts Payable, Accrued Expenses and Other Liabilities	\$ -	\$ -	\$ (82,028)
Non-Controlling Interests in Consolidated Entities	\$ -	\$ -	\$ 82,028
Exchange of Founders' and Non-Controlling Interest Holders' Interests in Blackstone Holdings:			
Deferred Tax Asset	\$(351,183)	\$(142,982)	\$ (34,427)
Due to Affiliates	\$ 283,290	\$ 121,535	\$ 29,263
Partners' Capital	\$ 67,893	\$ 21,447	\$ 5,164
Units Issued Related to Acquisitions	\$ 47,163	\$ -	\$ 280,400

See notes to consolidated financial statements.

NOTES TO 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, funds of hedge funds, credit-oriented funds, collateralized loan obligation (“CLO”) vehicles separately managed accounts and publicly traded closed-end mutual funds and registered investment companies (collectively referred to as the “Blackstone Funds”). Blackstone also provides various financial advisory services, including financial advisory, restructuring and reorganization advisory and fund placement services. Blackstone’s business is organized into four segments: private equity; real estate; credit and marketable alternatives; 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”). On June 18, 2007, in preparation for an initial public offering (“IPO”), the predecessor owners (“Predecessor Owners”) of the Blackstone business completed a reorganization (the “Reorganization”) whereby, with certain limited exceptions, the operating entities of the predecessor organization and the intellectual property rights associated with the Blackstone name were contributed (“Contributed Businesses”) to five holding partnerships (Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and Blackstone Holdings V L.P.) either directly or indirectly via a sale to certain wholly-owned subsidiaries of the Partnership and then a contribution to the Holding Partnerships. The Partnership, through its wholly-owned subsidiaries, is the sole general partner in each of these Holding Partnerships. The reorganization was accounted for as an exchange of entities under common control for the component of interests contributed by the Founders and the other senior managing directors (collectively, the “Control Group”) and as an acquisition of

non-controlling interests using the purchase method of accounting for all the predecessor owners other than the Control Group.

On January 1, 2009, the number of Holding Partnerships was reduced from five to four through the transfer of assets and liabilities of Blackstone Holdings III L.P. to Blackstone Holdings IV L.P. In connection therewith, Blackstone Holdings IV L.P. was renamed Blackstone Holdings III L.P. and Blackstone Holdings V L.P. was renamed Blackstone Holdings IV L.P. Blackstone Holdings refers to the five holding partnerships prior to the January 2009 reorganization and the four holding partnerships subsequent to the January 2009 reorganization.

Generally, holders of the limited partner interests in the four Holding Partnerships may, up to 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.

Initial Public Offering

On June 27, 2007, the Partnership completed an initial public offering (“IPO”) of its Common Units representing limited partner interests in the Partnership. Upon the completion of the IPO, public investors indirectly owned approximately 14.1% of the equity in Blackstone. Concurrently with the IPO, the Partnership completed the sale of non-voting common units, representing approximately 9.3% of the equity in Blackstone, to Beijing Wonderful Investments, an investment vehicle subsequently transferred to China Investment Corporation. On October 28, 2008, the agreement with Beijing Wonderful Investments was amended whereby it, and certain of its affiliates, are restricted in the future from engaging in the purchase of Blackstone common units that would result in its aggregate beneficial ownership in Blackstone on a fully-diluted (as-converted) basis exceeding 12.5%, an increase from 10% at the date of the IPO. In addition, Blackstone common units owned by Beijing Wonderful Investments or its affiliates in excess of 10% aggregate beneficial ownership in Blackstone on a fully-diluted (as-converted) basis are not subject to any restrictions on transfer but are non-voting while held by Beijing Wonderful Investments or its affiliates.

The Partnership contributed the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to its wholly-owned subsidiaries, which in turn used these proceeds to (a) purchase interests in the Contributed Businesses from the predecessor owners (which interests were then contributed to Blackstone Holdings in exchange for newly-issued Blackstone Holdings Partnership Units) and (b) purchase additional newly-issued Blackstone Holdings Partnership Units from Blackstone Holdings.

Significant Transactions

On March 3, 2008, the Partnership acquired GSO Capital Partners LP and certain of its affiliates (“GSO”). GSO is an alternative asset manager specializing in the credit markets. GSO manages various multi-strategy credit hedge funds, mezzanine funds, senior debt funds, separately managed accounts and various CLOs.

On April 1, 2010 and July 20, 2010, the Partnership, through GSO, completed the acquisition of management agreements

relating to nine CLO vehicles previously managed by Callidus Capital Management LLC.

On October 1, 2010, the Partnership purchased a non-controlling 40% equity interest in Pátria Investments Limited and Pátria Investimentos Ltda (collectively, "Pátria"). Pátria is a Latin American alternative asset manager and advisory firm.

On September 15, 2010, Blackstone Holdings Finance Co. L.L.C., an indirect subsidiary of the Partnership, issued \$400 million of senior notes due March 15, 2021. The Notes, which were issued at a discount, have an interest rate of 5.875% per annum.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Subsequent to the Reorganization, the 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 Consolidated Statements of Cash Flows.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation as follows:

- Beginning in 2010, Blackstone elected to separately present performance fee unrealized and realized compensation expense as an Adjustment to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities in the Consolidated Statements of Cash Flows. Previously, amounts were included in Cash Flows Due to Changes in Operating Assets and Liabilities within Due to Affiliates, Due from Affiliates and/or Accrued Compensation and Benefits. The reclassification has no impact on Net Cash Provided by Operating Activities.
- As of September 30, 2010, Blackstone elected to separately present Securities Sold, Not Yet Purchased in the Consolidated Statements of Financial Condition. Previously, these amounts were included in Accounts Payable, Accrued Expenses and Other Liabilities. The reclassification has no impact on Total Liabilities.

Subsequent to the issuance of Blackstone's second quarter 2010 Form 10-Q, Blackstone determined that it should have presented the amount of Comprehensive Income Attributable to Non-Controlling Interests and Comprehensive Income Attributable to The Blackstone Group LP. in its Consolidated Statements of Changes in Partners' Capital. The affected periods include each of the two years in the period ended December 31,

2009. The accompanying Consolidated Statements of Changes in Partners' Capital for the years ended December 31, 2009 and 2008 have been corrected to include the required information and Blackstone believes this correction is not material to the consolidated financial statements taken as a whole.

Use of Estimates

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Management believes that estimates utilized in the preparation of the consolidated financial statements are prudent and reasonable and that it has made all necessary adjustments (consisting of only normal recurring items) so that the consolidated financial statements are presented fairly. Actual results could differ from those estimates and such differences could be material.

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 variable interest entity 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 variable interest entity. The revised consolidation guidance requires an analysis to (a) determine 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 (e.g., management and performance related fees), would give it a controlling financial interest. Performance of that analysis requires the exercise of judgment. Where the variable interest entities have qualified for the deferral of the revised consolidation guidance as discussed in "Recent Accounting Developments," the analysis is based on previous consolidation guidance. This guidance requires an analysis to (a) determine 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 (e.g., 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 continuously. 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.

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

Business Combinations

For business combinations transacted prior to January 1, 2009, the Partnership has accounted for acquisitions using the purchase method of accounting, under which the purchase price of the acquisition is allocated to the assets acquired and liabilities assumed using the fair values determined by management as of the acquisition date.

For business combinations transacted after January 1, 2009, the Partnership accounted for such combinations by recognizing the full fair value of assets, liabilities, contingencies and contingent consideration obtained in the transaction at the acquisition date. Transaction costs have been expensed as incurred.

Revenue Recognition

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other.

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

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, invested capital or, in some cases, a fixed fee. Base management fees are based on contractual terms specified in the underlying investment advisory agreements.

Transaction and other fees (including monitoring fees) are fees charged directly to funds and portfolio companies. The investment advisory agreements generally require that the investment advisor 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 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 merger, acquisition, restructuring and divestiture activities 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 Consolidated Statements of Financial Condition.

Performance Fees — Performance fees earned on the performance of Blackstone's hedge fund structures 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 performance fees charged directly to investors in Blackstone's offshore hedge funds as of the reporting date are recorded within Due from Affiliates in the Consolidated Statements of Financial Condition. Performance fees arising on Blackstone's onshore hedge funds are allocated to the general partner. Accrued but unpaid performance fees on onshore funds as of the reporting date are reflected in Investments in the Consolidated Statements of Financial Condition.

In certain fund structures, specifically in private equity, real estate and certain credit-oriented 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 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. Performance fees earned on hedge fund structures are realized at the end of each fund's measurement period.

Carried Interest is subject to clawback to the extent that the Carried Interest actually distributed to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received performance fees, 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. Generally, the actual clawback liability does not become realized until the end of a fund's life or one year after a realized loss is incurred, depending on the fund.

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, from its non-consolidated funds. 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 comprises primarily foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

Fair Value of Financial Instruments

GAAP establishes a hierarchal 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 fund of hedge funds 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-oriented funds, distressed debt and non-investment grade residual interests in securitizations, collateralized loan obligations, certain over the counter derivatives where the fair value is based on unobservable inputs and certain funds of hedge funds which 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.

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.

In certain cases, debt 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, market transactions in comparable investments and various relationships between investments.

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 or certain funds of hedge funds. The valuation technique for each of these investments is described below:

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 (e.g., 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. Private equity investments may also be valued at cost for a period of time after an acquisition as the best indicator of fair value.

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 (e.g., 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. Additionally, where applicable, projected distributable cash flow through debt maturity will also be considered in support of the investment's carrying value.

Funds of Hedge Funds — Blackstone Funds' direct investments in funds of hedge funds ("Investee Funds") are valued at net asset value ("NAV") per share of the Investee Fund. If the Partnership determines, based on its own due diligence and investment procedures, that NAV per share does not represent fair value, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with its valuation policies.

Credit-Oriented Investments — The fair values of credit-oriented 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.

Investments, at Fair Value

The Blackstone Funds are accounted for as investment companies under the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide, Investment Companies, 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 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 from Fund Investment Activities in the 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 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 and certain investments in private debt and equity securities that otherwise would not have been carried at fair value with gains and losses recorded in net income. Fair valuing these investments is consistent with how the Partnership accounts for its other principal investments. Loans extended to third parties are recorded within Accounts Receivable within the Consolidated Statements of Financial Condition. Debt and equity 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-oriented and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Consolidated Statements of Operations. Interest income on interest bearing loans and receivables and debt securities 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 certain CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of revised variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as of April 1, 2010 and July 20, 2010, as a result of the acquisitions of CLO management contracts as described in Note 3. "Acquisitions, Goodwill and Intangible Assets". 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 within the Consolidated Statement of Changes in Partners' Capital. Assets of the consolidated CLOs are presented within Investments within the 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-oriented investments. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption are presented within Net Gains from Fund Investment Activities and are attributable to The Blackstone Group L.P., Non-Controlling Interests in Blackstone Holdings and Non-Controlling Interests in Consolidated Entities in the Consolidated Statements of Operations. Amounts attributable to Non-Controlling Interests in Consolidated Entities have a corresponding adjustment to Appropriated Partners' Capital.

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

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

Equity Method Investments

Investments where 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 Consolidated Statements of Operations. The carrying amounts of equity method investments are reflected in Investments in the Consolidated Statements of Financial Condition. As the underlying investments of the Partnership's equity method investments are reported at fair value, the carrying value of the Partnership's equity method investments are at fair value.

Cash and Cash Equivalents

Cash and cash equivalents represents cash on hand, cash held in banks and liquid investments with original maturities of three months or less. Interest income from cash and cash equivalents is recorded in Interest and Dividend Revenue in the Consolidated Statements of Operations.

Cash Held By Blackstone Funds and Other

Cash held by Blackstone Funds and Other represents cash and cash equivalents held by consolidated Blackstone Funds and other consolidated entities. Such amounts are not available to fund the general liquidity needs of Blackstone.

Accounts Receivable

Accounts Receivable includes management fees receivable from limited partners, receivables from underlying funds in the fund of hedge funds business, placement and advisory fees

receivables, and loans extended to unaffiliated third parties. Accounts Receivable, excluding those for which the fair value option has been elected, are assessed periodically for collectibility. Amounts determined to be uncollectible are charged directly to General, Administrative and Other Expenses in the Consolidated Statements of Operations.

Intangibles and Goodwill

Blackstone's intangible assets consist of contractual rights to earn future fee income, including management and advisory fees and Carried Interest from its Carry Funds. Identifiable finite-lived intangible assets are amortized on a straight line basis over their estimated useful lives, ranging from 4 to 20 years, reflecting the contractual lives of such funds. Amortization expense is included within General, Administrative and Other in the accompanying Consolidated Statements of Operations. The Partnership does not hold any indefinite-lived intangible assets.

Goodwill comprises goodwill arising from the Reorganization of the Partnership in 2007 and the acquisition of GSO in 2008.

Intangible assets and goodwill are reviewed for impairment at least annually, and more frequently if circumstances indicate impairment may have occurred.

Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements consist primarily of leasehold improvements, furniture, fixtures and equipment, computer hardware and software and are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight line method over the assets' estimated useful economic lives, which for leasehold improvements are the lesser of the lease terms or the life of the asset, generally fifteen years, and three to seven years for other fixed assets. The Partnership evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Foreign Currency

In the normal course of business, the Partnership may enter into transactions not denominated in United States dollars. Foreign exchange gains and losses arising on such transactions are recorded as Other in the Consolidated Statements of Operations. In addition, the Partnership consolidates a number of entities that have a non-U.S. dollar functional currency. Non-U.S. dollar denominated assets and liabilities are translated to U.S. dollars at the exchange rate prevailing at the reporting date and income, expenses, gains and losses are translated at the prevailing exchange rate on the dates that they were recorded. Cumulative translation adjustments arising from the translation of non-U.S. dollar denominated operations are recorded in Other Comprehensive Income.

Comprehensive Income

Comprehensive Income consists of Net Income and Other Comprehensive Income. The Partnership's Other Comprehensive Income is comprised of foreign currency cumulative translation adjustments.

Non-Controlling Interests in Consolidated Entities

Non-Controlling Interests in Consolidated Entities represent the component of Partners' Capital in consolidated entities held by third party investors. Such interests are adjusted for general partner allocations and by subscriptions and redemptions in funds of hedge funds and certain credit-oriented funds which occur during the reporting period. Non-controlling interests related to funds of hedge funds and certain other credit-oriented 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-oriented 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 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 in the 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 Consolidated Statements of Financial Condition as Non-Controlling Interests in Consolidated Entities.

Compensation and Benefits

Compensation and Benefits – Compensation – Compensation and benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees, including senior managing directors, and (b) equity-based compensation associated with the grants of equity-based awards to employees, including senior managing directors.

Equity-Based Compensation – Compensation cost relating to the issuance of share-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 re-measured at the end of each reporting period.

Compensation and Benefits – Performance Fee – Performance fee compensation and benefits consists of Carried Interest and performance fee allocations to employees, including senior managing directors, participating in certain profit sharing initiatives. Such compensation expense is subject to both positive and negative adjustments. Unlike Carried Interest and performance fees, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis.

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 is reflected in the consolidated financial statements.

Income taxes are accounted for using the 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 currently enacted tax rates. 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 Consolidated Statements of Financial Position.

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. If, based on this analysis, the Partnership determines that uncertainties in tax positions exist, a reserve is established. Blackstone recognizes accrued interest and penalties related to uncertain tax positions in General, Administrative, and Other expenses within the Consolidated Statements of Operations.

Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining tax expense and in evaluating tax positions, including evaluating uncertainties under GAAP. Blackstone reviews its tax positions quarterly and adjusts its tax balances as new information becomes available.

Net Income (Loss) Per Common Unit

Basic Income (Loss) Per Common Unit is calculated by dividing Net Income (Loss) Attributable to the Blackstone Group L.P. by the weighted-average number of common units and unvested participating common units outstanding for the period. Diluted Income (Loss) Per Common Unit reflects the assumed conversion of all dilutive securities. Diluted Income (Loss) Per Common Unit excludes the anti-dilutive effect of unvested deferred restricted common units and Blackstone Holdings Partnership Units.

Basic Income (Loss) Per Common Unit for comparative periods has been calculated using the two class method, which requires an entity to include unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents as a separate class of securities in such calculation. Prior to December 31, 2009, certain common unit holders were entitled to priority distributions. Basic and Diluted Net Income (Loss) Per Common Unit – Common Units Entitled to Priority Distributions and Common Units Not Entitled Priority Distributions for 2009 and 2008 is calculated by dividing total undistributed loss allocated to common unitholders entitled to

priority distributions and not entitled to priority distributions by the weighted-average number of common units entitled to priority distributions, including unvested participating common units due to their equivalent distribution rights, and common units not entitled to priority distributions, respectively. Diluted Net Income (Loss) Per Common Unit excludes the anti-dilutive effect of unvested deferred restricted common units and Blackstone Holdings Partnership Units. As a result of the expiration on December 31, 2009 of the distribution priority previously accorded to certain holders of Blackstone common units, the Partnership no longer has two classes of equity, resulting in the calculation of Basic and Diluted Net Income (Loss) Per Common Unit as noted above for the current reporting period.

Repurchase and Reverse Repurchase Agreements

Securities purchased under agreement to resell (“reverse repurchase agreements”) and securities sold under agreements to repurchase (“repurchase agreements”), comprising primarily 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 Consolidated Statements of Financial Condition at their contractual amounts and include accrued interest. Repurchase Agreements are included in Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition.

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 customer 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 owed to counterparties to collateralize repurchase agreements. Financial instruments pledged that can be repledged, delivered or otherwise used by the counterparty are recorded in Investments on the Consolidated Statements of Financial Condition.

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 Consolidated Statements of Financial Condition.

Derivative Instruments

The Partnership recognizes all derivatives as assets or liabilities on its 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 (“free standing 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 the same caption in the Consolidated Statements of Operations as the hedged item. 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. For free standing derivative contracts, the Partnership presents changes in fair value 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. On a monthly basis, 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.

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

Recent Accounting Developments

On January 1, 2010, the Partnership adopted guidance issued by the Financial Accounting Standards Board (“FASB”) on issues related to variable interest entities (“VIEs”). The amendments significantly affect the overall consolidation analysis, changing the approach taken by companies in identifying which entities are VIEs and in determining which party is the primary beneficiary. The guidance requires continuous assessment of the reporting entity’s involvement with such VIEs. The revised guidance also enhances the disclosure requirements for a reporting entity’s involvement with VIEs, including presentation on the Consolidated Statements of Financial Condition of assets and liabilities of consolidated VIEs which meet the separate presentation criteria and disclosure of assets and liabilities recognized in the Consolidated Statements of Financial Condition and the maximum exposure to loss for those VIEs in which a reporting entity is determined to not be the primary beneficiary but in which it has a variable interest. The guidance provides a limited scope deferral for a reporting entity’s interest in an entity that meets all of the following conditions: (a) the entity has all the attributes of an investment company as defined under AICPA Audit and Accounting Guide, *Investment Companies*, or does not

have all the attributes of an investment company but is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the AICPA Audit and Accounting Guide, *Investment Companies*, (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 entity, asset-backed financing entity or an entity that was formerly considered a qualifying special-purpose entity. The reporting entity is required to perform a consolidation analysis for entities that qualify for the deferral in accordance with previously issued guidance on variable interest entities. Blackstone's involvement with its funds is such that all three of the above conditions are met with the exception of certain CLO vehicles which fail condition (c) above and certain funds in which leveraged employee interests in dedicated funds are financed by third parties with Blackstone acting as an intermediary which fail condition (b) above. Such employee funds are currently consolidated as it is concluded that Blackstone is the primary beneficiary based on its implicit interest. The incremental impact of the revised consolidation guidance resulted in the consolidation of certain CLO vehicles managed by Blackstone on January 1, 2010 which increased total assets and total liabilities in the Consolidated Statement of Financial Condition by \$3.7 billion and \$3.5 billion, respectively. The difference in fair value of assets and liabilities on January 1, 2010 of \$217.6 million was recorded in Appropriated Partners Capital as discussed in Note 2. "Summary of Significant Accounting Policies – Investments, at Fair Value".

As the guidance required prospective application, the Partnership did not retrospectively adjust the Consolidated Statement of Operations or the Consolidated Statement of Cash Flows for the years ended December 31, 2009 and December 31, 2008 or the Consolidated Statement of Financial Condition for the year ended December 31, 2009. Current period results and balances will not be comparable to prior periods.

Additional disclosures relating to Blackstone's involvement with VIEs are presented in Note 9. "Variable Interest Entities".

In January 2010, the FASB issued guidance on improving disclosures about fair value measurements. The guidance requires additional disclosure on transfers in and out of Levels I and II fair value measurements in the fair value hierarchy and the reasons for such transfers. In addition, for fair value measurements using significant unobservable inputs (Level III), the reconciliation of beginning and ending balances shall be presented on a gross basis, with separate disclosure of gross purchases, sales, issuances and settlements and transfers in and transfers out of Level III. The new guidance also requires enhanced disclosures on the fair value hierarchy to disaggregate disclosures by each class of assets and liabilities. In addition, an entity is required to provide further disclosures on valuation techniques and inputs used to measure fair value for fair value measurements that fall in either Level II or Level III. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level III fair value

measurements, which are effective for fiscal years beginning after December 15, 2010. The Partnership adopted the guidance, excluding the reconciliation of Level III activity, with the issuance of its March 31, 2010 financial statements. Adoption did not have a material impact on the Partnership's financial statements.

In April 2010, the FASB issued guidance on the accounting for stock awards to employees of a foreign operation or employees whose pay is denominated in a currency other than the one in which the equity security trades. The guidance clarifies that share-based payment awards with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trade shall not be considered to contain a condition that is not a market, performance, or service condition. Such an award shall not be classified as a liability if it otherwise qualifies for equity classification. The guidance is effective for fiscal years and interim periods ending after December 15, 2010. Blackstone makes share-based payment awards to employees in foreign operations. The guidance did not have a material impact on the Partnership's financial statements.

In July 2010, the FASB issued guidance to enhance existing disclosure requirements relating to the credit quality of financing receivables and the allowance for credit losses. The guidance requires information on the credit quality of financing receivables and allowance for credit losses to be disaggregated by portfolio segment and class of financing receivable. The guidance also requires an entity to disclose credit quality indicators, past due information, and modifications of financing receivables. The guidance is effective for interim and annual reporting periods ending on or after December 15, 2010. Adoption did not have a material impact on the Partnership's financial statements.

In December 2010, the FASB issued enhanced guidance on when to perform step two of the goodwill impairment test for reporting units with zero or negative carrying amounts. The updated guidance modifies existing requirements under step one of the goodwill impairment test for reporting units with zero or negative carrying amounts and requires step two to be performed if it is more likely than not that a goodwill impairment exists. The guidance is effective for interim and annual reporting periods beginning after December 15, 2010. As Blackstone's reporting units do not currently have zero or negative carrying values, adoption is not expected to have a material impact on the Partnership's financial statements.

In December 2010, the FASB issued guidance on disclosures around business combinations for public entities that present comparative financial statements. The guidance specifies that an entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. The guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. As the guidance is limited to disclosures, adoption is not expected to have a material impact on the Partnership's financial statements.

3. ACQUISITIONS, GOODWILL AND INTANGIBLE ASSETS

Acquisition of GSO Capital Partners LP

In March 2008, the Partnership completed the acquisition of GSO. The purchase consideration for GSO was \$635 million, comprised of \$355 million in cash and \$280 million in Blackstone Holdings Partnership Units, plus up to an additional targeted \$310 million to be paid over the next five years, contingent upon the realization of specified earnings targets over that period. The Partnership also incurred \$6.9 million of acquisition costs. Additionally, performance and other compensatory payments subject to performance and vesting may be paid to GSO personnel.

During November 2008, in settlement of the Partnership's obligation for the purchase of GSO to deliver Blackstone Holdings Partnership Units valued at closing of \$280 million, the Partnership delivered to certain predecessor owners of GSO 15.79 million Blackstone Holdings Partnership Units with a value at settlement of \$118.6 million. The difference between the value at closing and the value at settlement resulted in a \$14.3 million credit to the Partnership's capital, reflecting the dilution of the Partnership's interest in Holdings from approximately 25% to approximately 24.6%.

The final purchase price allocation for the GSO acquisition was as follows:

Purchase Price	\$641,894
Finite-Lived Intangible Assets/Contractual Rights	\$472,100
Goodwill	186,882
Other Liabilities	(17,650)
Net Assets Acquired, at Fair Value	562
Purchase Price Allocation	\$641,894

The Consolidated Statements of Operations for the year ended December 31, 2008 includes the results of GSO's operations from the date of acquisition, March 3, 2008, through December 31, 2008.

Acquisitions of CLO Management Agreements

On April 1 and July 20, 2010, the Partnership, through GSO, completed the acquisition of management agreements relating to nine CLO vehicles previously managed by Callidus Capital Management LLC for consideration of \$21.9 million. The assets acquired are finite-lived contractual rights.

Goodwill and Intangible Assets

The carrying value of goodwill was \$1.7 billion as of December 31, 2010 and December 31, 2009. As of December 31, 2010 and December 31, 2009, the fair value of the Partnership's operating segments substantially exceeded their respective carrying values.

Total goodwill has been allocated to each of the Partnership's segments as follows: Private Equity (\$694.5 million), Real Estate (\$421.7 million), Credit and Marketable Alternatives (\$518.5 million) and Financial Advisory (\$68.9 million).

Intangible Assets, Net consists of the following:

	December 31,	
	2010	2009
Finite-Lived Intangible Assets/		
Contractual Rights	\$1,370,255	\$1,348,370
Accumulated Amortization	(590,944)	(428,893)
Intangible Assets, Net	\$ 779,311	\$ 919,477

Changes in the Partnership's Intangible Assets, Net consists of the following:

	Year Ended December 31,		
	2010	2009	2008
Balance, Beginning of Year	\$ 919,477	\$1,077,526	\$ 604,681
Amortization Expense	(162,051)	(158,049)	(153,237)
Acquisitions	21,885	-	472,100
Purchase Price			
Allocation Adjustment	-	-	153,982
Balance, End of Year	\$ 779,311	\$ 919,477	\$1,077,526

Amortization of Intangible Assets held at December 31, 2010 is expected to be \$163.4 million, and \$108.6 million, \$57.0 million, \$52.2 million, and \$50.3 million for each of the years ending December 31, 2011, 2012, 2013, 2014 and 2015, respectively. Blackstone's intangible assets as of December 31, 2010 are expected to amortize over a weighted-average period of 9.7 years.

4. INVESTMENTS

Investments

Investments consists of the following:

	December 31,	
	2010	2009
Investments of Consolidated		
Blackstone Funds	\$ 8,192,327	\$1,306,445
Equity Method Investments	1,921,665	1,104,701
Blackstone's Treasury Cash		
Management Strategies	896,367	534,777
Performance Fees	937,227	554,463
Other Investments	26,886	65,097
	\$11,974,472	\$3,565,483

Blackstone's share of Investments of Consolidated Blackstone Funds totaled \$500.2 million and \$407.1 million at December 31, 2010 and December 31, 2009, respectively.

At December 31, 2010 and December 31, 2009, consideration was given as to whether any individual investment, including derivative instruments, had a fair value which exceeded 5% of Blackstone's net assets. At December 31, 2010 and December 31, 2009, no investments exceeded the 5% threshold.

Investments of Consolidated Blackstone Funds

The following table presents a condensed summary of the investments held by the consolidated Blackstone Funds that are reported at fair value. Pursuant to revised GAAP consolidation guidance, the Partnership is required to consolidate all VIEs in which it has been identified as the primary beneficiary, including our investments in CLO vehicles and other funds in which the general partner is presumed to have control. While we are required to consolidate certain funds, including our 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. These investments are presented as a percentage of Investments of Consolidated Blackstone Funds:

Geographic Region/Instrument Type/Industry Description or Investment Strategy	Fair Value		Percentage of Investments of Consolidated Blackstone Funds	
	December 31,		December 31,	
	2010	2009	2010	2009
United States and Canada				
Investment Funds, principally related to credit and marketable alternatives				
Credit Driven	\$ 214,163	\$ 277,388	2.6%	21.3%
Diversified Investments	263,703	300,907	3.2%	23.1%
Equity	117,040	80,956	1.4%	6.2%
Event-Driven	131,010	95,760	1.6%	7.4%
Other	-	408	-	-
Investment Funds Total (Cost: 2010 - \$687,865; 2009 - \$803,771)	725,916	755,419	8.8%	58.0%
Equity Securities, principally related to credit and marketable alternatives and private equity funds				
Manufacturing	35,805	21,491	0.4%	1.7%
Services	99,271	86,600	1.3%	6.7%
Natural Resources	51,863	649	0.6%	-
Real Estate Assets	4,436	462	0.1%	-
Equity Securities Total (Cost: 2010 - \$147,544; 2009 - \$112,364)	191,375	109,202	2.4%	8.4%
Partnership and LLC Interests, principally related to private equity and real estate funds				
Real Estate Assets	327,499	149,523	4.1%	11.5%
Services	52,087	87,406	0.6%	6.7%
Manufacturing	62,312	25,691	0.8%	2.0%
Natural Resources	1,855	357	-	-
Partnership and LLC Interests Total (Cost: 2010 - \$449,991; 2009 - \$442,545)	443,753	262,977	5.5%	20.2%
Debt Instruments, principally related to credit and marketable alternatives				
Credit Driven	362	29,330	-	2.2%
Manufacturing	46,734	3,203	0.6%	0.2%
Services	90,105	7,837	1.1%	0.6%
Diversified Investments	4,838	-	0.1%	-
Real Estate Assets	5,097	2,458	0.1%	0.2%
Debt Instruments Total (Cost: 2010 - \$143,337; 2009 - \$37,983)	147,136	42,828	1.9%	3.2%
Assets of Consolidated CLO Vehicles				
Corporate Loans	5,373,330	-	65.6%	-
Corporate Bonds	133,514	-	1.6%	-
Other	4,325	-	0.1%	-
Assets of Consolidated CLO Vehicles Total (Cost: 2010 - \$5,431,178; 2009 - \$-)	5,511,169	-	67.3%	-
United States and Canada Total (Cost: 2010 - \$6,859,915; 2009 - \$1,396,663)	7,019,349	1,170,426	85.9%	89.8%

Geographic Region/Instrument Type/Industry Description or Investment Strategy	Fair Value		Percentage of Investments of Consolidated Blackstone Funds	
	December 31,		December 31,	
	2010	2009	2010	2009
Europe				
Equity Securities, principally related to private equity funds				
Manufacturing	\$ 3,324	\$ 2,681	–	0.2%
Real Estate Assets	–	365	–	–
Services	39,849	31,711	0.5%	2.4%
Equity Securities Total (Cost: 2010 – \$41,048; 2009 – \$40,353)	43,173	34,757	0.5%	2.6%
Partnership and LLC Interests, principally related to private equity and real estate funds				
Services	29,361	29,270	0.4%	2.2%
Real Estate Assets	26,197	10,741	0.3%	0.8%
Partnership and LLC Interests Total (Cost: 2010 – \$50,502; 2009 – \$48,334)	55,558	40,011	0.7%	3.0%
Debt Instruments, principally related to credit and marketable alternatives				
Real Estate Assets	46	–	–	–
Manufacturing	638	544	–	–
Services	1,975	1,259	–	0.1%
Debt Instruments Total (Cost: 2010 – \$2,199; 2009 – \$1,624)	2,659	1,803	–	0.1%
Assets of Consolidated CLO Vehicles				
Corporate Loans	978,636	–	11.9%	–
Corporate Bonds	24,483	–	0.3%	–
Other	7,751	–	0.1%	–
Assets of Consolidated CLO Vehicles Total (Cost: 2010 – \$1,037,992; 2009 – \$–)	1,010,870	–	12.3%	–
Europe Total (Cost: 2010 – \$1,131,741; 2009 – \$90,311)	1,112,260	76,571	13.5%	5.7%
Asia				
Equity Securities, principally related to credit and marketable alternatives and private equity funds				
Services	7,928	8,031	0.1%	0.6%
Manufacturing	9,677	10,501	0.1%	0.8%
Natural Resources	855	–	–	–
Diversified Investments	2,689	6,262	–	0.5%
Equity Securities Total (Cost: 2010 – \$18,510; 2009 – \$20,794)	21,149	24,794	0.2%	1.9%
Partnership and LLC Interests, principally related to private equity and real estate funds				
Manufacturing	–	1,183	–	0.1%
Real Estate Assets	753	457	–	–
Services	9	82	–	–
Partnership and LLC Interests Total (Cost: 2010 – \$733; 2009 – \$1,833)	762	1,722	–	0.1%
Debt Instruments, principally related to private equity funds				
Real Estate Assets	225	–	–	–
Services	86	111	–	–
Debt Instruments, principally related to private equity funds (Cost: 2010 – \$304; 2009 – \$114)	311	111	–	–
Asia Total (Cost: 2010 – \$19,547; 2009 – \$22,741)	22,222	26,627	0.2%	2.0%

Geographic Region/Instrument Type/Industry Description or Investment Strategy	Fair Value		Percentage of Investments of Consolidated Blackstone Funds	
	December 31,		December 31,	
	2010	2009	2010	2009
Other				
Equity Securities, principally related to private equity funds				
Natural Resources	\$ 35,517	\$ 1,583	0.4%	0.1%
Services	2,890	4,560	–	0.3%
Equity Securities Total (Cost: 2010 – \$12,099; 2009 – \$2,777)	38,407	6,143	0.4%	0.4%
Partnership and LLC Interests, principally related to private equity and real estate funds				
Natural Resources	–	26,586	–	2.1%
Services	89	92	–	–
Partnership and LLC Interests Total (Cost: 2010 – \$97; 2009 – \$9,249)	89	26,678	–	2.1%
Other Total (Cost: 2010 – \$12,196; 2009 – \$12,026)	38,496	32,821	0.4%	2.5%
Total Investments of Consolidated Blackstone Funds				
(Cost: 2010 – \$8,023,399; 2009 – \$1,521,741)	\$8,192,327	\$1,306,445	100.0%	100.0%

Net Gains (Losses) from Fund Investment Activities on the Consolidated Statements of Operations include net realized gains (losses) from realizations and sales of investments and the net change in unrealized gains (losses) resulting from changes in the fair value of the consolidated Blackstone Funds' investments. The following table presents the realized and net change in unrealized gains (losses) on investments held by the consolidated Blackstone Funds:

	Year Ended December 31,		
	2010	2009	2008
Realized Gains (Losses)	\$ (51,158)	\$ (200,291)	\$ (281,408)
Net Change in Unrealized			
Gains (Losses)	453,692	342,870	(740,019)
	\$402,534	\$ 142,579	\$(1,021,427)

The following reconciles the Realized and Net Change in Unrealized Gains (Losses) from Blackstone Funds presented above to Other Income (Loss) – Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations:

	Year Ended December 31,		
	2010	2009	2008
Realized and Net Change in			
Unrealized Gains (Losses)			
from Blackstone Funds	\$402,534	\$142,579	\$(1,021,427)
Reclassification to			
Investment Income (Loss)			
and Other Attributable			
to Blackstone Side-by-			
Side Investment Vehicles	–	(1,327)	52,975
Interest and Dividend			
Revenue Attributable			
to Consolidated			
Blackstone Funds	99,460	35,442	96,116
Other Income – Net Gains			
(Losses) from Fund			
Investment Activities	\$501,994	\$176,694	\$ (872,336)

Equity Method Investments

The Partnership recognized net gains (losses) related to its equity method investments of \$468.4 million, \$4.0 million and \$(551.8) million for the years ended December 31, 2010, 2009 and 2008, respectively.

On October 1, 2010, the Partnership completed the acquisition of a non-controlling equity interest in Pátria. As the Partnership holds a 40% equity interest and exerts significant influence, the investments are accounted for using the equity method.

Blackstone's equity method investments include its investments in private equity funds, real estate funds, funds of hedge funds, credit-oriented funds and other proprietary investments, which are not consolidated but in which the Partnership exerts significant influence. As of December 31, 2010 and 2009, no single equity method investment held by Blackstone exceeded 20% of its total consolidated assets or income. As such, Blackstone is not required to present separate financial statements for any of its equity method investees.

The summarized financial information of the Partnership's equity method investments for December 31, 2010 are as follows:

	December 31, 2010 and the Year Then Ended				Total
	Private Equity	Real Estate	Credit and Marketable Alternatives	Other ^(a)	
Statement of Financial Condition					
Assets					
Investments	\$23,494,720	\$20,695,822	\$14,410,240	\$ 3,914	\$58,604,696
Other Assets	140,862	1,035,183	2,173,334	24,173	3,373,552
Total Assets	\$23,635,582	\$21,731,005	\$16,583,574	\$ 28,087	\$61,978,248
Liabilities and Partners' Capital					
Debt	\$ 392,786	\$ 582,278	\$ 1,185,253	\$ 978	\$ 2,161,295
Other Liabilities	103,471	221,449	1,270,023	20,505	1,615,448
Total Liabilities	496,257	803,727	2,455,276	21,483	3,776,743
Partners' Capital	23,139,325	20,927,278	14,128,298	6,604	58,201,505
Total Liabilities and Partners' Capital	\$23,635,582	\$21,731,005	\$16,583,574	\$ 28,087	\$61,978,248
Statement of Income					
Interest Income	\$ 76	\$ 35,312	\$ 485,922	\$ 3	\$ 521,313
Other Income	202,872	118,512	163,779	65,523	550,686
Interest Expense	(8,642)	(7,257)	(96,495)	-	(112,394)
Other Expenses	(42,565)	(73,353)	(112,491)	(38,953)	(267,362)
Net Realized and Unrealized Gain from Investments	5,182,506	8,630,374	1,702,846	-	15,515,726
Net Income	\$ 5,334,247	\$ 8,703,588	\$ 2,143,561	\$ 26,573	\$16,207,969

(a) Other represents the summarized financial information of equity method investments whose results, for segment reporting purposes, have been allocated across more than one of Blackstone's segments.

The summarized financial information of the Partnership's equity method investments for December 31, 2009 are as follows:

	December 31, 2009 and the Year Then Ended				Total
	Private Equity	Real Estate	Credit and Marketable Alternatives		
Statement of Financial Condition					
Assets					
Investments	\$18,237,938	\$ 7,862,872	\$15,857,948		\$41,958,758
Other Assets	169,200	528,337	3,124,038		3,821,575
Total Assets	\$18,407,138	\$ 8,391,209	\$18,981,986		\$45,780,333
Liabilities and Partners' Capital					
Debt	\$ 455,862	\$ 224,389	\$ 1,312,893		\$ 1,993,144
Other Liabilities	56,957	115,059	2,053,134		2,225,150
Total Liabilities	512,819	339,448	3,366,027		4,218,294
Partners' Capital	17,894,319	8,051,761	15,615,959		41,562,039
Total Liabilities and Partners' Capital	\$18,407,138	\$ 8,391,209	\$18,981,986		\$45,780,333
Statement of Income					
Interest Income	\$ 19,480	\$ 12,704	\$ 580,188		\$ 612,372
Other Income	26,828	133,599	68,472		228,899
Interest Expense	(5,590)	(5,391)	(59,537)		(70,518)
Other Expenses	(38,419)	(36,794)	(158,635)		(233,848)
Net Realized and Unrealized Gain from Investments	1,775,403	(3,813,103)	3,118,916		1,081,216
Net Income	\$ 1,777,702	\$(3,708,985)	\$ 3,549,404		\$ 1,618,121

The summarized financial information of the Partnership's equity method investments for December 31, 2008 are as follows:

	December 31, 2008 and the Year Then Ended			
	Private Equity	Real Estate	Credit and Marketable Alternatives	Total
Statement of Financial Condition				
Assets				
Investments	\$15,365,639	\$10,341,723	\$13,884,206	\$ 39,591,568
Other Assets	202,467	397,164	5,188,035	5,787,666
Total Assets	\$15,568,106	\$10,738,887	\$19,072,241	\$ 45,379,234
Liabilities and Partners' Capital				
Debt	\$ 230,891	\$ 163,954	\$ 1,195,841	\$ 1,590,686
Other Liabilities	87,351	116,572	3,980,596	4,184,519
Total Liabilities	318,242	280,526	5,176,437	5,775,205
Partners' Capital	15,249,864	10,458,361	13,895,804	39,604,029
Total Liabilities and Partners' Capital	\$15,568,106	\$10,738,887	\$19,072,241	\$ 45,379,234
Statement of Income				
Interest Income	\$ 8,152	\$ 3,920	\$ 531,395	\$ 543,467
Other Income	11,615	130,203	77,335	219,153
Interest Expense	(4,988)	(10,711)	(60,477)	(76,176)
Other Expenses	(80,948)	(34,179)	(162,898)	(278,025)
Net Realized and Unrealized Gain from Investments	(6,147,568)	(6,772,661)	(5,127,463)	(18,047,692)
Net Income	\$ (6,213,737)	\$ (6,683,428)	\$ (4,742,108)	\$(17,639,273)

Blackstone's Treasury Cash Management Strategies

Included within Blackstone's Treasury cash management strategies are the Partnership's liquid investments in government and other investment and non-investment grade securities. These strategies are managed by third-party institutions. The Partnership has managed its credit risk through diversification of its investments among major financial institutions, all of which have investment grade ratings.

The following table presents the Partnership's realized and net change in unrealized gains:

	Year Ended December 31,	
	2010	2009
Realized Gains (Losses)	\$ 7,497	\$10,145
Net Change in Unrealized Gains (Losses)	4,185	1,758
	\$11,682	\$11,903

The Partnership held no liquid investments in government and other investment and non-investment grade securities during the year ended December 31, 2008.

Performance Fees

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

	December 31,	
	2010	2009
Performance Fees		
Private Equity	\$573,042	\$425,615
Real Estate	65,477	7,900
Credit and Marketable Alternatives	298,708	120,948
	\$937,227	\$554,463

Other Investments

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

	Year Ended December 31,		
	2010	2009	2008
Realized Gains (Losses)	\$ 977	\$2,032	\$ (1,432)
Net Change in			
Unrealized Gains (Losses)	2,429	6,164	(9,159)
	\$3,406	\$8,196	\$(10,591)

5. NET ASSET VALUE AS FAIR VALUE

Certain of the consolidated Blackstone Funds of hedge funds and credit-oriented 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. A summary of fair value by strategy type alongside the consolidated funds of hedge funds' remaining unfunded commitments and ability to redeem such investments as of December 31, 2010 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	\$263,703	\$4,486	(a)	(a)
Credit Driven	214,163	3,974	(b)	(b)
Event Driven	131,010	-	(c)	(c)
Equity	117,040	-	(d)	(d)
	<u>\$725,916</u>	<u>\$8,460</u>		

- (a) Diversified Instruments includes investments in hedge funds that invest across multiple strategies. Investments representing 98% of the value of the investments in this 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 elected to side-pocket 16% of Blackstone's investments. The time at which this redemption restriction may lapse cannot be estimated. The remaining 2% of investments within 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.
- (b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 66% of the value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 29% of the 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 elected to side-pocket 4% of Blackstone's investments. Investments representing 4% of the value within this category represents an investment in a fund of hedge funds that is in the process of liquidation. Distributions from this fund will be received as underlying investments are liquidated. The remaining 1% of investments within this category are redeemable as of the reporting date.
- (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. Investments representing 53% of the total value of investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 47% are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have elected such ability) to side-pocket such investments. As of the reporting date, the investee fund manager had not elected to side-pocket Blackstone's investments.

6. DERIVATIVE FINANCIAL INSTRUMENTS

Blackstone enters into derivative contracts in order to hedge its interest rate risk exposure against the effects of interest rate changes. Additionally, Blackstone and the Blackstone Funds enter into derivative contracts in the normal course of business to achieve certain other risk management objectives and for general investment purposes. 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.

Fair Value Hedges

The Partnership uses interest rate swaps to hedge a portion of the interest rate risk associated with its fixed rate borrowings. The Partnership has designated these financial instruments as fair value hedges. Changes in fair value of the derivative and, to the extent that it is highly effective, changes in the fair value of

the hedged liability, are recorded within General, Administrative and Other in the Consolidated Statements of Operations. The fair value of the derivative instrument is reflected within Other Assets in the Consolidated Statements of Financial Condition.

Free Standing Derivatives

Free standing 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 foreign exchange contracts, equity swaps, options, futures and other derivative contracts. Changes in the fair value of derivative instruments held by consolidated Blackstone Funds are reflected in Net Gains from Funds Investment Activities or, where derivative instruments are held by the Partnership, within Investment Income (Loss), in the Consolidated Statements of Operations. The fair value of free standing derivative assets are recorded within Investments and free standing derivative liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Consolidated Statements of Financial Condition.

The table below summarizes the aggregate notional amount and fair value of the derivative financial instruments:

	December 31, 2010				December 31, 2009			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
Fair Value Hedges								
Interest Rate Swaps	\$ 450,000	\$26,192	\$ -	\$ -	\$ -	\$ -	\$450,000	\$19
Free Standing Derivatives								
Blackstone	67,288	339	380,078	996	1,099	636	-	-
Investments of Consolidated								
Blackstone Funds	409	2	212	2	940	17	656	4
Free Standing Derivatives	67,697	341	380,290	998	2,039	653	656	4
Total	\$517,697	\$26,533	\$380,290	\$998	\$2,039	\$653	\$450,656	\$23

Where hedge accounting is applied, hedge effectiveness testing is performed at least monthly to monitor ongoing effectiveness of the hedge relationships. During the years ended December 31, 2010 and 2009, the amount of ineffectiveness related to the interest rate swap hedges was a gain of \$3.4 million and a loss of \$1.7 million, respectively. During the years ended December 31, 2010 and 2009, the portion of hedging instruments' gain or loss excluded from the assessment of effectiveness for its fair value hedges was a loss of \$1.1 million and \$8.7 million, respectively. Such gains (losses) have been included in General, Administrative and Other. The Partnership had no derivatives designated as fair value hedges in 2008.

During the year ended December 31, 2010, the Partnership recognized \$(3.4) million of realized losses and \$0.7 million in net change in unrealized gains related to free standing derivative instruments. Amounts recognized in the years ended December 31, 2009 and 2008 were not material.

As of December 31, 2010, 2009 and 2008, the Partnership had not designated any derivatives as cash flow hedges or hedges of net investments in foreign operations.

7. FAIR VALUE OPTION

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

	As of December 31,	
	2010	2009
Assets		
Loans and Receivables	\$ 131,290	\$68,550
Debt Securities	-	26,466
Equity Securities	-	1,905
Assets of Consolidated CLO Vehicles		
Corporate Loans	6,351,966	-
Corporate Bonds	157,997	-
Other	12,076	-
	\$6,653,329	\$96,921
Liabilities		
Liabilities of Consolidated CLO Vehicles		
Senior Secured Notes	\$5,877,957	\$ -
Subordinated Notes	555,632	-
	\$6,433,589	\$ -

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

	Year Ended December 31,		
	2010	2009	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Net Change in Unrealized Gains (Losses)
Assets			
Loans and Receivables	\$ 5,695	\$ (101)	\$101
Debt Securities	(16)	-	364
Equity Securities	(350)	-	-
Assets of Consolidated CLO Vehicles			
Corporate Loans	(17,736)	272,526	-
Corporate Bonds	1,073	5,718	-
Other	702	(1,314)	-
	\$(10,632)	\$ 276,829	\$465
Liabilities			
Liabilities of Consolidated CLO Vehicles			
Senior Secured Notes	\$ (6,079)	\$ (33,194)	\$ -
Subordinated Notes	-	(152,333)	-
	\$ (6,079)	\$(185,527)	\$ -

The Partnership had no realized gains (losses) for the year ended December 31, 2009. The Partnership held no financial instruments on which the fair value option was elected during the year ended December 31, 2008.

As of December 31, 2010, the uncollected principal balance on Corporate Loans and Corporate Bonds exceeded the fair value by \$244.2 million and \$1.5 million, respectively. The fair value of Corporate Loans that were more than one day past due as of December 31, 2010 was \$5.4 million. The principal balance related to such past due Corporate Loans exceeded the fair value by \$2.2 million. Included within the Corporate Loans category are structured finance obligations with contractual principal balances. The fair value of Corporate Bonds that were more than one day past due as of December 31, 2010 was \$5.6 million. The principal balance related to such past due Corporate Bonds exceeded the fair value by \$2.1 million. The fair value of the Other obligations exceeded the uncollected principal balance by \$2.6 million. No obligations within the Other category were past due.

As of December 31, 2010, the fair value of Loans and Receivables and Debt Securities for which the fair value option was elected exceeded their principal amounts due by \$1.4 million. No Loans and Receivables and Debt Securities on which the fair value option was elected were past due or in non-accrual status.

As of December 31, 2009, the fair value of Loans and Receivables and Debt Securities for which the fair value option was elected exceeded their principal amounts due by \$0.5 million. No Loans and Receivables and Debt Securities on which the fair value option was elected were past due or in non-accrual status.

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 as of December 31, 2010 and 2009, respectively:

	December 31, 2010			Total
	Level I	Level II	Level III	
Assets				
Investments of Consolidated Blackstone Funds ^(a)				
Investment Funds	\$ -	\$ 2,333	\$ 723,583	\$ 725,916
Equity Securities	133,483	24,007	136,614	294,104
Partnership and LLC Interests	-	-	500,162	500,162
Debt Instruments	107	138,518	11,481	150,106
Assets of Consolidated CLO Vehicles	-	6,291,508	230,531	6,522,039
Total Investments of Blackstone Consolidated Funds	133,590	6,456,366	1,602,371	8,192,327
Blackstone's Treasury Cash Management Strategies	442,700	453,667	-	896,367
Money Market Funds	165,957	-	-	165,957
Free Standing Derivatives	13	326	-	339
Derivative Instruments Used as Fair Value Hedges	-	26,192	-	26,192
Loans and Receivables	-	-	131,290	131,290
Other Investments	6,852	362	19,672	26,886
	\$749,112	\$6,936,913	\$1,753,333	\$9,439,358
Liabilities				
Liabilities of Consolidated CLO Vehicles ^(a)	\$ -	\$ -	\$6,433,589	\$6,433,589
Free Standing Derivatives	19	977	-	996
Securities Sold, Not Yet Purchased	531	116,157	-	116,688
	\$ 550	\$ 117,134	\$6,433,589	\$6,551,273

	December 31, 2009			Total
	Level I	Level II	Level III	
Assets				
Investments of Consolidated Blackstone Funds ^(a)	\$ 80,610	\$ 33,355	\$1,192,463	\$1,306,428
Blackstone's Treasury Cash Management Strategies	398,487	136,290	-	534,777
Loans and Receivables	-	-	68,550	68,550
Free Standing Derivatives, Net	2	279	368	649
Other Investments ^(b)	8,711	10,176	46,210	65,097
	\$487,810	\$ 180,100	\$1,307,591	\$1,975,501
Liabilities				
Derivative Instruments Used for Fair Value Hedges	\$ -	\$ 19	\$ -	\$ 19
Securities Sold, Not Yet Purchased	357	-	-	357
	\$ 357	\$ 19	\$ -	\$ 376

(a) Pursuant to revised GAAP consolidation rules, the Partnership is required to consolidate all VIEs in which it has been identified as the primary beneficiary, including our investments in CLO vehicles and other funds in which the general partner is presumed to have control. While we are required to consolidate certain funds, including our 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.

(b) Included within Level III of Other Investments are investments in debt and equity securities of \$26.5 million and \$1.9 million, respectively, for which the fair value option has been elected.

There were no significant transfers between Level I and Level II during the year ended December 31, 2010.

The following table summarizes the valuation methodology used in the determination of the fair value of financial instruments for which Level III inputs were used as of December 31, 2010:

Valuation Methodology	Private Equity	Real Estate	Credit and Marketable Alternatives	Financial Advisory	Total
Third-Party Fund Managers	–	–	41%	–	41%
Specific Valuation Metrics	20%	23%	15%	1%	59%
	20%	23%	56%	1%	100%

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 current reporting period. Total realized and unrealized gains and losses recorded for Level III investments are reported in Investment Income (Loss) and Net Gains from Fund Investment Activities in the Consolidated Statements of Operations:

	Level III Financial Assets at Fair Value							
	Year Ended December 31,							
	2010				2009			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments	Total
Balance, Beginning of Period	\$1,192,463	\$ 68,550	\$ 46,578	\$1,307,591	\$1,521,912	\$ –	\$ 16,095	\$1,538,007
Transfer In Due to Acquisition ^(a)	227,794	–	–	227,794	–	–	–	–
Transfer In Due to Consolidation ^(b)	–	–	–	–	108,986	–	–	108,986
Transfer Out Due to Deconsolidation ^(c)	–	–	–	–	(13,572)	–	–	(13,572)
Transfer In to Level III ^(d)	11,706	–	–	11,706	363	–	1,509	1,872
Transfer Out of Level III ^(d)	(65,605)	–	–	(65,605)	(15,646)	–	–	(15,646)
Purchases (Sales), Net	(110,245)	55,655	(29,832)	(84,422)	(525,926)	67,602	28,564	(429,760)
Realized Gains (Losses), Net	(26,206)	5,695	104	(20,407)	(194,495)	–	–	(194,495)
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	372,464	1,390	2,822	376,676	310,841	948	410	312,199
Balance, End of Period	\$1,602,371	\$131,290	\$ 19,672	\$1,753,333	\$1,192,463	\$68,550	\$ 46,578	\$1,307,591

	Level III Financial Liabilities at Fair Value		
	Year Ended December 31, 2010		
	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total
Balance, Beginning of Period	\$ –	\$ –	\$ –
Transfer In Due to and Acquisition ^(a)	5,751,806	364,829	6,116,635
Purchases (Sales), Net	153,229	50,895	204,124
Realized (Gains) Losses, Net	6,079	–	6,079
Changes in Unrealized (Gains) Losses Included in Earnings Related to Liabilities Still Held at the Reporting Date	(33,157)	139,908	106,751
Balance, End of Period	\$5,877,957	\$555,632	\$6,433,589

(a) Represents the transfer into Level III of financial assets and liabilities held by CLO vehicles as a result of the application of revised consolidation guidance effective January 1, 2010 and as a result of the acquisition of management contracts on April 1, 2010 and July 20, 2010, as described in Note 3. "Acquisitions, Goodwill and Intangible Assets".

(b) Transfers into Level III financial assets for the year ended December 31, 2009 were a result of the transfer of assets from a non-consolidated fund to a consolidated Blackstone Fund.

(c) Represents the transfer out of Level III financial assets as a result of deconsolidation of certain Blackstone Funds.

(d) 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.

For the year ended December 31, 2009, there were no Level III financial liabilities.

9. VARIABLE INTEREST ENTITIES

Pursuant to revised 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-oriented 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 or investment advisor, 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 gross assets and liabilities of consolidated VIEs reflected in the Consolidated Statements of Financial Condition as of December 31, 2010 and 2009 were as follows:

	December 31,	
	2010	2009
Gross Assets		
Consolidated Blackstone Funds		
Excluding CLO Vehicles	\$ 980,202	\$741,024
Consolidated CLO Vehicles	7,224,134	-
	<u>\$8,204,336</u>	<u>\$741,024</u>
Gross Liabilities		
Consolidated Blackstone Funds		
Excluding CLO Vehicles	\$ 44,269	\$ 37,974
Consolidated CLO Vehicles	6,745,554	-
	<u>\$6,789,823</u>	<u>\$ 37,974</u>

There is no recourse to the Partnership for the consolidated VIEs' liabilities including the liabilities of the consolidated CLO vehicles. The assets and liabilities of consolidated VIEs comprise primarily investments and notes payable and are included within Investments, Loans Payable and Due to Affiliates, respectively, in the Consolidated Statements of Financial Condition.

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. As of December 31, 2010, assets and liabilities recognized in the Partnership's Consolidated Statement of Financial Condition related to the Partnership's interest in these non-consolidated VIEs were \$268.4 million and \$0.2 million, respectively. Assets consisted of \$89.7 million of investments and \$178.7 million of receivables. As of December 31, 2009, assets

and liabilities recognized in the Partnership's Consolidated Statement of Financial Condition related to the Partnership's interest in these non-consolidated VIEs were \$133.9 million and \$0.1 million, respectively. Assets consisted of \$21.7 million of investments and \$112.2 million of receivables. The Partnership's maximum exposure to loss relating to non-consolidated VIEs as of December 31, 2010 and 2009 was \$273.2 million and \$98.9 million, respectively. The maximum exposure to loss represents the loss of assets recognized by Blackstone relating to non-consolidated entities and any clawback obligation relating to previously distributed Carried Interest.

10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS

At December 31, 2010, 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 \$180.2 million and cash as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of \$116.4 million were repledged, delivered or used to settle Securities Sold, Not Yet Purchased. The Partnership also pledged securities with a fair value of \$62.7 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

11. OTHER ASSETS AND ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

Other Assets consists of the following:

	December 31,	
	2010	2009
Furniture, Equipment and Leasehold Improvements	\$ 261,622	\$210,189
Less: Accumulated Depreciation	(116,741)	(92,774)
Furniture, Equipment and Leasehold Improvements, Net	144,881	117,415
Prepaid Expenses	80,878	31,232
Other Assets	67,435	23,909
	<u>\$ 293,194</u>	<u>\$172,556</u>

Depreciation expense of \$24.0 million, \$17.2 million and \$18.2 million related to furniture, equipment and leasehold improvements for the years ended December 31, 2010, 2009 and 2008, respectively, is included in General, Administrative and Other in the accompanying Consolidated Statements of Operations.

Accounts Payable, Accrued Expenses and Other Liabilities includes \$113.2 million and \$144.0 million as of December 31, 2010 and 2009, respectively, relating to redemptions that were legally payable to investors as of the balance sheet dates.

12. BORROWINGS

The Partnership borrows and enters into credit agreements for its general operating and investment purposes and certain Blackstone Funds borrow to meet financing needs of their operating and investing activities. Borrowing facilities have been established for the benefit of selected funds within those business units. When a Blackstone Fund borrows from the facility in which it participates, the proceeds from the borrowing are strictly limited for its intended use by the borrowing fund and not available for other Partnership purposes. The Partnership's credit facilities consist of the following:

	December 31,					
	2010			2009		
	Credit Available	Borrowing Outstanding	Weighted Average Interest Rate	Credit Available	Borrowing Outstanding	Weighted Average Interest Rate
Revolving Credit Facility ^(a)	\$1,020,000	\$ -	-	\$ 850,000	\$ -	-
Blackstone Issued 5.875% Notes Due 3/15/2021 ^(b)	400,000	400,000	5.88%	-	-	-
Blackstone Issued 6.625% Notes Due 8/15/2019 ^(b)	600,000	600,000	6.63%	600,000	600,000	6.63%
Operating Entities Facilities ^(c)	33,807	33,807	1.39%	63,369	63,369	1.50%
	2,053,807	1,033,807	6.16%	1,513,369	663,369	6.13%
Blackstone Fund Facilities ^(d)	9,689	9,689	2.25%	38,809	5,630	2.30%
CLO Vehicles ^(e)	7,367,633	7,362,094	1.33%	-	-	-
	\$9,431,129	\$8,405,590	1.93%	\$1,552,178	\$668,999	6.10%

(a) On March 23, 2010, an indirect, wholly-owned subsidiary of Blackstone entered into a new \$1.07 billion revolving credit facility (the "Credit Facility") with Citibank, N.A., as Administrative Agent. On November 23, 2010, the amount available under the Credit Facility was amended to \$1.02 billion. The unsecured Credit Facility provides for revolving credit borrowings, with a final maturity date of March 23, 2013. Interest on the borrowings is based on an adjusted LIBOR rate or alternate base rate, in each case plus a margin, and undrawn commitments bear a commitment fee. Borrowings may also be made in U.K. Sterling or Euros, 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 generating assets under management, each tested quarterly.

(b) Represents long term borrowings in the form of senior notes (the "Notes") issued by Blackstone Holdings Finance Co. L.L.C. (the "Issuer"), an indirect subsidiary of the Partnership. On September 15, 2010, the Issuer issued \$400 million of Notes due March 15, 2021. The Notes, which were issued at a discount, have an interest rate of 5.875% per annum, accruing from September 20, 2010. Interest is payable semiannually in arrears on March 15 and September 15 of each year, commencing on March 15, 2011. 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 and the Issuer (the "Guarantors"). The guarantees are unsecured and unsubordinated obligations of the Guarantors. Interest expense on the Notes was \$6.6 million for the year ended December 31, 2010. Transaction costs related to the issuance of the Notes have been capitalized and are being amortized over the life of the Notes. As of December 31, 2010, the fair value of the Notes was \$398.1 million.

On August 20, 2009, the Issuer issued \$600 million of Notes due August 15, 2019. The Notes, which were issued at a discount, have an interest rate of 6.625% per annum, accruing from August 20, 2009. Interest is paid semiannually in arrears on February 15 and August 15 of each year, commencing on February 15, 2010. 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, and the Issuer (the "Guarantors"). The guarantees are unsecured and unsubordinated obligations of the Guarantors. Interest expense on the Notes was \$39.8 million and \$14.6 million for the years ended December 31, 2010 and December 31, 2009, respectively. Transaction costs related to the issuance of the Notes have been capitalized and are being amortized over the life of the Notes. As of December 31, 2010, the fair value of the Notes issued in August 2009 was \$612.8 million.

The indentures include covenants, including limitations on the Issuer's and the Guarantors' ability to, subject to exceptions, 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 indentures also provide for events of default and further provides that the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding Notes may declare the Notes immediately due and payable upon the occurrence and during the continuance of any event of default after expiration of any applicable grace period. In the case of specified events of bankruptcy, insolvency, receivership or reorganization, the principal

amount of the Notes and any accrued and unpaid interest on the Notes automatically become due and payable. All or a portion of the Notes may be redeemed at the Issuer's 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 holders of the Notes may require the Issuer to repurchase the Notes at a repurchase price in cash equal to 101% of the aggregate principal amount of the Notes repurchased plus any accrued and unpaid interest on the Notes repurchased to, but not including, the date of repurchase.

- (c) Represents borrowings under a loan and security agreement as well as a capital asset purchase facility. The loan and security agreement facility bears interest at an adjusted rate below the lending bank's prime commercial rate. Borrowings are available for the Partnership to provide partial financing to certain Blackstone employees to finance the purchase of their equity investments in certain Blackstone Funds. The advances to Blackstone employees are secured by investor notes, generally paid back over a five-year period, and the related underlying investment, as well as full recourse to the employees' bonuses and returns from other Partnership investments. The capital asset purchase facility is secured by the purchased asset and borrowings bear interest at a spread to LIBOR. The borrowings are paid down through the termination date of the facility in 2014.
- (d) Represents borrowing facilities for the various consolidated Blackstone Funds used to meet liquidity and investing needs. Certain borrowings under these facilities were used for bridge financing and general liquidity purposes. Other borrowings were used to finance the purchase of investments with the borrowing remaining in place until the disposition or refinancing event. Such borrowings have varying maturities and are rolled over until the disposition or a refinancing event. Due to the fact that the timing of such events is unknown and may occur in the near term, these borrowings are considered short-term in nature. Borrowings bear interest at spreads to market rates. Borrowings were secured according to the terms of each facility and are generally secured by the investment purchased with the proceeds of the borrowing and/or the uncalled capital commitment of each respective fund. Certain facilities have commitment fees. When a fund borrows, the proceeds are available only for use by that fund and are not available for the benefit of other funds. Collateral within each fund is also available only against the borrowings by that fund and not against the borrowings of other funds.
- (e) Represents borrowings due to the holders of debt securities issued by Blackstone's consolidated CLO vehicles. These amounts are included within Loans Payable and Due to Affiliates. At December 31, 2010, the Partnership's borrowings through consolidated CLO vehicles consisted of the following:

	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes	\$6,466,794	1.33%	5.2
Subordinated Notes	895,300	(i)	7.7
	\$7,362,094		

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

Included within Senior Secured Notes and Subordinated Notes are amounts due to non-consolidated affiliates of \$99.3 million and \$293.4 million, respectively. The fair value of Senior Secured and Subordinated Notes as of December 31, 2010 was \$5.9 billion and \$555.6 million, respectively, of which \$78.0 million and \$211.1 million represents the amounts Due to Affiliates.

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 December 31, 2010, the fair value of the CLO assets was \$7.2 billion. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

As part of Blackstone's borrowing arrangements, the Partnership is subject to certain financial and operating covenants. The Partnership was in compliance with all of its loan covenants as of December 31, 2010.

Scheduled principal payments for borrowings at December 31, 2010 are as follows:

	Operating Borrowings	Blackstone Fund Facilities/CLO Vehicles	Total Borrowings
2011	\$ 18,433	\$ 1,153	\$ 19,586
2012	8,381	8,537	16,918
2013	2,052	150,580	152,632
2014	4,941	-	4,941
2015	-	160,505	160,505
Thereafter	1,000,000	7,051,008	8,051,008
Total	\$1,033,807	\$7,371,783	\$8,405,590

13. INCOME TAXES

The provision (benefit) for income taxes consists of the following:

	December 31,		
	2010	2009	2008
Current			
Federal Income Tax	\$(10,805)	\$ 8,027	\$ 3,936
Foreign Income Tax	9,378	4,517	8,304
State and Local Income Tax	26,278	41,219	25,114
	24,851	53,763	37,354
Deferred			
Federal Income Tax	42,599	30,581	(34,090)
Foreign Income Tax	(2,282)	(597)	-
State and Local Income Tax	19,501	15,483	(17,409)
	59,818	45,467	(51,499)
Total Provision (Benefit) for Taxes	\$ 84,669	\$99,230	\$(14,145)

The Partnership's effective income tax rate was (16.20)%, (4.33)% and 0.25% for the years ended December 31, 2010, 2009 and 2008, respectively.

Deferred income taxes reflect the net tax effects of temporary differences that may exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes using enacted tax rates in effect for the year in which the differences are expected to reverse. A summary of the tax effects of the temporary differences is as follows:

	December 31,	
	2010	2009
Deferred Tax Assets		
Fund Management Fees	\$ 13,478	\$ 12,804
Equity Based Compensation	41,494	36,087
Unrealized Loss from Investments	17,590	38,937
Depreciation and Amortization	1,131,706	841,086
Net Operating Loss Carry Forward	32,159	7,729
Other	5,866	6,869
Total Deferred Tax Assets	\$1,242,293	\$943,512
Deferred Tax Liabilities		
Depreciation and Amortization	\$ 25,823	\$ 18,251
Total Deferred Tax Liabilities	\$ 25,823	\$ 18,251

Future realization of tax benefits depends on the expectation of taxable income within a period of time that the tax benefits will reverse. While the Partnership expects to record significant net losses from a financial reporting perspective, it does not expect to record comparable losses on a tax basis. Whereas the amortization of non-cash equity compensation results in a significant charge to net income and is a significant contributor to the expected financial reporting losses, these charges are largely not tax deductible and, as a result, do not decrease taxable income or contribute to a taxable loss.

The Partnership has recorded a significant deferred tax asset for the future amortization of tax basis intangibles acquired from the predecessor owners and current owners. The amortization period for these tax basis intangibles is 15 years; accordingly, the related deferred tax assets will reverse over the same period. The Partnership had taxable income in 2009 and thus fully utilized the tax benefit from the amortization of the tax basis intangibles for all years since the IPO. The Partnership had a taxable loss of \$72.8 million at the end of 2010 of which \$8.8 million will

be carried back and utilized against prior year taxable income and \$64.0 million will be carried forward. The Partnership has considered the 15 year amortization period for the tax basis intangibles and the 20 year carryforward period for its taxable loss in evaluating whether it should establish a valuation allowance. In addition, at this time, the Partnership's projections of future taxable income that include the effects of originating and reversing temporary differences, including those for the tax basis intangibles, indicate that it is more likely than not that the benefits from the deferred tax asset will be realized. Therefore, the Partnership has determined that no valuation allowance is needed at December 31, 2010.

The following table reconciles the Provision (Benefit) for Taxes to the U.S. federal statutory tax rate:

	Year Ended December 31,		
	2010	2009	2008
Statutory U.S. Federal			
Income Tax Rate	35.00%	35.00%	35.00%
Income Passed Through to			
Common Unitholders and			
Non-Controlling			
Interest Holders ^(a)	-26.10%	-33.00%	-32.68%
Interest Expense	7.32%	1.84%	0.75%
Foreign Income Taxes	-1.23%	-0.15%	-0.15%
State and Local Income Taxes	-6.60%	-1.97%	-0.19%
Equity-based Compensation	-25.27%	-6.45%	-2.48%
Other	0.68%	0.40%	
Effective Income Tax Rate ^(b)	-16.20%	-4.33%	0.25%

(a) Includes income that is not taxable to the Partnership and its subsidiaries. Such income is directly taxable to the Partnership's unitholders and the non-controlling interest holders.

(b) The effective tax rate is calculated on Income (Loss) Before Provision (Benefit) for Taxes.

Currently, the Partnership does not believe it meets the indefinite reversal criteria that would cause the Partnership to not recognize a deferred tax liability with respect to its foreign subsidiaries. Where applicable, Blackstone will record a deferred tax liability for any outside basis difference of an investment in a foreign subsidiary.

Blackstone files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, Blackstone is subject to examination by federal and certain state, local and foreign tax regulators. As of December 31, 2010, Blackstone's and the predecessor entities' U.S. federal income tax returns for the years 2007 through 2009 are open under the normal three-year statute of limitations and therefore subject to examination. The Internal Revenue Service is examining certain corporate subsidiaries' 2008 and 2009 U.S. federal income tax returns. State and local tax returns are generally subject to audit from 2006 through 2009. Currently, the State of New York is examining the tax returns filed by The Blackstone Group L.P. and certain of its subsidiaries for the years 2007 through 2009 and the City of New York is examining certain other subsidiaries' tax returns for the years 2003 through 2008. In addition, HM Revenue and Customs in the U.K. is examining certain U.K. subsidiaries' tax returns for the years 2004 through 2007. Blackstone does not believe that the outcome of these examinations will require it to record reserves for uncertain tax positions or that the outcome will have a material impact on the consolidated financial statements. Blackstone does not believe that it has any tax positions for which it is reasonably possible that it will be required to record significant amounts of unrecognized tax benefits within the next twelve months.

14. NET LOSS PER COMMON UNIT

Basic and diluted net loss per common unit for the year ended December 31, 2010 and basic and diluted net loss per common unit entitled to priority distributions and per common unit not entitled to priority distributions for the years ended December 31, 2009 and December 31, 2008 was calculated as follows:

	Basic and Diluted Year Ended December 31, 2010
Net Loss Attributable to The Blackstone Group L.P.	\$(370,028)
Net Loss Per Common Unit	\$ (1.02)
Total Weighted-Average Common Units Outstanding	364,021,369

	Basic and Diluted	
	Year Ended December 31,	
	2009	2008
Total Undistributed Loss		
Net Loss Allocable to		
Common Unitholders	\$ (715,291)	\$(1,163,032)
Less: Distributions to		
Common Unitholders	(356,958)	(240,402)
Total Undistributed Loss	\$(1,072,249)	\$(1,403,434)
Allocation of Total Undistributed Loss		
Undistributed Loss – Common		
Unitholders Entitled to		
Priority Distributions	\$(1,058,052)	\$(1,394,271)
Undistributed Loss – Common		
Unitholders Not Entitled to		
Priority Distributions	(14,197)	(9,164)
Total Undistributed Loss	\$(1,072,249)	\$(1,403,434)
Net Loss Per Common Unit – Common		
Units Entitled to Priority Distributions		
Undistributed Loss per Common Unit	\$ (3.71)	\$ (5.22)
Priority Distributions ^(a)	1.25	0.90
Net Loss Per Common Unit –		
Common Units Entitled to		
Priority Distributions	\$ (2.46)	\$ (4.32)
Net Loss Per Common Unit – Common		
Units Not Entitled to		
Priority Distributions		
Undistributed Loss per Common Unit	\$ (3.71)	\$ (3.06)
Net Loss Per Common Unit –		
Common Units Not Entitled to		
Priority Distributions	\$ (3.71)	\$ (3.06)
Weighted-Average Common Units		
Outstanding – Common Units Entitled		
to Priority Distributions	285,163,954	266,876,031
Common Units Not Entitled to		
Priority Distributions	3,826,233	1,501,373
Total Weighted-Average Common		
Units Outstanding	288,990,187	268,377,404

(a) Undistributed Loss per Common Unit – Priority Distributions are forecast based upon common units outstanding at the end of the reporting period and differ from actual distributions paid to common unitholders which are based on common units outstanding at the time priority distributions are made.

For the years ended December 31, 2010, 2009 and 2008 the total unvested deferred restricted common units and Blackstone Holdings Partnership Units were anti-dilutive and as such have been excluded from the calculation of diluted earnings per unit, respectively, as follows.

	December 31,		
	2010	2009	2008
Unvested Deferred			
Restricted			
Common Units	25,828,413	22,453,412	29,117,068
Blackstone Holdings			
Partnership Units	736,772,290	812,377,553	831,549,761

Unit Repurchase Program

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 year ended December 31, 2010, Blackstone repurchased a combination of 107,420 Blackstone Holdings Partnership Units and Blackstone Common Units as part of the unit repurchase program for a total cost of \$1.5 million. The repurchase resulted in a decrease in Blackstone's ownership interest in Blackstone Holdings equity of \$1.2 million. As of December 31, 2010, the amount remaining available for repurchases under this program was \$337.9 million.

During the year ended December 31, 2009, Blackstone repurchased a combination of 4,689,091 Blackstone Common Units and Blackstone Holdings Partnership Units as part of the unit repurchase program for a total cost of \$30.5 million. The repurchase resulted in a decrease in Blackstone's ownership interest in Blackstone Holdings equity of \$17.3 million.

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 advisors under the Partnership's 2007 Equity Incentive Plan (the "Equity Plan"), the majority of which to date were granted in connection with the 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, 2010, the Partnership had the ability to grant 162,126,007 units under the Equity Plan.

For the years ended December 31, 2010, 2009 and 2008 the Partnership recorded compensation expense of \$2.4 billion, \$3.0 billion and \$3.3 billion, respectively, in relation to its equity-based awards with corresponding tax benefits of \$16.1 million, \$13.7 million and \$16.4 million, respectively. As of December 31, 2010, there was \$4.0 billion of estimated unrecognized

compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 3.7 years.

Total vested and unvested outstanding units, including Blackstone Common Units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,130,052,026 as of December 31, 2010. Total outstanding unvested phantom units were 225,841 as of December 31, 2010.

A summary of the status of the Partnership's unvested equity-based awards as of December 31, 2010 and a summary of changes during the period January 1, 2010 through December 31, 2010 is presented below:

Unvested Units	Blackstone Holdings		The Blackstone Group L.P.			
	Partnership Units	Weighted-Average Grant Date Fair Value	Equity Settled Awards		Cash Settled Awards	
			Deferred Restricted Common Units and Options	Weighted-Average Grant Date Fair Value	Phantom Units	Weighted-Average Grant Date Fair Value
Balance, December 31, 2009	270,458,725	\$30.76	23,742,693	\$23.10	208,592	\$25.07
Granted	1,185,667	12.94	6,546,818	12.56	219,192	13.91
Vested	(117,262,467)	30.85	(10,072,912)	19.73	(193,497)	14.56
Forfeited	(5,156,607)	29.81	(1,097,650)	24.21	(8,446)	14.60
Balance, December 31, 2010	149,225,318	\$30.58	19,118,949	\$21.00	225,841	\$13.98

Units Expected to Vest

The following unvested units, after expected forfeitures, as of December 31, 2010, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	139,905,570	3.4
Deferred Restricted Blackstone Common Units and Options	15,520,221	3.2
Total Equity-Based Awards	155,425,791	3.4
Phantom Units	168,629	4.3

Deferred Restricted Common Units and Phantom Units

The Partnership has granted deferred restricted common units to certain senior and non-senior managing director professionals, analysts and senior finance and administrative personnel and selected external advisors and phantom units (cash settled equity-based awards) to other non-senior managing director employees. Holders of deferred restricted common units and phantom units are not entitled to any voting rights. Only phantom units are to be settled in cash.

The fair values of deferred restricted common units have been derived based on the closing price of Blackstone's Common Units on the date of the grant, multiplied by the number of unvested awards and expensed over the assumed service period, which ranges from 1 to 10 years. Additionally, the calculation of the compensation expense assumes forfeiture rates based upon historical turnover rates, ranging from 1% to 13.9% annually by employee class, and a per unit discount, ranging from \$0.01 to \$12.85 as a majority of these unvested awards do not

contain distribution participation rights. In most cases, the Partnership will not make any distributions with respect to unvested deferred restricted common units. However, there are certain grantees who receive distributions on both vested and unvested deferred restricted common units.

Subject to a non-senior managing director employee's continued employment with Blackstone, the phantom units vested or will vest in equal installments on each of the first, second and third anniversaries of the grant date or, in the case of certain term analysts, in a single installment on the date that the employee completes his or her current contract period with Blackstone. On each such vesting date, Blackstone delivered or will deliver cash to the holder in an amount equal to the number of phantom units held multiplied by the then fair market value of the Blackstone common units on such date. Additionally, the calculation of the compensation expense assumes forfeiture rates based upon historical turnover rates, ranging from 8.4% to 13.9% annually by employee class. Blackstone is accounting for these cash settled awards as a liability.

Blackstone paid \$2.2 million, \$3.5 million and \$6.7 million to non-senior managing director employees in settlement of phantom units for the years ended December 31, 2010, 2009 and 2008, respectively.

Blackstone Holdings Partnership Units

At the time of the Reorganization, Blackstone's predecessor owners and selected advisors received 827,516,625 Blackstone Holdings Partnership Units, of which 387,805,088 were vested and 439,711,537 were to vest over a period of up to 8 years from the IPO date. Subsequent to the Reorganization, the Partnership has granted Blackstone Holdings Partnership Units to newly hired senior managing directors. The Partnership has accounted

for the unvested Blackstone Holdings Partnership Units as compensation expense. The fair values have been derived based on the closing price of Blackstone's Common Units on the date of the grant, or \$31 (based on the initial public offering price per Blackstone Common Unit) for those units issued at the time of the Reorganization, multiplied by the number of unvested awards and expensed over the assumed service period which ranges from 1 to 8 years. Additionally, the calculation of the compensation expense assumes a forfeiture rate of up to 13.9%, based on historical experience.

In November 2009, the Partnership modified equity awards issued in connection with a deferred compensation plan to, among other things: (a) provide that deferred compensation payments to participating employees and senior managing directors generally would be satisfied by delivery of Blackstone common units instead of delivery of Partnership Units; (b) delay the delivery of common units (following the applicable vesting dates) until anticipated trading window periods, to better facilitate participants' liquidity to meet tax obligations; and (c) ensure compliance with deferred compensation taxation rules. As the fair value of Partnership Units on grant date is based on the closing price of Blackstone Common Units, there was no change in the fair value of these awards as a result of the modification. As a result, there was no additional impact to compensation expense.

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 the five-year period beginning January 2008, relative to a predetermined threshold. In connection with certain equity-based awards with performance conditions, Blackstone has recorded compensation expense of \$1.9 million as the likelihood that the relevant performance threshold will be exceeded in future periods has been deemed as probable. Such awards will be granted in 2012 and are accounted for as a liability award subject to re-measurement at the end of each reporting period.

Acquisition of GSO Capital Partners LP

In conjunction with the acquisition of GSO, the Partnership entered into equity-based compensation arrangements with certain GSO senior managing directors and other personnel. The arrangements stipulate that the recipient receive cash, equity instruments or a combination of cash and equity instruments to be earned over service periods ranging from three to five years or based upon the realization of specified earnings targets over the period 2008 through 2012. For the non-performance dependent compensation arrangements, the Partnership will recognize the estimated expense on a straight-line basis over the service period. For the performance-based compensation arrangements tied to specified earnings targets, the Partnership estimates compensation expense based upon whether it is probable that forecasted earnings will meet or exceed the required earnings targets and if so, recognizes the expense over the earnings period.

16. RELATED PARTY TRANSACTIONS

Affiliate Receivables and Payables

Blackstone considers its founder, senior managing directors, employees, the Blackstone Funds and the Portfolio Companies to be affiliates. As of December 31, 2010 and 2009, Due from Affiliates and Due to Affiliates comprised the following:

	December 31,	
	2010	2009
Due from Affiliates		
Accrual for Potential Clawback of Previously Distributed Carried Interest	\$ 180,672	\$ 308,378
Primarily Interest Bearing Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees for Investments in Blackstone Funds	169,413	127,669
Amounts Due from Portfolio Companies and Funds	175,872	115,441
Investments Redeemed in Non-Consolidated Funds of Funds	43,790	77,600
Management and Performance Fees Due from Non-Consolidated Funds of Funds	107,547	68,649
Payments Made on Behalf of Non-Consolidated Entities	81,689	53,581
Advances Made to Certain Non-Controlling Interest Holders and Blackstone Employees	36,412	8,589
	<u>\$ 795,395</u>	<u>\$ 759,907</u>
	December 31,	
	2010	2009
Due to Affiliates		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	\$1,114,609	\$ 830,517
Accrual for Potential Repayment of Previously Received Performance Fees	273,829	485,253
Due to Note-Holders of Consolidated CLO Vehicles	274,020	-
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	77,362	58,083
Distributions Received on Behalf of Non-Consolidated Entities	15,970	31,692
Payments Made by Non-Consolidated Entities	6,497	4,521
	<u>\$1,762,287</u>	<u>\$1,410,066</u>

Interests of the Founder, Senior Managing Directors and Employees

The founder, senior managing directors and employees invest on a discretionary basis in the Blackstone Funds both directly and through consolidated entities. Their investments may be subject to preferential management fee and performance fee arrangements. As of December 31, 2010 and 2009, the founder's, other senior managing directors' and employees' investments aggregated \$832.8 million and \$649.4 million, respectively, and the founder's, other senior managing directors' and employees' share of the Net Income Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated \$219.7 million, \$31.2 million and \$(281.7) million for the years ended December 31, 2010, 2009 and 2008, respectively.

Revenues Earned from Affiliates

Management and Advisory Fees earned from affiliates totaled \$189.0 million, \$134.3 million and \$188.3 million for the years ended December 31, 2010, 2009 and 2008, respectively. Fees relate primarily to transaction and monitoring fees which are made in the ordinary course of business and under terms that would have been obtained from unaffiliated third parties.

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 \$3.1 million, \$2.2 million and \$6.0 million for the years ended December 31, 2010, 2009 and 2008, respectively. No such loans to any director or executive officer of Blackstone have been made or were outstanding since March 22, 2007, the date of Blackstone's initial filing with the Securities and Exchange Commission of a registration statement relating to its initial public offering.

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 Possible 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 liquidated based on the fair value of their underlying investments as of December 31, 2010. 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 ("Personal Aircraft"). 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 paid for his purchases of the aircraft himself and bears all operating, personnel and maintenance costs associated with their operation. In addition, Mr. Schwarzman is charged for his and his family's personal use of Blackstone assets based on market rates and usage. Payment by Blackstone for the use of the Personal Aircraft by other Blackstone employees are made at market rates. Personal use of Blackstone resources are also reimbursed to Blackstone at market rates. The transactions described herein are not material to the 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 \$1,114.6 million over the next 15 years. The after-tax net present value of these estimated payments totals \$315.9 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 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. Subsequent to December 31, 2010, payments totaling \$51.5 million were made to certain pre-IPO owners in accordance with the tax receivable agreements and related tax benefits the Partnership received for the 2009 taxable year.

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

Operating Leases. The Partnership leases office space under non-cancelable lease and sublease agreements, which expire on various dates through 2024. Occupancy lease agreements, in addition to base rentals, generally are subject to escalation provisions based on certain costs incurred by the landlord, and are recognized on a straight-line basis over the term of the lease agreement. Rent expense includes base contractual rent and variable costs such as building expenses, utilities, taxes and insurance. Rent expense for the years ended December 31, 2010, 2009 and 2008, was \$66.4 million, \$63.1 million and \$40.7 million, respectively. At December 31, 2010 and 2009, the Partnership maintained irrevocable standby letters of credit and cash deposits as security for the leases of \$10.7 million and \$9.9 million, respectively. As of December 31, 2010, the approximate aggregate minimum future payments, net of sublease income, required on the operating leases are as follows:

2011	\$ 56,826
2012	54,018
2013	50,719
2014	45,167
2015	45,851
Thereafter	245,536
Total	\$498,117

Investment Commitments. Blackstone had \$1.2 billion of investment commitments as of December 31, 2010 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 \$29.4 million as of December 31, 2010 which includes \$5.2 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 \$5.1 million as of December 31, 2010.

Contingent Performance Fees. There were \$111.9 million of segment level Performance Fees related to the hedge funds in the Credit and Marketable Alternatives and Real Estate segments for the year ended December 31, 2010 attributable to arrangements where the measurement period had not ended. Measurement periods may be greater than the current reporting period. On a consolidated basis, after eliminations, such Performance Fees were \$111.2 million for the year ended December 31, 2010.

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 adversely affect its results of operations, financial position or cash flows.

Contingent Obligations (Clawback). Included within Net Gains from Fund Investment Activities in the Consolidated Statements of Operations are gains from Blackstone Fund investments. The portion of net gains attributable to non-controlling interest holders is included within Non-Controlling Interests in Income of Consolidated Entities. Net gains (losses) attributable to non-controlling interest holders are net of Carried Interest earned by Blackstone. 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.

The actual clawback liability, however, does not become realized until the end of a fund's life except for Blackstone's real estate funds which may have an interim clawback liability come due after a realized loss is incurred, depending on the fund. The lives of the carry funds with a potential clawback obligation, including available contemplated extensions, are currently anticipated to expire at various points beginning toward the end of 2012 and extending through 2018. 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.

For the year ended December 31, 2010, the Blackstone general partners paid an interim cash clawback obligation of \$19.3 million relating to a real estate fund of which \$15.4 million was paid by Blackstone Holdings and \$3.9 million by current and former Blackstone personnel.

The following table presents the clawback obligations by segment:

Segment	December 31,					
	2010			2009		
	Blackstone Holdings	Current and Former Personnel	Total	Blackstone Holdings	Current and Former Personnel	Total
Private Equity	\$62,534	\$118,845	\$181,379	\$ 65,237	\$120,208	\$185,445
Real Estate	30,623	61,827	92,450	152,142	147,666	299,808
Total	\$93,157	\$180,672	\$273,829	\$217,379	\$267,874	\$485,253

The Accrual for Potential Repayment of Previously Received Performance Fees is included in Due to Affiliates.

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 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 December 31, 2010, \$482.4 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. EMPLOYEE BENEFIT PLANS

The Partnership provides a 401(k) plan (the "Plan") for eligible employees in the United States. For certain finance and administrative professionals who are participants in the Plan, the Partnership contributes 2% of such professional's pre-tax annual compensation up to a maximum of one thousand six hundred dollars. In addition, the Partnership will contribute 50% of the first 4% of pre-tax annual compensation contributed by such professional participants with a maximum matching contribution of one thousand six hundred dollars. For the years ended December 31, 2010, 2009 and 2008, the Partnership incurred expenses of \$1.3 million, \$1.5 million and \$1.3 million in connection with such Plan.

The Partnership provides a defined contribution plan for eligible employees in the United Kingdom ("U.K. Plan"). All United Kingdom employees are eligible to contribute to the U.K. Plan after three months of qualifying service. The Partnership contributes a percentage of an employee's annual salary, subject to United Kingdom statutory restrictions, on a monthly basis for administrative employees of the Partnership based upon the age of the employee. For the years ended December 31, 2010, 2009 and 2008, the Partnership incurred expenses of \$0.3 million, \$0.3 million and \$0.3 million, respectively, in connection with the U.K. Plan.

19. REGULATED ENTITIES

The Partnership has certain entities that are registered broker-dealers which are subject to the minimum net capital requirements of the United States Securities and Exchange Commission

("SEC"). The Partnership has continuously operated in excess of these requirements. The Partnership also has two entities based in London which are subject to the capital requirements of the U.K. Financial Services Authority. These entities have continuously operated in excess of their regulatory capital requirements.

Certain other U.S. and non-U.S. entities are subject to various investment adviser, commodity pool operator and trader regulations. This includes a number of U.S. entities which are registered as investment advisers with the SEC.

The regulatory capital requirements referred to above may restrict the Partnership's ability to withdraw capital from its entities. At December 31, 2010, approximately \$5.7 million of net assets of consolidated entities may be restricted as to the payment of cash dividends and advances to the Partnership.

20. 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 four segments:

- Private Equity — Blackstone's Private Equity segment comprises its management of private equity funds.
- Real Estate — Blackstone's Real Estate segment primarily comprises its management of general real estate funds and internationally focused real estate funds. In addition, the segment has debt investment funds targeting non-controlling real estate debt-related investment opportunities in the public and private markets, primarily in the United States and Europe.
- Credit and Marketable Alternatives — Blackstone's Credit and Marketable Alternatives segment, whose consistent focus is current earnings, comprises its management of funds of hedge funds, credit-oriented funds, CLO vehicles, separately managed accounts and publicly-traded closed-end mutual funds and registered investment companies.
- Financial Advisory — Blackstone's Financial Advisory segment comprises its financial advisory services, restructuring and reorganization advisory 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, with the Private Equity, Real Estate

and Credit and Marketable Alternatives segments primarily earning 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.

Economic Net Income (“ENI”) is a key performance measure used by management. ENI represents segment net income before taxes excluding transaction-related charges. Transaction-related charges include principally charges associated with equity-based compensation, the amortization of intangibles and corporate actions including acquisitions. Blackstone uses ENI as a key measure of value creation and as a benchmark of its performance. ENI represents segment net income excluding the impact of income taxes and initial public offering (“IPO”) and acquisition-related

items, including charges associated with equity-based compensation, the amortization of intangibles and corporate actions including acquisitions. For segment reporting purposes, revenues and expenses are presented on a basis that deconsolidates the investment funds managed by Blackstone. Total Segment ENI equals the aggregate of ENI for all segments. ENI is used by management primarily in making resource deployment and compensation decisions across Blackstone’s four segments.

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 Consolidated Financial Statements. Consequently, all segment data excludes the assets, liabilities and operating results related to the Blackstone Funds.

The following table presents the financial data for Blackstone’s four segments as of and for the years ended December 31, 2010, 2009 and 2008:

	December 31, 2010 and the Year Then Ended				
	Private Equity	Real Estate	Credit and Marketable Alternatives	Financial Advisory	Total Segments
Segment Revenues					
Management and Advisory Fees					
Base Management Fees	\$ 263,307	\$ 338,428	\$ 467,736	\$ –	\$ 1,069,471
Advisory Fees	–	–	–	426,140	426,140
Transaction and Other Fees, Net	72,243	59,914	5,229	362	137,748
Management Fee Offsets	(188)	(1,071)	(1,054)	–	(2,313)
Total Management and Advisory Fees	335,362	397,271	471,911	426,502	1,631,046
Performance Fees					
Realized	156,869	40,288	164,506	–	361,663
Unrealized	151,494	256,971	156,161	–	564,626
Total Performance Fees	308,363	297,259	320,667	–	926,289
Investment Income					
Realized	15,332	11,251	19,518	814	46,915
Unrealized	153,288	318,979	28,833	534	501,634
Total Investment Income	168,620	330,230	48,351	1,348	548,549
Interest and Dividend Revenue	14,044	11,173	4,907	5,972	36,096
Other	2,021	(336)	(391)	(1,912)	(618)
Total Revenues	828,410	1,035,597	845,445	431,910	3,141,362
Expenses					
Compensation and Benefits					
Compensation	179,345	183,177	218,643	277,949	859,114
Performance Fee Compensation					
Realized	32,627	15,844	79,845	–	128,316
Unrealized	21,320	122,864	84,462	–	228,646
Total Compensation and Benefits	233,292	321,885	382,950	277,949	1,216,076
Other Operating Expenses	109,589	74,189	90,466	70,272	344,516
Total Expenses	342,881	396,074	473,416	348,221	1,560,592
Economic Net Income	\$ 485,529	\$ 639,523	\$ 372,029	\$ 83,689	\$ 1,580,770
Segment Assets as of December 31, 2010	\$4,191,664	\$2,741,280	\$2,760,434	\$644,553	\$10,337,931

	Year Ended December 31, 2009				
	Private Equity	Real Estate	Credit and Marketable Alternatives	Financial Advisory	Total Segments
Segment Revenues					
Management and Advisory Fees					
Base Management Fees	\$ 270,509	\$ 328,447	\$ 400,873	\$ -	\$ 999,829
Advisory Fees	-	-	-	390,718	390,718
Transaction and Other Fees, Net	86,336	25,838	2,866	-	115,040
Management Fee Offsets	-	(2,467)	(14,694)	-	(17,161)
Total Management and Advisory Fees	356,845	351,818	389,045	390,718	1,488,426
Performance Fees					
Realized	34,021	(3,039)	43,282	-	74,264
Unrealized	303,491	(252,180)	114,556	-	165,867
Total Performance Fees	337,512	(255,219)	157,838	-	240,131
Investment Income (Loss)					
Realized	36,968	6,164	(15,031)	1,443	29,544
Unrealized	33,269	(125,624)	96,016	219	3,880
Total Investment Income (Loss)	70,237	(119,460)	80,985	1,662	33,424
Interest and Dividend Revenue	7,756	6,030	3,452	5,254	22,492
Other	2,845	3,261	1,025	(35)	7,096
Total Revenues	775,195	(13,570)	632,345	397,599	1,791,569
Expenses					
Compensation and Benefits					
Compensation	181,266	158,115	198,117	232,359	769,857
Performance Fee Compensation					
Realized	741	3,506	20,854	-	25,101
Unrealized	20,307	(113,981)	67,493	-	(26,181)
Total Compensation and Benefits	202,314	47,640	286,464	232,359	768,777
Other Operating Expenses	82,471	56,325	80,661	79,572	299,029
Total Expenses	284,785	103,965	367,125	311,931	1,067,806
Economic Net Income (Loss)	\$ 490,410	\$ (117,535)	\$ 265,220	\$ 85,668	\$ 723,763
Segment Assets	\$2,870,238	\$1,940,925	\$2,706,169	\$986,624	\$8,503,956

	Year Ended December 31, 2008				
	Private Equity	Real Estate	Credit and Marketable Alternatives	Financial Advisory	Total Segments
Segment Revenues					
Management and Advisory Fees					
Base Management Fees	\$ 268,961	\$ 295,921	\$ 476,836	\$ -	\$ 1,041,718
Advisory Fees	-	-	-	397,519	397,519
Transaction and Other Fees, Net	51,796	36,046	8,516	-	96,358
Management Fee Offsets	(4,862)	(4,969)	(6,606)	-	(16,437)
Total Management and Advisory Fees	315,895	326,998	478,746	397,519	1,519,158
Performance Fees					
Realized	(749)	24,681	15,081	-	39,013
Unrealized	(429,736)	(843,704)	(12,822)	-	(1,286,262)
Total Performance Fees	(430,485)	(819,023)	2,259	-	(1,247,249)
Investment Income (Loss)					
Realized	13,687	3,778	(82,142)	-	(64,677)
Unrealized	(196,200)	(238,650)	(257,084)	-	(691,934)
Total Investment Income (Loss)	(182,513)	(234,872)	(339,226)	-	(756,611)
Interest and Dividend Revenue	6,459	5,880	8,527	8,148	29,014
Other	4,474	3,008	1,214	4,899	13,595
Total Revenues	(286,170)	(718,009)	151,520	410,566	(442,093)
Expenses					
Compensation and Benefits					
Compensation	146,551	150,684	239,436	234,755	771,426
Performance Fee Compensation					
Realized	(4,255)	1,090	8,162	-	4,997
Unrealized	(126,090)	(74,981)	(6,643)	-	(207,714)
Total Compensation and Benefits	16,206	76,793	240,955	234,755	568,709
Other Operating Expenses	90,130	55,782	106,027	67,277	319,216
Total Expenses	106,336	132,575	346,982	302,032	887,925
Economic Net Income (Loss)	\$(392,506)	\$(850,584)	\$(195,462)	\$108,534	\$(1,330,018)

The following table reconciles the Total Segments to Blackstone's Income (Loss) Before Provision for Taxes and Total Assets as and for the years ended December 31, 2010, 2009 and 2008:

	December 31, 2010 and the Year Then Ended		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$ 3,141,362	\$ (22,020) ^(a)	\$ 3,119,342
Expenses	\$ 1,560,592	\$ 2,583,398 ^(b)	\$ 4,143,990
Other Income	\$ -	\$ 501,994 ^(c)	\$ 501,994
Economic Net			
Income (Loss)	\$ 1,580,770	\$(2,103,424) ^(d)	\$(522,654)
Total Assets	\$10,337,931	\$ 8,506,674 ^(e)	\$18,844,605

	December 31, 2009 and the Year Then Ended		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$1,791,569	\$ (17,870) ^(a)	\$ 1,773,699
Expenses	\$1,067,806	\$ 3,174,053 ^(b)	\$ 4,241,859
Other Income	\$ -	\$ 176,694 ^(c)	\$ 176,694
Economic Net			
Income (Loss)	\$ 723,763	\$(3,015,229) ^(d)	\$(2,291,466)
Total Assets	\$8,503,956	\$ 905,068 ^(e)	\$ 9,409,024

	December 31, 2008 and the Year Then Ended		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$ (442,093)	\$ 92,732 ^(a)	\$ (349,361)
Expenses	\$ 887,925	\$ 3,498,677 ^(b)	\$ 4,386,602
Other Income	\$ -	\$ (872,336) ^(c)	\$ (872,336)
Economic Net			
Income (Loss)	\$(1,330,018)	\$(4,278,281) ^(d)	\$(5,608,299)

(a) The Revenues adjustment principally represents management and performance fees earned from Blackstone Funds which were eliminated in consolidation to arrive at 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:

	Year Ended December 31,		
	2010	2009	2008
Fund Management Fees and Performance Fees Eliminated in Consolidation	\$ 17,165	\$ 14,870	\$(105,418)
Fund Expenses Added in Consolidation	30,776	10,441	66,046
Non-Controlling Interests in Income (Loss) of Consolidated Entities	431,149	151,383	(832,964)
Transaction-Related Other Income	22,904	-	-
Total Consolidation Adjustments and Reconciling Items	\$501,994	\$176,694	\$(872,336)

(d) The reconciliation of Economic Net Income to Income (Loss) Before Benefit for Taxes as reported in the Consolidated Statements of Operations consists of the following:

	Year Ended December 31,		
	2010	2009	2008
Economic Net Income (Loss)	\$ 1,580,770	\$ 723,763	\$(1,330,018)
Adjustments			
Amortization of Intangibles	(165,378)	(158,048)	(153,237)
IPO and Acquisition-Related Charges	(2,369,195)	(2,973,950)	(3,331,722)
Other Adjustments	-	-	(999)
Non-Controlling Interests in Income (Loss) of Consolidated Entities	431,149	116,769	(792,323)
Total Consolidation Adjustments and Reconciling Items	(2,103,424)	(3,015,229)	(4,278,281)
Income (Loss) Before Provision for Taxes	\$ (522,654)	\$(2,291,466)	\$(5,608,299)

(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.

21. SUBSEQUENT EVENTS

In January 2011, Blackstone separated its Credit and Marketable Alternatives segment into two new segments: Hedge Fund Solutions and Credit Businesses. The Hedge Fund Solutions segment, which is comprised primarily of Blackstone Alternative Asset Management, primarily manages funds of hedge funds and includes the Indian-focused and Asian-focused closed-end mutual funds. The Credit Businesses segment, which principally includes GSO, manages credit-oriented funds, collateralized loan obligation vehicles, separately managed accounts and debt-focused closed-end registered investment companies. This change in Blackstone's segment reporting aligns it to its management reporting and organization structure and is consistent with the manner in which resource deployment and compensation decisions will be made. Blackstone will report segment results under this structure commencing in the first quarter of 2011.

22. QUARTERLY FINANCIAL DATA (UNAUDITED)

	Three Months Ended			
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
Revenues	\$ 701,239	\$ 550,088	\$ 784,000	\$1,084,015
Expenses	1,100,714	1,127,766	925,769	989,741
Other Income (Loss)	171,804	(59,250)	285,071	104,369
Income (Loss) Before Provision for Taxes	\$ (227,671)	\$ (636,928)	\$ 143,302	\$ 198,643
Net Income (Loss)	\$ (237,306)	\$ (656,320)	\$ 147,527	\$ 138,776
Income (Loss) Attributable to The Blackstone Group L.P.	\$ (121,377)	\$ (193,320)	\$ (44,358)	\$ (10,973)
Net Loss Per Common Unit – Basic and Diluted Common Units	\$ (0.36)	\$ (0.55)	\$ (0.12)	\$ (0.03)
Distributions Declared ^(a)	\$ 0.30	\$ 0.10	\$ 0.10	\$ 0.10

	Three Months Ended			
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
Revenues	\$ 44,914	\$ 406,416	\$ 597,023	\$ 725,346
Expenses	922,358	1,051,706	1,097,794	1,170,001
Other Income (Loss)	(34,763)	58,304	73,812	79,341
Income (Loss) Before Provision for Taxes	\$ (912,207)	\$ (586,986)	\$ (426,959)	\$ (365,314)
Net Income (Loss)	\$ (929,938)	\$ (597,871)	\$ (479,510)	\$ (383,377)
Income (Loss) Attributable to The Blackstone Group L.P.	\$ (231,574)	\$ (164,284)	\$ (176,183)	\$ (143,250)
Net Loss Per Common Unit – Basic and Diluted				
Common Units Entitled to Priority Distributions	\$ (0.84)	\$ (0.59)	\$ (0.59)	\$ (0.45)
Common Units Not Entitled to Priority Distributions	\$ (1.14)	\$ (0.90)	\$ (0.92)	\$ (0.76)
Priority Distributions Declared ^(a)	\$ –	\$ 0.30	\$ 0.30	\$ 0.30

(a) Distributions declared reflects the calendar date of the declaration of each distribution.

LEADERSHIP DIRECTORY

Board of Directors

Stephen A. Schwarzman
Chairman, CEO and Co-Founder,
The Blackstone Group

Hamilton E. James
President and Chief Operating Officer,
The Blackstone Group

J. Tomilson Hill
Vice Chairman and Head of
Blackstone Alternative Asset Management
The Blackstone Group

Richard Jenrette
Retired Chairman and CEO,
The Equitable Life Assurance Society

Jay O. Light
Dean Emeritus, Harvard Business School

The Right Honorable Brian Mulroney
Former Prime Minister of Canada

William G. Parrett
Retired CEO and Senior Partner,
Deloitte (Deloitte Touche Tohmatsu)

2010 Management, Executive Committee and Corporate Officers

Stephen A. Schwarzman
Chairman, CEO and Co-Founder

Hamilton E. James
President and Chief Operating Officer

J. Tomilson Hill
Vice Chairman and Head of
Blackstone Alternative Asset Management

David S. Blitzler
Senior Managing Director, Private Equity

Chinh E. Chu
Senior Managing Director, Private Equity

Timothy R. Coleman
Head, Restructuring & Reorganization

John G. Finley
Chief Legal Officer

Bennett Goodman
Co-Founder of GSO Capital Partners

Jonathan D. Gray
Co-Head, Real Estate

Antony Leung
Chairman of Blackstone Greater China

Chad R. Pike
Co-Head, Real Estate

Joan Solotar
Head, External Relations and Strategy

John Studzinski
Head, Blackstone Advisory Partners, LP

Laurence A. Tosi
Chief Financial Officer

Kenneth C. Whitney
Head, Senior Managing Director,
Investor Relations and
Business Development

Business Units

Private Equity
Blackstone Capital Partners
Zhonghua Development Fund

Real Estate
Real Estate Debt Strategies
Real Estate Partners
Real Estate Partners International

Hedge Fund Solutions
Blackstone Alternative Asset Management
(BAAM)

Credit
GSO Capital Partners
Collateralized Loan Obligations (CLO)
Distressed Funds
Mezzanine Funds
Multi-Strategy Credit Funds

Closed End Mutual Funds
Asia Tigers Fund
Blackstone/GSO LSCIF
Blackstone/GSO SFRTF
India Fund

Financial Advisory
Blackstone Advisory Partners, LP
Park Hill
Park Hill LLC
Park Hill Real Estate LLC
Restructuring & Reorganization
Advisory

Blackstone Greater China
Blackstone India
Blackstone International

UNITHOLDER INFORMATION

Global Offices

New York

345 Park Avenue
New York, NY 10154

Atlanta

4401 Northside Parkway, 3rd Floor, Suite 375
Atlanta, GA 30327

Beijing

Winland International Finance Center
Unit F817-18
No. 7, Finance Street
Xicheng District, Beijing, China 100140

Boston

Exchange Place
53 State Street, 29th Floor
Boston, MA 02109

Chicago

200 West Madison Street, Suite 3800
Chicago, IL 60606

Dallas

3949 Maple Avenue, Suite 400
Dallas, TX 75219

Dubai

22/23 Level 12, The Gate Building
PO Box 121208
Dubai Financial Center, Sheikh Zayed Road
Dubai, UAE

Düsseldorf

Benrather Strasse 12
D-40213 Düsseldorf
Germany

Hong Kong

Two International Finance Centre
Suite 901, 9th Floor
8 Finance Street
Central, Hong Kong
China

London

40 Berkeley Square
London, W1J 5AL
United Kingdom

Los Angeles

1299 Ocean Avenue, Suite 320
Santa Monica, CA 90401

Menlo Park

2494 Sand Hill Road, Suite 200
Menlo Park, CA 94025

Mumbai

Express Towers, 5th Floor
Nariman Point
Mumbai, 400 021
India

Paris

3 rue Paul Cezanne
75008 Paris
France

San Francisco

101 California Street, Suite 2880
San Francisco, CA 94111

Seoul

Jongno Tower, 17th Floor
6, Jongno 2-Ga
Jongno-Gu, Seoul
Korea

Shanghai

Unit 1101, DBS Bank Tower
No. 1318 Lujiazui Ring Road, Pudong
Shanghai, PRC, China 200120

Singapore

Regus Singapore Samsung Hub
3 Church Street, Level 8
Singapore, 049483

Sydney

Suite 2802, Angel Place
123 Pitt Street
Sydney, NSW 2000
Australia

Tokyo

Midtown Tower, 22nd Floor
9-7-1 Akasaka, Minato-Ku
Tokyo, 107-6222
Japan

GSO Capital Partners

New York

280 Park Avenue
11th Floor
New York, NY 10017

London

40 Berkeley Square
London, W1J 5AL
United Kingdom

Houston

11 Greenway Plaza
30th Floor, Suite 3050
Houston, TX 77046

Number of Employees Globally

1,440

Independent Auditors

Deloitte & Touche LLP

Transfer Agent

American Stock Transfer & Trust Company
Operations Center
6201 15th Avenue
Brooklyn, NY 11219
+1 800.937.5449

Investor Relations

The Blackstone Group L.P.
345 Park Avenue
New York, NY 10154
+1 888.756.8443 (United States)
+1 646.313.6590 (International)

Additional Financial Information

Please visit www.blackstone.com for our complete 2010 Annual Report on Form 10-K and the other documents we have filed or furnished with the SEC, including our Current Report on Form 8-K containing our press release reporting on our fiscal 2010 financial results.

Copyright Information

Copyright 2011
The Blackstone Group L.P.
All rights reserved.

NYSE Symbol

BX

Common Unit Price

The following table sets forth the high and low intra-day sales prices per unit of our common units, for the periods indicated, as reported by the NYSE.

2010	Sales Price	
	High	Low
First Quarter	\$15.10	\$12.03
Second Quarter	\$15.49	\$ 9.34
Third Quarter	\$12.72	\$ 8.93
Fourth Quarter	\$14.65	\$12.30

Neither this annual report nor any of the information contained herein constitutes an offer of any Blackstone fund.

Blackstone
345 Park Avenue
New York,
New York 10154
blackstone.com