

Issues: Financial Ability, Economic Feasibility, Public Interest

Witness: Edward M. Rahill

Sponsoring Party: South Central MCN LLC

Type of Exhibit: Supplemental Direct Testimony

Case No.: EA-2016-0036

Date Testimony Prepared: December 9, 2015

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the Application of South Central )  
MCN LLC for Approval of Transfer of )  
Assets and A Certificate of Convenience and )  
Necessity )

File No. EA-2016-0036

**SUPPLEMENTAL DIRECT TESTIMONY OF**

**EDWARD M. RAHILL**

**ON BEHALF OF**

**SOUTH CENTRAL MCN LLC**

**December 9, 2015**

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

SUPPLEMENTAL DIRECT TESTIMONY OF

EDWARD M. RAHILL

ON BEHALF OF

SOUTH CENTRAL MCN LLC

December 9, 2015

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1 I. INTRODUCTION AND PURPOSE OF TESTIMONY

2 Q1. Please state your name and address.

3 A: My name is Edward M. Rahill. My business address is 2 N. LaSalle Street, Suite 420, Chicago, IL  
4 60602.

5 Q2. Are you the same Edward M. Rahill who submitted direct testimony in this proceeding dated  
6 August 17, 2015?

7 A: Yes, I am.

8 Q3. What is the purpose of your testimony?

9 A: First, I will introduce the testimony of the other witnesses and identify what information their  
10 testimony will provide. Then, I will provide additional information regarding SCMCN's corporate  
11 structure; the financial qualification of SCMCN and its financing partner; and the economic  
12 feasibility of SCMCN's purchase and operation of the Assets. In addition, I will explain why  
13 granting SCMCN a certificate to operate the Assets promotes the public interest. Finally, I will offer  
14 into evidence an amendment to the Asset Purchase Agreement.

15 Q4. What testimony are you introducing?

16 A: Noman L. Williams, SCMCN's Senior Vice President – Engineering & Operations and Chief  
17 Operating Officer, will present testimony on the need for SCMCN to operate in Missouri. Mr.  
18 Williams will also provide testimony on SCMCN's qualification to operate and maintain  
19 transmission facilities in Missouri. Robert E. Pender will provide testimony on how SCMCN  
20 determined the appropriate purchase price for the Assets. Mr. Carl A. Huslig, Senior Vice  
21 President – Development of SCMCN, will provide testimony on the economic impact of the  
22 Transaction. The testimony of Mr. Williams, Mr. Huslig, and Mr. Pender also speaks to how this  
23 Transaction and, more importantly, granting a certificate to SCMCN to operate the Assets,  
24 promotes the public interest.

1 II. CORPORATE ORGANIZATION

2 Q5. In your direct testimony dated August 17, 2015, you discussed the upstream parents of  
3 SCMCN. You stated that SCMCN is wholly-owned by GridLiance Heartland LLC (GridLiance  
4 Heartland), which is owned by GridLiance Holdco, LP (GridLiance Holdco), and that  
5 GridLiance Holdco is controlled by affiliates of the Blackstone Group (Blackstone). What  
6 else can you tell us about the companies' organizational structure?

7 A. The relationship between the various companies is clearly illustrated on the organizational chart  
8 provided at *Exhibit EMR-1* attached hereto. All employees are employed by an affiliate,  
9 GridLiance Management, LLC. The utility assets will be held at the transmission operating  
10 company or "Transco" level. Where the use of assets is spread over more than one Transco, the  
11 assets, such as the corporate accounting system, will be held at GridLiance Holdco. This is a  
12 typical holding company structure used by many utilities operating in different states or regions.

13 III. SCMCN'S FINANCIAL ABILITY

14 Q6. What evidences SCMCN's financial ability to perform the service for which the certificate is  
15 sought, *i.e.*, operating the Assets?

16 A: SCMCN has an equity commitment letter from Blackstone which is a binding commitment to fund  
17 the Transaction's full purchase price. A copy of the equity commitment letter is provided in *Exhibit*  
18 *No. EMR-2* and *Exhibit No. EMR-2HC (highly confidential)* attached hereto. In other words,  
19 there is no risk that SCMCN will be unable to close for lack of funds or for inability to obtain debt  
20 financing.

21 Q7. SCMCN is a start-up with no utility assets and no balance sheet. How can the Commission  
22 find that you have adequate financial support to operate the Assets once purchased?

23 A: GridLiance Holdco and its wholly-owned subsidiaries are all portfolio companies of Blackstone  
24 Capital Partners VI and its affiliated funds. SCMCN will therefore have ample access to capital

1 provided by Blackstone to acquire and adequately maintain all of its transmission assets, including  
2 the Assets. Blackstone is committed to fund GridLiance Holdco's financial needs, including an  
3 obligation to contribute capital for the purpose of funding transmission acquisitions such as the  
4 Transaction, as the equity commitment letter demonstrates. In addition, GridLiance Holdco is  
5 authorized by GridLiance Heartland's governing documents to make capital contributions to  
6 GridLiance Heartland, and GridLiance Heartland is authorized by SCMCN's governing documents  
7 to make capital contributions to SCMCN. GridLiance Heartland and SCMCN also have the  
8 authority to approve an annual budget, which may include funds for transmission acquisition,  
9 construction, and rebuilding of facilities. In addition, GridLiance Heartland and SCMCN have the  
10 authority to call for capital contributions to be made to the company or its subsidiaries.

11 **Q8. What are Blackstone's qualifications?**

12 **A:** Blackstone is one of the world's leading investment and advisory firms with an extensive track  
13 record of successful private equity investments. Blackstone currently has over \$334 billion in  
14 assets under management and is currently investing from its sixth general private equity fund,  
15 Blackstone Capital Partners VI, which has a fund size of \$16.2 billion.  
16 According to Standard & Poor's Rating Service, Blackstone's issuer credit rating and senior  
17 unsecured debt rating is A+ and its outlook is Stable. Also, according to FitchRatings, Blackstone's  
18 long-term issuer default rating is A+ and its short-term issuer default rating is F1. A copy of  
19 Standard & Poor's Ratings Direct report for global asset managers including Blackstone is provided  
20 in *Exhibit No. EMR-3* attached hereto, and a copy of FitchRating's report for Blackstone is  
21 provided in *Exhibit No. EMR-4* attached hereto. A copy of Blackstone's financial statement for  
22 2014 is provided in *Exhibit No. EMR-5* attached hereto.

23 **Q9. Does SCMCN have access to debt capital?**

1       A: GridLiance Holdco is currently negotiating for an unsecured revolving line of credit that will make  
2       debt capital available to Heartland and SCMCN, either in the form of further equity investments or  
3       as intercompany notes. We expect that debt financing to be available in early 2016. However,  
4       debt financing will not be required to close on the Transaction, which is supported fully with  
5       Blackstone's equity commitment.

6   **Q10. Is there other evidence of Blackstone's commitment to SCMCN?**

7       A. I believe the steps Blackstone took to support SCMCN's recent proposal to build the Southwest  
8       Power Pool's (SPP's) first competitive transmission project, the North Liberal – Walkemeyer (NLW)  
9       Project, are instructive. Attached as *Exhibit EMR-6* and *Exhibit EMR-6HC (highly confidential)*  
10      and *Exhibit EMR-7* and *Exhibit EMR-7HC (highly confidential)* are portions of SCMCN's  
11      confidential proposal to SPP showing Blackstone's support of the NLW Project. SCMCN  
12      structured the evidence provided to SPP to be equivalent or superior to evidence provided by any  
13      other bidder. This is the level of support Blackstone offers for anything SCMCN does. Blackstone  
14      has made it clear with the equity commitment letter for the Transaction and its ongoing support of  
15      SCMCN's start-up activities that SCMCN has access to substantial financial resources.

16   **IV. ECONOMIC FEASIBILITY**

17   **Q11. What evidence do you wish to provide regarding the economic feasibility of SCMCN**  
18   **operating the Assets?**

19      A. Apart from the substantial financial resources of SCMCN's parent, Blackstone, as a practical  
20      matter, SCMCN will collect its full cost of service for the Assets beginning in the first month  
21      following the closing. The Federal Energy Regulatory Commission (FERC) has already approved  
22      SCMCN's forward-looking formula rate, which will be added to SPP's Tariff in Attachment H upon  
23      closing. In other words, SCMCN has Blackstone's commitment to fund the entire purchase price

1 and, beginning the month after closing, SCMCN will collect on a monthly basis, through SPP, its  
2 monthly revenue requirements for the Assets.

3 **V. PROMOTION OF THE PUBLIC INTEREST**

4 **Q12. What is your conclusion as to why granting SCMCN a certificate to operate the Assets**  
5 **promotes the public interest?**

6 **A.** SCMCN was formed to develop, jointly own, operate, and maintain new or existing regulated  
7 transmission assets, principally through Co-Development Agreements (CDAs) with by partnering  
8 with cooperative and municipal utilities and joint action agencies (Public Power) (each, a Public  
9 Power Partner or PPP). SCMCN will enter into agreements with PPPs to develop transmission  
10 projects under the functional control of SPP. This will be SCMCN's second of what we hope will be  
11 many acquisitions and many newly constructed projects. (The first, acquiring approximately \$27  
12 million in 69 kV and 115 kV assets in Oklahoma from Tri-County Electric Cooperative, Inc., will  
13 close at year end.) By partnering with Public Power, SCMCN will meet the transmission needs of  
14 Public Power through participating in local reliability and zonal and regional SPP planning  
15 processes and construction of needed projects within the SPP footprint, and providing Public  
16 Power with an option to hedge a portion of their transmission costs through co-ownership of zonal,  
17 regional and inter-regional transmission projects.

18 Before I started GridLiance Holdco, I met with utility leaders in Public Power as well as with  
19 regional transmission organization (RTO) staff and executives at investor-owned utilities (IOUs). In  
20 my discussions with officials at joint action agencies, I learned that many of their members, small  
21 municipal electric systems, were having difficulty expanding the transmission capacity serving their  
22 individual cities – often because the incumbent utility viewed each city's needs in a silo and the  
23 costs to address those needs were often prohibitive. However, as I met with Public Power utilities I  
24 heard an equally pressing issue – the rate pressure was tremendous on these mostly transmission-

1 dependent utilities as the result of SPP's aggressive transmission construction initiative. These  
2 utilities expressed concern that while they were paying the high cost of new facilities being built by  
3 others and allocated to all regional customers, they had no practicable ability to build new facilities  
4 themselves. Thus, while their customers pay the return on others' facilities that are allocated to  
5 regional customers, they do not build a load equivalent amount of regionally-allocated transmission  
6 themselves, on which they could earn margins from the rest of the region. SCMCN was thus  
7 formed to address both needs of the Public Power utilities with which we met — to be an entity that  
8 can assist in planning and constructing local reliability projects as well as an entity that could,  
9 collectively for many Public Power utilities, take a "seat at the table" for planning, constructing, and  
10 operating a reasonable portion of the new, high-voltage facilities whose costs are being allocated  
11 across SPP. We have also formed sister organizations to do the same thing in other RTOs.  
12 SCMCN will further benefit the interests of Public Power by taking over sole North American  
13 Electric Corporation (NERC) compliance responsibility for all assets that SCMCN owns outright or  
14 co-owns with Public Power Partners. We will build a world class compliance function including,  
15 when a critical mass of assets is reached, a control center. SCMCN's offer to acquire existing  
16 assets gives its Public Power Partners and their members with assets the option to convey all (or a  
17 majority interest) of existing assets to us and transfer compliance obligations to us. This is a major  
18 risk mitigation for them, and overall ensures more reliable and compliant ownership and operation  
19 of bulk electric system facilities under SCMCN's control. As part of this model, and in order to  
20 stand behind SCMCN's commitment to be world class, the model joint ownership documents make  
21 clear that NERC penalties will be ours alone, not passed *pro rata* back to co-owners. In its review  
22 of other co-ownership arrangements, SCMCN has not seen the operating agent take on this risk.  
23 SCMCN and its CDA partners believe it is appropriate as SCMCN must stand behind its  
24 commitment to take compliance responsibility.



1 In other words, SCMCN has substantial financial backing for a business model that is focused on  
2 being a low-cost, high-quality builder and operator of transmission, with a higher purpose of  
3 bringing Public Power Partners a greater voice and opportunity to participate in RTO transmission  
4 expansion. Acquisition of the Assets is among the first steps SCMCN is taking in SPP. However,  
5 even were SCMCN doing nothing but operating the Assets, SCMCN is capable and financially  
6 robust and granting the certificate would promote the public interest.

7 **VI. ASSET PURCHASE AGREEMENT**

8 **Q13. A copy of the Asset Purchase Agreement for the Transaction was attached to the**  
9 **Application at Appendix A. Has there been any change to the terms and conditions for the**  
10 **Transaction since the APA was executed?**

11 **A:** Yes. SCMCN, GridLiance Heartland, and the City executed an amendment to the APA effective as  
12 of August 14, 2015, the date of the APA. (SCMCN has yet to receive a copy of the executed  
13 signature page from the City; SCMCN will file the signature page as soon as it is provided.) The  
14 amendment reflects an increase in the purchase price to recognize the full value of the real estate  
15 included in the Assets. We also realized we had not properly allocated the purchase price in the  
16 APA, so the amendment includes the allocation of the total to specific purposes. A copy of the  
17 First Amendment is provided in *Exhibit No. EMR-8* attached hereto.

18 **VII. CONCLUSION**

19 **Q14. Does this conclude your testimony?**

20 **A:** Yes.

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In the Matter of the Application of South )  
Central MCN LLC for Approval of Transfer of )  
Assets and a Certificate of Convenience and )  
Necessity )

File No. EA-2016-0036

AFFIDAVIT OF EDWARD M. RAHILL

STATE OF ILLINOIS )  
 ) ss  
COUNTY OF COOK )

Edward M. Rahill, being first duly sworn on his oath, states:

1. My name is Edward M. Rahill. I am currently the Chief Executive Officer of South Central MCN LLC (SCMCN). My business address is 2 N. LaSalle Street, Suite 420, Chicago, IL 60602.
2. Attached hereto and made a part hereof for all purposes is my Supplemental Direct Testimony on behalf of SCMCN, consisting of 7 pages, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and accurate to the best of my knowledge, information and belief.

  
Edward M. Rahill

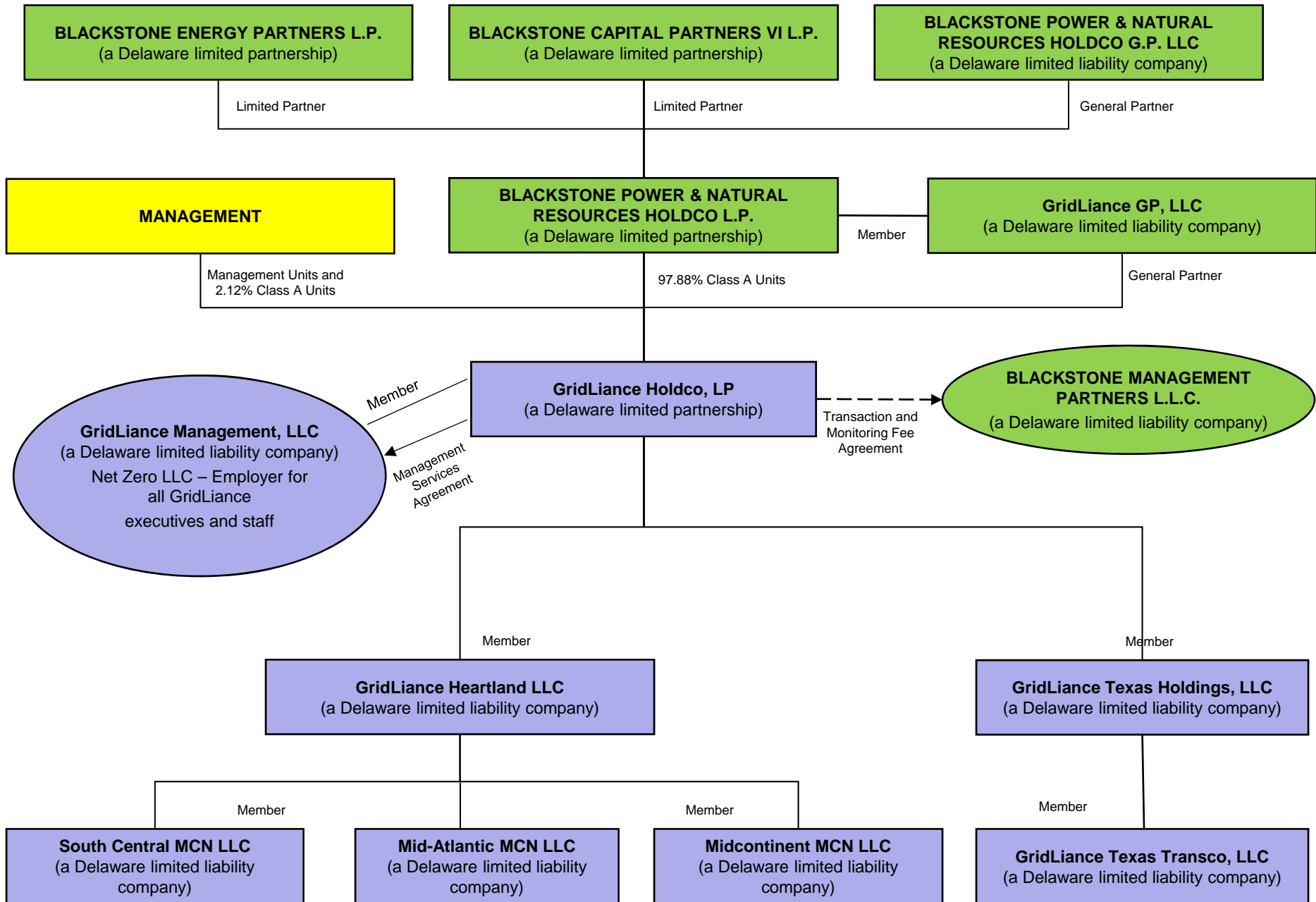
Subscribed and sworn to before me this 9 day of December, 2015.

  
Notary Public

My commission expires: 10/20/18



# GridLiance Structure Chart



Blackstone

**\*\*HIGHLY CONFIDENTIAL  
INFORMATION REMOVED\*\***

*CONFIDENTIAL*

South Central MCN LLC  
GridLiance Heartland LLC  
c/o GridLiance Holdco, LP  
2 N. LaSalle Street, Suite 420  
Chicago, Illinois 60602

Commitment Letter

**\*\*HIGHLY CONFIDENTIAL INFORMATION REMOVED\*\***

**\*\*HIGHLY CONFIDENTIAL INFORMATION REMOVED\*\***

**\*\*HIGHLY CONFIDENTIAL INFORMATION REMOVED\*\***

**\*\*HIGHLY CONFIDENTIAL INFORMATION REMOVED\*\***

Very truly yours,


**BLACKSTONE**

**\*\*HIGHLY CONFIDENTIAL  
INFORMATION REMOVED\*\***

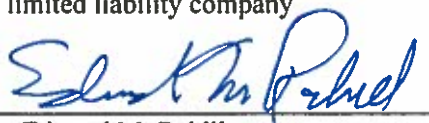


Agreed to and accepted:

SOUTH CENTRAL MCN LLC  
a Delaware limited liability company

By:   
Name: Edward M. Rahill  
Title: President and Chief Executive Officer

GRIDLIANCE HEARTLAND LLC  
a Delaware limited liability company

By:   
Name: Edward M. Rahill  
Title: President and Chief Executive Officer



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## Standard & Poor's Applies Its Revised Financial Services Company Methodology To 37 Global Asset Managers

**Primary Credit Analysts:**

Sebnem Caglayan, CFA, New York (1) 212-438-4054; sebnem.caglayan@standardandpoors.com  
Dhruv Roy, London (44) 20-7176-6709; dhruv.roy@standardandpoors.com

**Secondary Contact:**

Ben T Bubeck, CFA, New York (1) 212-438-2176; ben.bubeck@standardandpoors.com

**Criteria Officer, North American Financial Institutions:**

Nik Khakee, New York (1) 212-438-2473; nik.khakee@standardandpoors.com

NEW YORK (Standard & Poor's) Dec. 11, 2014--Standard & Poor's Ratings Services today said it reviewed its ratings on 37 global asset managers by applying its new ratings criteria for the sector (see "Key Credit Factors For Asset Managers," published Dec. 9, 2014). As a result, we have taken rating actions on these entities (see ratings list). We also took rating actions on certain subsidiaries as a result of applying our new criteria to their parents. The rating actions were driven by revisions to our criteria rather than a sudden change of the issuers' creditworthiness.

We define asset managers as companies that derive a majority of their revenues from management and performance fees for managing third-party money or assets on the behalf of retail or institutional investors. We rate asset managers under a similar framework to our corporate criteria. Our assessment reflects these companies' business risk profiles, their financial risk profiles, and other factors that may modify the stand-alone credit profile.

We have now removed the under criteria observation (UCO) identifier from our ratings on all of the entities listed below.

We anticipate publishing, for most issuer credit ratings or outlooks that change, research updates within 30 business days. We anticipate publishing

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*Standard & Poor's Applies Its Revised Financial Services Company Methodology To 37 Global Asset Managers*

research updates in the first or second quarters of 2015 for those entities that we did not change our issuer credit ratings or outlooks on under the new criteria.

The research updates will be available on RatingsDirect. Ratings on specific issues will be available on RatingsDirect and [www.standardandpoors.com](http://www.standardandpoors.com).

RELATED CRITERIA AND RESEARCH

Related Criteria

- Key Credit Factors For Asset Managers, Dec. 9, 2014
- Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012

RATINGS LIST

For ratings we affirmed, no rating appears in the "From" column.

	To	From
3i Group PLC		
Issuer Credit Rating	BBB/Stable/A-2	
Senior Unsecured	BBB	
Affiliated Managers Group Inc.		
Issuer Credit Rating	BBB+/Stable/A-2	BBB/Positive/A-2
Senior Unsecured	BBB+	BBB
Subordinated	BBB (prelim)	BBB- (prelim)
Preferred Stock	BBB- (prelim)	BB+ (prelim)
AMG Capital Trust II		
Preferred Stock	BBB-	BB+
AllianceBernstein L.P.		
Issuer Credit Rating	A+/Stable/A-1	
Commercial Paper	A-1	
American Beacon Advisors Inc.		
Issuer Credit Rating	BB-/Stable/--	
Senior Secured	BB-	

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Standard & Poor's Applies Its Revised Financial Services Company Methodology To 37 Global Asset Managers

Recovery Rating	3	NR
Apollo Global Management LLC		
Issuer Credit Rating	A/Stable/--	
Apollo Management Holdings L.P.		
Issuer Credit Rating	A/Stable/--	
Senior Unsecured	A	
Apollo Principal Holdings I L.P.		
Senior Unsecured	A	
Apollo Principal Holdings II L.P.		
Senior Unsecured	A	
Apollo Principal Holdings III L.P.		
Senior Unsecured	A	
Apollo Principal Holdings IV L.P.		
Senior Unsecured	A	
AqGen Liberty Management I		
AqGen Liberty Management II		
Issuer Credit Rating	B/Negative/--	
Senior Secured	B	
Recovery Rating	3	NR
Ares Management L.P.		
Issuer Credit Rating	A-/Stable/--	
Senior Unsecured	A-	
Ares Investments L.P.		
Senior Unsecured	A-	
Ares Finance Co. LLC		
Senior Unsecured	A-	
Ares Domestic Holdings L.P.		
Senior Unsecured	A-	
Ares Holdings L.P.		
Senior Unsecured	A-	
Ares Real Estate Holdings L.P.		
Senior Unsecured	A-	
BlackRock Inc.		
Issuer Credit Rating	AA-/Stable/A-1+	
Commercial Paper	A-1+	
Senior Unsecured	AA-	

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Blackstone Group LP		
Issuer Credit Rating	A+/Stable/--	
Senior Unsecured	A+	
Blackstone Holdings I L.P.		
Issuer Credit Rating	A+/Stable/--	
Senior Unsecured	A+	
Blackstone Holdings II L.P.		
Issuer Credit Rating	A+/Stable/--	
Senior Unsecured	A+	
Blackstone Holdings III L.P.		
Issuer Credit Rating	A+/Stable/--	
Senior Unsecured	A+	
Blackstone Holdings IV L.P.		
Issuer Credit Rating	A+/Stable/--	
Senior Unsecured	A+	
Blackstone Holdings Finance Co. L.L.C.		
Senior Unsecured	A+	
Calamos Investments LLC		
Issuer Credit Rating	BBB/Stable/--	BBB+/Stable/--
Carlyle Group L.P. and subsidiaries (The)		
Issuer Credit Rating	A-/Stable/--	
Senior Unsecured	A-	
Carlyle Holdings Finance L.L.C.		
Issuer Credit Rating	A-/Stable/--	
Senior Unsecured	A-	
Carlyle Holdings II Finance L.L.C.		
Issuer Credit Rating	A-/Stable/--	
Senior Unsecured	A-	
Carlyle Holdings I LP		
Issuer Credit Rating	A-/Stable/--	
Senior Unsecured	A-	
Carlyle Holdings II LP		
Issuer Credit Rating	A-/Stable/--	
Senior Unsecured	A-	
Carlyle Holdings III LP		
Issuer Credit Rating	A-/Stable/--	
Senior Unsecured	A-	

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CI Financial Corp.		
Issuer Credit Rating	A-/Stable/--	BBB+/Stable/--
Senior Unsecured	A-	BBB+
CI Investments Inc.		
Issuer Credit Rating	A-/Stable/--	BBB+/Stable/--
Senior Unsecured	A-	BBB+
Clipper Acquisitions Corp.		
Issuer Credit Rating	BB+/Stable/--	
Senior Secured	BB+	
Recovery Rating	3	NR
Eaton Vance Corp.		
Issuer Credit Rating	A-/Stable/A-2	
Senior Unsecured	A-	
Subordinated	BBB+ (prelim)	
Preferred Stock	BBB (prelim)	
EIG Management Co. LLC		
Issuer Credit Rating	BB+/Stable/--	BB/Positive/--
Senior Secured	BB+	BB
Recovery Rating	3	NR
F&C Asset Management PLC		
Issuer Credit Rating	BBB-/Stable/A-3	
Subordinated	BB	
F&C Finance PLC		
Senior Unsecured	BBB-	
FIG LLC		
Issuer Credit Rating	BBB/Stable/--	
Senior Secured	BBB	
FIL Ltd.		
Issuer Credit Rating	BBB+/Stable/A-2	
Senior Unsecured	BBB+	
FMR LLC		
Issuer Credit Rating	A+/Stable/A-1	A+/Negative/A-1
Senior Unsecured	A+	
Franklin Resources Inc.		
Issuer Credit Rating	AA-/Stable/A-1+	
Commercial Paper	A-1+	
Senior Unsecured	AA-	
Preferred Stock	A (prelim)	

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Gamco Investors Inc.		
Issuer Credit Rating	BBB/Stable/A-2	
Senior Unsecured	BBB	
Subordinated	BBB- (prelim)	
GP Investments Ltd.		
Issuer Credit Rating LT	BB/Stable	BB-/Stable
Senior Unsecured	BB	BB-
Recovery Rating	3	NR
IGM Financial Inc.		
Issuer Credit Rating	A/Stable/A-1	A+/Stable/A-1
Senior Unsecured	A	A+
Preferred Stock	BBB+	A-
	P-2 (High)	P-1 (Low)
Intermediate Capital Group PLC		
Issuer Credit Rating	BBB-/Stable/A-3	
Senior Unsecured	BBB-	
Invesco Ltd.		
Issuer Credit Rating	A/Stable/--	
Senior Unsecured	A	
Janus Capital Group Inc.		
Issuer Credit Rating	BBB-/Negative/A-3	
Senior Unsecured	BBB-	
Subordinated	BB (prelim)	
Preferred Stock	BB- (prelim)	
KKR & Co. L.P.		
Issuer Credit Rating	A/Stable/--	
Senior Unsecured	A	
KKR Group Finance Co. LLC		
Senior Unsecured	A	
KKR Group Finance Co. II LLC		
Senior Unsecured	A	
KKR Group Finance Co. III LLC		
Senior Unsecured	A	
Lazard Group LLC		
Issuer Credit Rating	BBB+/Stable/--	BBB/Stable/--
Senior Unsecured	BBB+	BBB
Lazard Group Finance LLC		
Senior Unsecured	BBB+	BBB

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Standard & Poor's Applies Its Revised Financial Services Company Methodology To 37 Global Asset Managers

Legg Mason Inc.

Issuer Credit Rating	BBB/Positive/--
Senior Unsecured	BBB
Subordinated	BBB- (prelim)
Preferred Stock	BB+ (prelim)

MIPL Holdings Ltd.

Issuer Credit Rating	BBB-/Stable/--	BB+/Stable/--
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Mondrian Investment Partners Ltd.

Senior Secured	BBB-	BB+
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Neuberger Berman Group LLC

Issuer Credit Rating	BBB-/Stable/--	BB+/Stable/--
Senior Unsecured	BBB-	BB+

Oaktree Capital Management L.P.

Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured	A-

Och-Ziff Capital Management Group LLC

Issuer Credit Rating	BBB+/Stable/--
----------------------	----------------

OZ Advisors LP

Issuer Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+

OZ Advisors II LP

Issuer Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+

OZ Management LP

Issuer Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+

Och-Ziff Finance Co. LLC

Senior Unsecured	BBB+
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Santander Asset Management Investment Holdings Ltd.

Issuer Credit Rating	BB/Stable/B
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SAM FINANCE LUX S.A R.L

Senior Secured	BB	
Recovery Rating	3	NR

TIAA Asset Management Finance Co. LLC

Issuer Credit Rating	BBB/Stable/--
Senior Unsecured	BBB

Victory Capital Holdings Inc.



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*Standard & Poor's Applies Its Revised Financial Services Company Methodology To 37 Global Asset Managers*

Issuer Credit Rating	BB-/Stable/--	
Senior Secured	BB-	
Recovery Rating	3	NR

Waddell & Reed Financial Inc.

Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+

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## The Blackstone Group L.P.

Update

### Ratings

<b>The Blackstone Group L.P.</b>		
Long-Term IDR	A+	
Short-Term IDR	F1	
<b>Blackstone Holdings I, II, III, IV</b>		
Long-Term IDR	A+	
Short-Term IDR	F1	
<b>Blackstone Holdings Finance Co. LLC</b>		
Long-Term IDR	A+	
Short-Term IDR	F1	
Unsecured Debt	A+	

### Outlook

Stable

### Financial Data

<b>The Blackstone Group L.P.</b>			
	8/30/16 <sup>a</sup>	12/31/14	
FAUM (USDm)	239,342	216,692	
Total Assets (USDm)	13,715	14,892	
Economic Income (USDm)	2,161	4,544	
Fee-Related Earnings (USDm)	336	966	
FEBITDA (USDm)	447	1,074	
FEBITDA/Fees (%)	37.01	41.83	
Debt/FEBITDA (x) <sup>b</sup>	2.58	1.99	
FEBITDA/Interest Expense (x) <sup>b</sup>	7.17	8.08	

<sup>a</sup>Six months ended June 30. <sup>b</sup>Trailing 12 month basis through June 30, 2015. FEBITDA – Fee-related EBITDA.

### Related Research

[Alternative Investment Manager Runoff Analysis \(May 2015\)](#)

[2015 Outlook: Investment Managers \(November 2014\)](#)

[U.S. Alternative Asset Managers: An Industry Update \(November 2014\)](#)

### Related Research

[Global Non-Bank Financial Institutions Rating Criteria \(April 2015\)](#)

### Analysts

Meghan Neenan, CFA  
+1 212 908-9121  
[meghan.neenan@fitchratings.com](mailto:meghan.neenan@fitchratings.com)

Nathan Flanders  
+1 212 908-0827  
[nathan.flanders@fitchratings.com](mailto:nathan.flanders@fitchratings.com)

### Key Rating Drivers

**Global Asset Manager:** The ratings of The Blackstone Group L.P. (Blackstone) are supported by the company's position as a leading diversified global alternative investment manager, experienced management team, strong corporate culture, institutional investor base, large base of fee-earning assets under management (FAUM), which has demonstrated consistent growth, and subordination of general partner (GP) interests to outstanding indebtedness.

**Key Man Risk:** Risks to the ratings include key man risk, which is institutionalized throughout many limited partnership (LP) agreements; reputational risk, which can affect the company's ability to raise funds; and legal and regulatory risk, which could alter the alternative space.

**Record Dry Powder:** Uncalled capital amounted to a record \$82bn as of June 30, 2015, including the new flagship funds in private equity (PE) and real estate (RE). Approximately \$56bn of this committed capital has yet to start earning management fees.

**Large Real Estate Transaction:** On April 10, 2015, Blackstone announced that it had signed agreements to purchase a large portion of the assets of General Electric Capital Real Estate. These assets will be spread across a variety of fund strategies within the firm's real estate segment. Blackstone has one of the largest real estate platforms globally and is one of the few firms that would have been able to participate in a transaction of this size.

**Financial Advisory Spin Off:** On Oct. 10, 2014, Blackstone announced its intention to spin off the majority of its financial advisory segment and combine the businesses with PJT Partners, an independent financial advisory firm founded by Paul J. Taubman. The spinoff is viewed as a modest negative by Fitch as it reduces FEBITDA and the overall diversity of the firm's product set. That said, the earnings contribution has declined with faster growth in other segments.

**Moderate Leverage:** Blackstone's leverage, as measured by long-term debt to FEBITDA, amounted to 2.58x on a trailing 12-month (TTM) basis at June 30, 2015, despite the issuance of \$350m in 30-year notes and EUR300m in 10-year notes in 1H15. Leverage will increase following the spin of the advisory business, but is expected to decline with FEBITDA growth.

**Strong Liquidity:** Fitch believes Blackstone's liquidity profile is solid for the rating category. At June 30, 2015, balance sheet cash amounted to \$2.2bn, total investments in cash management strategies were \$1.7bn and investments in liquid funds were \$178.3m. Additionally, unused revolving borrowing capacity amounted to \$1.1bn.

### Rating Sensitivities

**Key Outlook Drivers:** The Stable Rating Outlook reflects Fitch's expectations for stable management fee generation, FAUM growth, albeit at a more moderate pace, and the maintenance of relatively low leverage and strong liquidity.

**Reputational Damage is a Risk:** Negative rating action could result from declines in investment performance, a key man event, legislative risk that negatively affects the company's ability to raise FAUM and generate management fees, an increase in leverage and/or impairment of the liquidity profile.

**Limited Upside:** Fitch believes positive rating momentum is relatively limited due to the inherent risks of the business and the company's existing funding profile.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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**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, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in partners’ capital, and cash flows for each of the three years in the period ended December 31, 2014. We also have audited Blackstone’s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework (2013)* 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, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, 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, 2014, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP

New York, New York  
February 27, 2015

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**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Financial Condition**  
**(Dollars in Thousands, Except Unit Data)**

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 1,412,472	\$ 831,998
Cash Held by Blackstone Funds and Other	1,808,092	1,045,882
Investments (including assets pledged of \$45,764 and \$316,564 at December 31, 2014 and December 31, 2013, respectively)	22,765,589	21,729,523
Accounts Receivable	559,321	888,356
Reverse Repurchase Agreements	—	148,984
Due from Affiliates	1,128,408	1,192,044
Intangible Assets, Net	458,833	560,748
Goodwill	1,787,392	1,787,392
Other Assets	338,557	284,472
Deferred Tax Assets	1,252,230	1,209,207
<b>Total Assets</b>	<u>\$31,510,894</u>	<u>\$29,678,606</u>
<b>Liabilities and Partners' Capital</b>		
Loans Payable	\$ 8,937,638	\$10,466,504
Due to Affiliates	1,490,088	1,436,859
Accrued Compensation and Benefits	2,439,257	2,132,939
Securities Sold, Not Yet Purchased	85,878	76,195
Repurchase Agreements	29,907	316,352
Accounts Payable, Accrued Expenses and Other Liabilities	1,194,579	872,086
<b>Total Liabilities</b>	<u>14,177,347</u>	<u>15,300,935</u>
<b>Commitments and Contingencies</b>		
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<u>2,441,854</u>	<u>1,950,442</u>
<b>Partners' Capital</b>		
Partners' Capital (common units: 595,624,855 issued and outstanding as of December 31, 2014; 572,592,279 issued and outstanding as of December 31, 2013)	6,999,830	6,002,592
Appropriated Partners' Capital	81,301	300,708
Accumulated Other Comprehensive Income	(20,864)	3,466
Non-Controlling Interests in Consolidated Entities	3,415,356	2,464,047
Non-Controlling Interests in Blackstone Holdings	4,416,070	3,656,416
<b>Total Partners' Capital</b>	<u>14,891,693</u>	<u>12,427,229</u>
<b>Total Liabilities and Partners' Capital</b>	<u>\$31,510,894</u>	<u>\$29,678,606</u>

continued...

See notes to consolidated financial statements.

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**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Financial Condition**  
**(Dollars in Thousands, Except Unit Data)**

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

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
<b>Assets</b>		
Cash Held by Blackstone Funds and Other	\$1,325,094	\$ 618,881
Investments	7,759,322	9,700,804
Accounts Receivable	131,996	231,052
Due from Affiliates	65,124	27,022
Other Assets	48,441	29,755
<b>Total Assets</b>	<u>\$9,329,977</u>	<u>\$10,607,514</u>
<b>Liabilities</b>		
Loans Payable	\$6,787,100	\$ 8,802,155
Due to Affiliates	182,107	143,444
Accounts Payable, Accrued Expenses and Other	697,149	284,818
<b>Total Liabilities</b>	<u>\$7,666,356</u>	<u>\$ 9,230,417</u>

See notes to consolidated financial statements.

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

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Revenues</b>			
Management and Advisory Fees, Net	\$ 2,497,252	\$ 2,193,985	\$ 2,030,693
Performance Fees			
Realized			
Carried Interest	2,450,082	943,958	327,422
Incentive Fees	249,005	464,838	301,801
Unrealized			
Carried Interest	1,704,924	2,158,010	994,190
Incentive Fees	(29,749)	(22,749)	(30,361)
Total Performance Fees	<u>4,374,262</u>	<u>3,544,057</u>	<u>1,593,052</u>
Investment Income			
Realized	523,735	188,644	93,963
Unrealized	10,265	611,664	256,231
Total Investment Income	<u>534,000</u>	<u>800,308</u>	<u>350,194</u>
Interest and Dividend Revenue	69,809	64,511	40,354
Other	9,405	10,307	5,148
<b>Total Revenues</b>	<u>7,484,728</u>	<u>6,613,168</u>	<u>4,019,441</u>
<b>Expenses</b>			
Compensation and Benefits			
Compensation	1,868,868	1,844,485	2,091,698
Performance Fee Compensation			
Realized			
Carried Interest	815,643	257,201	96,433
Incentive Fees	110,099	200,915	140,042
Unrealized			
Carried Interest	379,037	966,717	321,599
Incentive Fees	(19,276)	(11,651)	(44,528)
Total Compensation and Benefits	<u>3,154,371</u>	<u>3,257,667</u>	<u>2,605,244</u>
General, Administrative and Other	549,463	474,442	548,738
Interest Expense	121,524	107,973	72,870
Fund Expenses	30,498	26,658	33,829
<b>Total Expenses</b>	<u>3,855,856</u>	<u>3,866,740</u>	<u>3,260,681</u>
<b>Other Income</b>			
Reversal of Tax Receivable Agreement Liability	—	20,469	—
Net Gains from Fund Investment Activities	357,854	381,664	256,145
<b>Total Other Income</b>	<u>357,854</u>	<u>402,133</u>	<u>256,145</u>
<b>Income Before Provision for Taxes</b>	<u>3,986,726</u>	<u>3,148,561</u>	<u>1,014,905</u>
<b>Provision for Taxes</b>	<u>291,173</u>	<u>255,642</u>	<u>185,023</u>
<b>Net Income</b>	<u>3,695,553</u>	<u>2,892,919</u>	<u>829,882</u>
<b>Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	<u>74,794</u>	<u>183,315</u>	<u>103,598</u>
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	<u>335,070</u>	<u>198,557</u>	<u>99,959</u>
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>	<u>1,701,100</u>	<u>1,339,845</u>	<u>407,727</u>
<b>Net Income Attributable to The Blackstone Group L.P.</b>	<u>\$ 1,584,589</u>	<u>\$ 1,171,202</u>	<u>\$ 218,598</u>
<b>Net Income Per Common Unit</b>			
Common Units, Basic	<u>\$ 2.60</u>	<u>\$ 2.00</u>	<u>\$ 0.41</u>
Common Units, Diluted	<u>\$ 2.58</u>	<u>\$ 1.98</u>	<u>\$ 0.41</u>
<b>Weighted-Average Common Units Outstanding</b>			
Common Units, Basic	<u>608,803,111</u>	<u>587,018,828</u>	<u>533,703,606</u>
Common Units, Diluted	<u>613,176,405</u>	<u>590,546,640</u>	<u>538,669,070</u>
<b>Revenues Earned from Affiliates</b>			
Management and Advisory Fees, Net	<u>\$ 327,134</u>	<u>\$ 253,877</u>	<u>\$ 254,729</u>

See notes to consolidated financial statements.



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

	<u>Year Ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net Income	\$3,695,553	\$2,892,919	\$829,882
Other Comprehensive Income (Loss), Net of Tax — Currency Translation Adjustment	(57,924)	9,896	1,859
Comprehensive Income	<u>3,637,629</u>	<u>2,902,815</u>	<u>831,741</u>
Less:			
Comprehensive Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	74,794	183,315	103,598
Comprehensive Income Attributable to Non-Controlling Interests in Consolidated Entities	301,477	207,157	101,606
Comprehensive Income Attributable to Non-Controlling Interests in Blackstone Holdings	<u>1,701,100</u>	<u>1,339,845</u>	<u>407,727</u>
Comprehensive Income Attributable to The Blackstone Group L.P.	<u><u>\$1,560,258</u></u>	<u><u>\$1,172,498</u></u>	<u><u>\$218,810</u></u>

See notes to consolidated financial statements.

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**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statement of Changes in Partners' Capital**  
**(Dollars in Thousands, Except Unit Data)**

	<u>The Blackstone Group L.P.</u>							Redeemable Non- Controlling Interests in Consolidated Entities
	Common Units	Partners' Capital	Appro- priated Partners' Capital	Accumulated Other Compre- hensive Income	Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners' Capital	
<b>Balance at December 31, 2011</b>	489,430,907	\$4,281,841	\$ 386,864	\$ 1,958	\$ 1,029,270	\$ 2,460,520	\$8,160,453	\$ 1,091,833
Acquisition Adjustments Relating to Consolidation of CLO Entities	—	—	233,386	—	155	—	233,541	—
Consolidation of Certain Funds	—	—	—	—	—	—	—	50,224
Net Income	—	218,598	—	—	99,959	407,727	726,284	103,598
Allocation of Losses of Consolidated CLO Entities	—	—	(112,869)	—	112,869	—	—	—
Currency Translation Adjustment Allocation of Currency Translation Adjustment of Consolidated CLO Entities	—	—	—	212	1,647	—	1,859	—
Capital Contributions	—	—	1,647	—	(1,647)	—	—	—
Capital Distributions	—	(271,890)	—	—	(116,672)	(342,640)	(731,202)	(151,713)
Transfer of Non-Controlling Interests in Consolidated Entities	—	—	—	—	(4,584)	(17,392)	(21,976)	—
Purchase of Interests from Certain Non-Controlling Interest Holders	—	(63)	—	—	—	—	(63)	—
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non- Controlling Interest Holders	—	57,356	—	—	—	—	57,356	—
Equity-Based Compensation	—	437,444	—	—	—	494,834	932,278	—
Relinquished with Deconsolidation and Liquidation of Partnership	—	—	—	—	—	—	—	(18)
Net Delivery of Vested Holdings Partnership Units and Blackstone Common Units	8,748,146	(21,453)	—	—	—	(911)	(22,364)	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	(2,423)	—	—	—	2,423	—	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	58,175,334	256,239	—	—	—	(256,239)	—	—
<b>Balance at December 31, 2012</b>	<u>556,354,387</u>	<u>\$4,955,649</u>	<u>\$ 509,028</u>	<u>\$ 2,170</u>	<u>\$ 1,443,559</u>	<u>\$ 2,748,356</u>	<u>\$9,658,762</u>	<u>\$ 1,556,185</u>

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**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statement of Changes in Partners' Capital**  
**(Dollars in Thousands, Except Unit Data)**

	<u>The Blackstone Group L.P.</u>							Redeemable Non- Controlling Interests in Consolidated Entities
	Common Units	Partners' Capital	Appro- priated Partners' Capital	Accumulated Other Compre- hensive Income	Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners' Capital	
<b>Balance at December 31, 2012</b>	556,354,387	\$4,955,649	\$ 509,028	\$ 2,170	\$ 1,443,559	\$ 2,748,356	\$ 9,658,762	\$ 1,556,185
Consolidation of Fund Entity	—	—	—	—	659,001	—	659,001	—
Net Income	—	1,171,202	—	—	198,557	1,339,845	2,709,604	183,315
Allocation of Losses of Consolidated CLO Entities	—	—	(186,183)	—	186,183	—	—	—
Currency Translation Adjustment	—	—	—	1,296	8,600	—	9,896	—
Allocation of Currency Translation Adjustment of Consolidated CLO Entities	—	—	8,600	—	(8,600)	—	—	—
Capital Contributions	—	—	—	—	285,757	262	286,019	894,792
Capital Distributions	—	(679,082)	—	—	(306,605)	(790,397)	(1,776,084)	(555,943)
Transfer of Non-Controlling Interests in Consolidated Entities	—	—	—	—	(2,403)	—	(2,403)	—
Purchase of Interests from Certain Non-Controlling Interest Holders	—	(43)	—	—	—	—	(43)	—
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders	—	80,580	—	—	—	—	80,580	—
Equity-Based Compensation	—	411,516	—	—	—	399,567	811,083	—
Relinquished with Deconsolidation and Liquidation of Partnership	—	—	(30,737)	—	(2)	—	(30,739)	(127,907)
Net Delivery of Vested Holdings Partnership Units and Blackstone Common Units	6,464,259	(20,366)	—	—	—	(481)	(20,847)	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	(2,519)	—	—	—	2,519	—	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	8,232,434	43,255	—	—	—	(43,255)	—	—
Issuance of New Units	1,541,199	42,400	—	—	—	—	42,400	—
<b>Balance at December 31, 2013</b>	<u>572,592,279</u>	<u>\$6,002,592</u>	<u>\$ 300,708</u>	<u>\$ 3,466</u>	<u>\$ 2,464,047</u>	<u>\$ 3,656,416</u>	<u>\$12,427,229</u>	<u>\$ 1,950,442</u>

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**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statement of Changes in Partners' Capital**  
**(Dollars in Thousands, Except Unit Data)**

	<u>The Blackstone Group L.P.</u>							Redeemable Non- Controlling Interests in Consolidated Entities
	Common Units	Partners' Capital	Appro- priated Partners' Capital	Accumulated Other Compre- hensive Income	Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners' Capital	
<b>Balance at December 31, 2013</b>	572,592,279	\$ 6,002,592	\$ 300,708	\$ 3,466	\$ 2,464,047	\$ 3,656,416	\$12,427,229	\$ 1,950,442
Acquisition Adjustments Relating to Consolidation of CLO Entities	—	—	8,398	—	—	—	8,398	—
Consolidation of Fund Entity	—	—	—	—	323,158	—	323,158	30,922
Net Income	—	1,584,589	—	—	335,070	1,701,100	3,620,759	74,794
Allocation of Losses of Consolidated CLO Entities	—	—	(111,723)	—	111,723	—	—	—
Currency Translation Adjustment	—	—	—	(24,330)	(33,594)	—	(57,924)	—
Allocation of Currency Translation Adjustment of Consolidated CLO Entities	—	—	(33,594)	—	33,594	—	—	—
Reclassification of Currency Translation Adjustment Due to Deconsolidation of CLO Entities	—	(611)	—	—	—	—	(611)	—
Capital Contributions	—	—	—	—	760,357	—	760,357	851,658
Capital Distributions	—	(1,148,139)	—	—	(577,032)	(1,200,457)	(2,925,628)	(465,962)
Transfer of Non-Controlling Interests in Consolidated Entities	—	—	—	—	(1,885)	—	(1,885)	—
Purchase of Interests from Certain Non-Controlling Interest Holders	—	(6)	—	—	—	—	(6)	—
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders	—	22,982	—	—	—	—	22,982	—
Equity-Based Compensation Relinquished with Deconsolidation and Liquidation of Partnership	—	421,363	—	—	—	386,703	808,066	—
Net Delivery of Vested Holdings Partnership Units and Blackstone Common Units	—	—	(82,488)	—	(82)	—	(82,570)	—
Excess Tax Benefits Related to Equity-Based Compensation, Net	6,407,733	(35,469)	—	—	—	(783)	(36,252)	—
Change in The Blackstone Group L.P.'s Ownership Interest	—	25,620	—	—	—	—	25,620	—
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	—	9,032	—	—	—	(9,032)	—	—
	<u>16,624,843</u>	<u>117,877</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(117,877)</u>	<u>—</u>	<u>—</u>
<b>Balance at December 31, 2014</b>	<u>595,624,855</u>	<u>\$ 6,999,830</u>	<u>\$ 81,301</u>	<u>\$ (20,864)</u>	<u>\$ 3,415,356</u>	<u>\$ 4,416,070</u>	<u>\$14,891,693</u>	<u>\$ 2,441,854</u>

See notes to consolidated financial statements.

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**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Cash Flows**  
**(Dollars in Thousands)**

	<b>Year Ended</b>		
	<b>December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Operating Activities</b>			
Net Income	\$ 3,695,553	\$ 2,892,919	\$ 829,882
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Blackstone Funds Related			
Unrealized Appreciation on Investments Allocable to Non-Controlling Interests in Consolidated Entities	(430,738)	(1,069,479)	(397,470)
Net Realized Gains on Investments	(3,343,635)	(1,792,106)	(710,755)
Changes in Unrealized (Gains) Losses on Investments Allocable to The Blackstone Group L.P.	83,140	(506,546)	(181,481)
Unrealized Depreciation on Hedge Activities	—	—	22,599
Non-Cash Performance Fees	(1,317,707)	(1,143,903)	(699,711)
Non-Cash Performance Fee Compensation	1,285,503	1,413,182	513,546
Equity-Based Compensation Expense	734,733	855,087	949,633
Excess Tax Benefits Related to Equity-Based Compensation	(25,646)	(5,769)	—
Amortization of Intangibles	101,915	95,671	139,174
Other Non-Cash Amounts Included in Net Income	121,808	206,451	353,052
Cash Flows Due to Changes in Operating Assets and Liabilities			
Cash Held by Blackstone Funds and Other	(390,092)	371,641	(367,101)
Cash Relinquished with Deconsolidation and Liquidation of Partnership	(476,533)	(173,726)	(48,284)
Accounts Receivable	229,331	(46,580)	(60,520)
Reverse Repurchase Agreements	148,984	99,034	(108,533)
Due from Affiliates	229,837	237,169	(73,485)
Other Assets	(82,890)	15,445	51,031
Accrued Compensation and Benefits	(836,852)	(454,724)	(119,862)
Securities Sold, Not Yet Purchased	(144,383)	(142,952)	88,474
Accounts Payable, Accrued Expenses and Other Liabilities	(305,978)	(316,082)	(408,256)
Repurchase Agreements	(325,199)	174,629	40,417
Due to Affiliates	35,504	(216,671)	(88,425)
Treasury Cash Management Strategies			
Investments Purchased	(3,448,738)	(4,368,096)	(3,414,291)
Cash Proceeds from Sale of Investments	3,022,390	4,643,886	2,729,689
Blackstone Funds Related			
Investments Purchased	(7,531,108)	(8,245,313)	(6,845,184)
Cash Proceeds from Sale or Pay Down of Investments	10,625,790	11,024,774	8,389,016
Net Cash Provided by Operating Activities	<u>1,654,989</u>	<u>3,547,941</u>	<u>583,155</u>
<b>Investing Activities</b>			
Purchase of Furniture, Equipment and Leasehold Improvements	(30,271)	(25,637)	(37,020)
Net Cash Paid for Acquisitions, Net of Cash Acquired	—	(146,117)	(188,306)
Changes in Restricted Cash	5,846	5,850	2,345
Net Cash Used in Investing Activities	<u>(24,425)</u>	<u>(165,904)</u>	<u>(222,981)</u>

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See notes to consolidated financial statements.

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**THE BLACKSTONE GROUP L.P.**  
**Consolidated Statements of Cash Flows**  
(Dollars in Thousands)

	Year Ended December 31,		
	2014	2013	2012
<b>Financing Activities</b>			
Distributions to Non-Controlling Interest Holders in Consolidated Entities	\$ (982,405)	\$ (844,011)	\$(261,582)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	1,560,183	1,114,457	773,714
Purchase of Interests from Certain Non-Controlling Interest Holders	(6)	(43)	(63)
Payments Under Tax Receivable Agreement	(86,733)	—	—
Net Delivery of Vested Common Units and Repurchase of Common and Holdings Units	(36,252)	(24,140)	(22,364)
Excess Tax Benefits Related to Equity-Based Compensation	25,646	5,769	—
Proceeds from Loans Payable	491,150	11,367	633,742
Repayment and Repurchase of Loans Payable	(8,735)	(16,777)	(33,168)
Distributions to Unitholders	(2,348,596)	(1,469,479)	(614,530)
Blackstone Funds Related			
Proceeds from Loans Payable	2,144,390	53,917	17,820
Repayment of Loans Payable	(1,808,549)	(2,090,674)	(898,980)
Net Cash Used in Financing Activities	<u>(1,049,907)</u>	<u>(3,259,614)</u>	<u>(405,411)</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(183)	73	(5)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	580,474	122,496	(45,242)
Cash and Cash Equivalents, Beginning of Period	831,998	709,502	754,744
Cash and Cash Equivalents, End of Period	<u>\$ 1,412,472</u>	<u>\$ 831,998</u>	<u>\$ 709,502</u>
<b>Supplemental Disclosure of Cash Flows Information</b>			
Payments for Interest	<u>\$ 116,296</u>	<u>\$ 125,361</u>	<u>\$ 80,159</u>
Payments for Income Taxes	<u>\$ 236,718</u>	<u>\$ 69,858</u>	<u>\$ 30,234</u>
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>			
Non-Cash Contributions from Non-Controlling Interest Holders	<u>\$ 47,683</u>	<u>\$ 63,273</u>	<u>\$ 6,803</u>
Non-Cash Distributions to Non-Controlling Interest Holders	<u>\$ (60,589)</u>	<u>\$ (18,537)</u>	<u>\$ (6,803)</u>
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	<u>\$ 16,181</u>	<u>\$ (6,029)</u>	<u>\$ (5,409)</u>
Net Assets Related to the Consolidation of CLO Vehicles	<u>\$ 8,398</u>	<u>\$ —</u>	<u>\$ 233,541</u>
Net Assets Related to the Consolidation of Certain Fund Entities	<u>\$ 354,080</u>	<u>\$ 659,001</u>	<u>\$ 50,224</u>
In-kind Redemption of Capital	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (2,017)</u>
In-kind Contribution of Capital	<u>\$ —</u>	<u>\$ 2,323</u>	<u>\$ 2,017</u>
Notes Issuance Costs	<u>\$ 4,375</u>	<u>\$ —</u>	<u>\$ 4,788</u>
Transfer of Interests to Non-Controlling Interest Holders	<u>\$ (1,885)</u>	<u>\$ (2,403)</u>	<u>\$ (4,584)</u>
Change in The Blackstone Group L.P.'s Ownership Interest	<u>\$ 9,032</u>	<u>\$ (2,519)</u>	<u>\$ (2,423)</u>
Net Settlement of Vested Common Units	<u>\$ 69,426</u>	<u>\$ 153,522</u>	<u>\$ 167,046</u>
Conversion of Blackstone Holdings Units to Common Units	<u>\$ 117,877</u>	<u>\$ 43,255</u>	<u>\$ 256,239</u>
Acquisition of Ownership Interests from Non-Controlling Interest Holders			
Deferred Tax Asset	<u>\$ (105,686)</u>	<u>\$ (113,757)</u>	<u>\$(204,320)</u>
Due to Affiliates	<u>\$ 82,704</u>	<u>\$ 33,177</u>	<u>\$ 146,964</u>
Partners' Capital	<u>\$ 22,982</u>	<u>\$ 80,580</u>	<u>\$ 57,356</u>
Issuance of New Units	<u>\$ —</u>	<u>\$ 42,400</u>	<u>\$ —</u>

See notes to consolidated financial statements.

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**THE BLACKSTONE GROUP L.P.**

**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, real estate investment trusts (“REITs”), funds of hedge funds, hedge funds, credit-focused funds, collateralized loan obligation (“CLO”) vehicles, collateralized debt obligation (“CDO”) vehicles, separately managed accounts and registered investment companies (collectively referred to as the “Blackstone Funds”). Blackstone also provides various financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory, capital markets and fund placement services. Blackstone’s business is organized into five segments: private equity, real estate, hedge fund solutions, credit and financial advisory.

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

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

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.

**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. Such estimates include those used in the valuation of investments and financial instruments and the accounting for Goodwill and equity-based compensation. Actual results could differ from those estimates and such differences could be material.

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**Consolidation**

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

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

- (a) The entity has all of the attributes of an investment company,
- (b) The reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and
- (c) The entity is not a securitization or asset-backed financing entity or an entity that was formerly considered a qualifying special purpose entity.

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

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

Blackstone’s other disclosures regarding VIEs are discussed in Note 9. “Variable Interest Entities”.



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**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**Revenue Recognition**

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

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

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

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

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

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

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

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

In certain fund structures, specifically in private equity, real estate and certain hedge fund solutions and credit-focused funds (“Carry Funds”), performance fees (“Carried Interest”) are allocated to the general partner based on

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**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

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

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

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

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

**Fair Value of Financial Instruments**

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

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### THE BLACKSTONE GROUP L.P.

#### Notes to Consolidated Financial Statements—Continued (All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

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

- Level I — Quoted prices are available in active markets for identical financial instruments as of the reporting date. The type of financial instruments in Level I include listed equities, listed derivatives and mutual funds with quoted prices. The Partnership does not adjust the quoted price for these investments, even in situations where Blackstone holds a large position and a sale could reasonably impact the quoted price.
- Level II — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments which are generally included in this category include corporate bonds and loans, government and agency securities, less liquid and restricted equity securities, certain over-the-counter derivatives where the fair value is based on observable inputs, and certain funds of hedge funds and proprietary investments in which Blackstone has the ability to redeem its investment at net asset value at, or within three months of, the reporting date.
- Level III — Pricing inputs are unobservable for the financial instruments and includes situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include general and limited partnership interests in private equity and real estate funds, credit-focused funds, distressed debt and non-investment grade residual interests in securitizations, certain corporate bonds and loans held within CLO vehicles, certain over-the-counter derivatives where the fair value is based on unobservable inputs and certain funds of hedge funds that use net asset value per share to determine fair value in which Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date. Blackstone may not have the ability to redeem its investment at net asset value at, or within three months of, the reporting date if an investee fund manager has the ability to limit the amount of redemptions, and/or the ability to side pocket investments, irrespective of whether such ability has been exercised. Senior and subordinate notes issued by CLO vehicles are classified within Level III of the fair value hierarchy.

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

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

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

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

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

- Debt Instruments and Equity Securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable dealers or pricing services. In determining the value of

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**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
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a particular investment, pricing services may use certain information with respect to transactions in such investments, quotations from dealers, pricing matrices and market transactions in comparable investments and various relationships between investments. The valuation of certain equity securities is based on an observable price for an identical security adjusted for the effect of a restriction.

- Investment Funds held by the consolidated Blackstone Funds are valued using net asset value per share as described in Level III Valuation Techniques — Funds of Hedge Funds. Certain investments in investment funds are classified within Level II of the fair value hierarchy as the investment can be redeemed at, or within three months of, the reporting date.
- Freestanding Derivatives and Derivative Instruments Designated as Fair Value Hedges are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.

***Level III Valuation Techniques***

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

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

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

*Funds of Hedge Funds* — The investments of consolidated Blackstone Funds in funds of hedge funds ("Investee Funds") are valued at net asset value ("NAV") per share of the Investee Fund. In limited circumstances,

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### THE BLACKSTONE GROUP L.P.

#### Notes to Consolidated Financial Statements—Continued (All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

the Partnership may determine, based on its own due diligence and investment procedures, that NAV per share does not represent fair value. In such circumstances, the Partnership will estimate the fair value in good faith and in a manner that it reasonably chooses, in accordance with the requirements of GAAP.

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

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

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

#### **Level III Valuation Process**

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

#### **Investments, at Fair Value**

The Blackstone Funds are accounted for as investment companies under the American Institute of Certified Public Accountants Accounting and Auditing Guide, *Investment Companies*, and reflect their investments, including majority-owned and controlled investments (the "Portfolio Companies"), at fair value. 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 (Losses) 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).

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**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
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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 securities that otherwise would not have been carried at fair value with gains and losses recorded in net income. Accounting for these financial instruments at fair value is consistent with how the Partnership accounts for its other principal investments. Loans extended to third parties are recorded within Accounts Receivable within the Consolidated Statements of Financial Condition. Debt securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-focused and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the 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 CLO vehicles that are consolidated as of January 1, 2010, as a result of the initial adoption of variable interest entity consolidation guidance. The Partnership has also elected the fair value option for CLO vehicles consolidated as a result of the acquisitions of CLO management contracts or the acquisition of the share capital of CLO managers. The adjustment resulting from the difference between the fair value of assets and liabilities for each of these events is presented as a transition and acquisition adjustment to Appropriated Partners' Capital. The recognition of the initial difference between the fair value of assets and liabilities of CLO vehicles consolidated as a result of the acquisition of management contracts or CLO managers subsequent to the initial adoption of revised accounting guidance effective January 1, 2010, as an adjustment to Appropriated 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-focused investments. Changes in the fair value of consolidated CLO assets and liabilities and related interest, dividend and other income subsequent to adoption and acquisition are presented within Net Gains (Losses) from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses. Amounts attributable to Non-Controlling Interests in Consolidated Entities have a corresponding adjustment to Appropriated Partners' Capital.

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

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

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

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**THE BLACKSTONE GROUP L.P.**

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**Equity Method Investments**

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

**Cash and Cash Equivalents**

Cash and Cash Equivalents represents cash on hand, cash held in banks, money market funds 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, receivables relating to unsettled sale transactions 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, Incentive Fees and Carried Interest. Identifiable finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from 3 to 20 years, reflecting the contractual lives of such assets. Amortization expense is included within General, Administrative and Other in the Consolidated Statements of Operations. The Partnership does not hold any indefinite-lived intangible assets. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill comprises goodwill arising from the contribution and reorganization of the Partnership's predecessor entities in 2007 immediately prior to its IPO, the acquisition of GSO in 2008 and the acquisition of Strategic Partners in 2013. Goodwill is reviewed for impairment at least annually utilizing a qualitative or quantitative approach, and more frequently if circumstances indicate impairment may have occurred. The impairment testing for goodwill under the qualitative approach is based first on a qualitative assessment to determine if it is more likely than not that the fair value of Blackstone's operating segments is less than their respective carrying values. The operating segment is the reporting level for testing the impairment of goodwill. If it is determined that it is more

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likely than not that an operating segment's fair value is less than its carrying value or when the quantitative approach is used, a two-step quantitative assessment is performed to (a) calculate the fair value of the operating segment and compare it to its carrying value, and (b) if the carrying value exceeds its fair value, to measure an impairment loss.

**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 ten to 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 Revenue in the Consolidated Statements of Operations. Foreign currency transaction gains and losses arising within consolidated Blackstone Funds are recorded in Net Gains (Losses) from Fund Investment Activities. 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 and allocated to Non-Controlling Interests in Consolidated Entities, as applicable.

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

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

Non-controlling interests related to funds of hedge funds and certain other credit-focused funds are subject to annual, semi-annual or quarterly redemption by investors in these funds following the expiration of a specified



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**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
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period of time (typically between one and three years), or may be withdrawn subject to a redemption fee in the funds of hedge funds and certain credit-focused funds during the period when capital may not be withdrawn. As limited partners in these types of funds have been granted redemption rights, amounts relating to third party interests in such consolidated funds are presented as Redeemable Non-Controlling Interests in Consolidated Entities within the Consolidated Statements of Financial Condition. When redeemable amounts become legally payable to investors, they are classified as a liability and included in Accounts Payable, Accrued Expenses and Other Liabilities in the 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.

**Non-Controlling Interests in Blackstone Holdings**

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

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

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

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

**Other Income**

Net Gains (Losses) from Fund Investment Activities in the Consolidated Statements of Operations include net realized gains (losses) from realizations and sales of investments, the net change in unrealized gains (losses) resulting from changes in the fair value of investments and interest income and expense and dividends attributable to the consolidated Blackstone Funds' investments.

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### THE BLACKSTONE GROUP L.P.

#### Notes to Consolidated Financial Statements—Continued (All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

Expenses incurred by consolidated Blackstone funds are separately presented within Fund Expenses in the Consolidated Statements of Operations.

In 2013, Other Income included the amount attributable to the Reversal of the Tax Receivable Agreement Liability. This is income attributable to a change in tax rate as discussed in Note 14. “Income Taxes”.

#### Income Taxes

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

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

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

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

#### 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 Blackstone Holdings Partnership Units and deferred restricted common units, as applicable.

#### Repurchase and Reverse Repurchase Agreements

Securities purchased under agreements to resell (“reverse repurchase agreements”) and securities sold under agreements to repurchase (“repurchase agreements”), comprised primarily of U.S. and non-U.S. government and

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**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
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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. The carrying value of repurchase and reverse repurchase agreements approximates fair value.

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

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

Blackstone does not offset assets and liabilities relating to reverse repurchase agreements and repurchase agreements in its Consolidated Statements of Financial Condition. Additional disclosures relating to offsetting are discussed in Note 12. "Offsetting of Assets and Liabilities".

**Securities Sold, Not Yet Purchased**

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

Securities Sold, Not Yet Purchased are recorded at fair value in the 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 ("freestanding derivative"). For a fair value hedge, Blackstone records changes in the fair value of the derivative and, to the extent that it is highly effective, changes in the fair value of the hedged asset or liability attributable to the hedged risk, in current period earnings in General, Administrative and Other in the Consolidated Statements of Operations. Changes in the fair value of derivatives designated as hedging instruments caused by factors other than changes in the risk being hedged, which are excluded from the assessment of hedge effectiveness, are recognized in current period earnings.

The Partnership formally documents at inception its hedge relationships, including identification of the hedging instruments and the hedged items, its risk management objectives, strategy for undertaking the hedge transaction

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

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

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

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

Blackstone's disclosures regarding offsetting are discussed in Note 12. "Offsetting of Assets and Liabilities".

**Affiliates**

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

**Distributions**

Distributions are reflected in the consolidated financial statements when declared.

**Recent Accounting Developments**

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

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

In September 2011, the FASB issued enhanced guidance on testing goodwill for impairment. The amended guidance provides an entity with the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. Under the amended guidance, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amended guidance includes examples of events or circumstances that an entity must consider in evaluating whether it is more likely than not that the fair value of reporting units is less than its carrying amount. The amended guidance no longer permits the carry forward of detailed calculations of a reporting unit's fair value from a prior year. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Blackstone adopted the guidance on October 1, 2012, the date of annual impairment testing. The amended guidance did not have a material impact on the Partnership's financial statements.

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

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

In February 2013, the FASB issued guidance on the measurement of joint and several liability arrangements in which the total amount of the obligation is fixed at the reporting date. The guidance requires entities to measure

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

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

In April 2013, the FASB issued guidance on when and how an entity should prepare its financial statements using the liquidation basis of accounting. The guidance requires an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. Financial statements prepared using the liquidation basis of accounting shall measure and present assets at the amount of the expected cash proceeds from liquidation. The presentation of assets shall include any items that had not previously been recognized under GAAP but that it expects to either sell in liquidation or use in settling liabilities. Liabilities shall be recognized and measured in accordance with GAAP that otherwise applies to those liabilities. The guidance requires an entity to accrue and separately present the costs that it expects to incur and the income that it expects to earn during the expected duration of the liquidation, including any costs associated with sale or settlement of those assets and liabilities. The guidance requires disclosures about an entity's plan for liquidation, the methods and significant assumptions used to measure assets and liabilities, the type and amount of costs and income accrued, and the expected duration of the liquidation process. The guidance is effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013 and interim periods therein. The guidance should be applied prospectively. Adoption did not have a material impact on the Partnership's financial statements.

In June 2013, the FASB issued guidance to clarify the characteristics of an investment company and to provide guidance for assessing whether an entity is an investment company. Consistent with existing guidance for investment companies, all investments are to be measured at fair value including non-controlling ownership interests in other investment companies. There are no changes to the current requirements relating to the retention of

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specialized accounting in the consolidated financial statements of a non-investment company parent. The guidance is effective for interim and annual periods beginning after December 15, 2013 and early application is prohibited. Adoption did not have a material impact on the Partnership's financial statements.

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

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

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

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

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

In August 2014, the FASB issued amended guidance on the measurement of financial assets and financial liabilities of a consolidated collateralized financing entity. Under the amended guidance, a reporting entity that consolidates a collateralized financing entity may elect to measure the financial assets and the financial liabilities using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. When this measurement alternative is elected, a reporting entity's consolidated net income (loss) should reflect the reporting entity's own economic interest in the collateralized financing entity, including (a) changes in the fair value of the beneficial interests retained by the reporting entity and (b) beneficial interests that represent compensation for services. When this measurement alternative is not elected, the amendments clarify that the fair value of financial assets and financial liabilities should be measured in accordance with existing fair value guidance and any

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difference in the fair value of financial assets and financial liabilities should be reflected in earnings and attributed to the reporting entity in the consolidated statement of income (loss). The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted as of the beginning of the annual period. The guidance is expected to impact the measurement of the financial assets or financial liabilities of Blackstone's consolidated collateralized loan obligation vehicles and have a material impact on the recognition of appropriated partners' capital. However, the impact on net income attributable to The Blackstone Group L.P. is not expected to be material.

In February 2015, the FASB issued amended guidance on consolidation. The amended guidance modifies the analysis that companies must perform in order to determine whether a legal entity should be consolidated. The amended guidance simplifies current consolidation rules by (a) reducing the number of consolidation models, (b) eliminating the risk that a reporting entity may have to consolidate a legal entity solely based on a fee arrangement with another legal entity, (c) placing more weight on the risk of loss in order to identify the party that has a controlling financial interest, (d) reducing the number of instances that related party guidance needs to be applied when determining the party that has a controlling financial interest, and changing rules for companies in certain industries that ordinarily employ limited partnership or VIE structures. The amended guidance is effective for public entities for interim and annual periods beginning after December 15, 2015. Early adoption, including adoption in an interim period, is permitted. The Partnership is evaluating the impact on its consolidated financial statements.

**3. GOODWILL AND INTANGIBLE ASSETS**

Goodwill has been allocated to each of the Partnership's five segments as follows: Private Equity (\$778.3 million), Real Estate (\$421.7 million), Hedge Fund Solutions (\$172.1 million), Credit (\$346.4 million) and Financial Advisory (\$68.9 million).

The carrying value of goodwill was \$1.8 billion as of December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, the Partnership determined there was no evidence of Goodwill impairment.

Intangible Assets, Net consists of the following:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Finite-Lived Intangible Assets / Contractual Rights	\$ 1,464,017	\$ 1,594,128
Accumulated Amortization	<u>(1,005,184)</u>	<u>(1,033,380)</u>
Intangible Assets, Net	<u>\$ 458,833</u>	<u>\$ 560,748</u>

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

	<u>Year Ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Balance, Beginning of Year	\$ 560,748	\$ 598,535	\$ 595,488
Amortization Expense	(101,915)	(95,671)	(139,174)
Acquisitions	—	57,884	142,221
Balance, End of Year	<u>\$ 458,833</u>	<u>\$ 560,748</u>	<u>\$ 598,535</u>



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Amortization of Intangible Assets held at December 31, 2014 is expected to be \$96.1 million, \$85.6 million, \$46.5 million, \$46.5 million, and \$46.4 million for each of the years ending December 31, 2015, 2016, 2017, 2018 and 2019, respectively. Blackstone's intangible assets as of December 31, 2014 are expected to amortize over a weighted-average period of 6.9 years.

**4. INVESTMENTS**

Investments consist of the following:

	December 31,	
	2014	2013
Investments of Consolidated Blackstone Funds	\$11,375,407	\$12,521,248
Equity Method Investments	3,240,825	3,309,879
Blackstone's Treasury Cash Management Strategies	1,666,061	1,104,800
Performance Fees	6,337,045	4,674,792
Other Investments	146,251	118,804
	<u>\$22,765,589</u>	<u>\$21,729,523</u>

Blackstone's share of Investments of Consolidated Blackstone Funds totaled \$704.9 million and \$487.8 million at December 31, 2014 and December 31, 2013, respectively.

**Investments of Consolidated Blackstone Funds**

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

	Year Ended December 31,		
	2014	2013	2012
Realized Gains (Losses)	\$143,194	\$205,741	\$ (3,502)
Net Change in Unrealized Gains (Losses)	(20,127)	(26,800)	58,602
Realized and Net Change in Unrealized Gains (Losses) from Blackstone Funds	123,067	178,941	55,100
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	234,787	202,723	201,045
Other Income — Net Gains from Fund Investment Activities	<u>\$357,854</u>	<u>\$381,664</u>	<u>\$256,145</u>

**Equity Method Investments**

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

Blackstone evaluates each of its equity method investments to determine if any were significant as defined by guidance from the United States Securities and Exchange Commission. As of and for the years ended

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December 31, 2014, 2013 and 2012, no individual equity method investment held by Blackstone met the significance criteria. As such, Blackstone is not required to present separate financial statements for any of its equity method investments.

Blackstone holds a 40% non-controlling equity interest in Pátria Investments Limited and Pátria Investimentos Ltda. (collectively, “Pátria”) and accounts for this interest using the equity method of accounting.

The Partnership recognized net gains related to its equity method investments of \$297.9 million, \$591.9 million and \$199.7 million for the years ended December 31, 2014, 2013 and 2012, respectively.

The summarized financial information of the Partnership’s equity method investments for December 31, 2014 are as follows:

	December 31, 2014 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Other (a)	Total
<b>Statement of Financial Condition</b>						
<b>Assets</b>						
Investments	\$43,005,350	\$59,117,360	\$15,947,483	\$14,611,539	\$ 19,594	\$132,701,326
Other Assets	667,131	3,213,450	1,411,406	1,751,967	53,551	7,097,505
Total Assets	<u>\$43,672,481</u>	<u>\$62,330,810</u>	<u>\$17,358,889</u>	<u>\$16,363,506</u>	<u>\$ 73,145</u>	<u>\$139,798,831</u>
<b>Liabilities and Partners’ Capital</b>						
Debt	\$ 836,667	\$ 3,645,998	\$ 20,550	\$ 1,254,774	\$ —	\$ 5,757,989
Other Liabilities	100,362	617,101	919,013	827,469	24,937	2,488,892
Total Liabilities	937,029	4,263,099	939,563	2,082,243	24,937	8,246,871
Partners’ Capital	42,735,452	58,067,711	16,419,326	14,281,263	48,208	131,551,960
Total Liabilities and Partners’ Capital	<u>\$43,672,481</u>	<u>\$62,330,810</u>	<u>\$17,358,889</u>	<u>\$16,363,506</u>	<u>\$ 73,145</u>	<u>\$139,798,831</u>
<b>Statement of Operations</b>						
Interest Income	\$ 406,255	\$ 260,683	\$ 483	\$ 567,008	\$ 1	\$ 1,234,430
Other Income	21,305	1,030,685	125,441	52,207	118,835	1,348,473
Interest Expense	(61,855)	(89,842)	(271)	(86,957)	(153)	(239,078)
Other Expenses	(97,073)	(249,095)	(103,787)	(177,968)	(71,297)	(699,220)
Net Realized and Unrealized Gain from Investments	8,567,193	10,441,009	547,982	643,080	3,263	20,202,527
Net Income	<u>\$ 8,835,825</u>	<u>\$11,393,440</u>	<u>\$ 569,848</u>	<u>\$ 997,370</u>	<u>\$ 50,649</u>	<u>\$ 21,847,132</u>

(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.

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The summarized financial information of the Partnership's equity method investments for December 31, 2013 are as follows:

	December 31, 2013 and the Year Then Ended					
	<u>Private Equity</u>	<u>Real Estate</u>	<u>Hedge Fund Solutions</u>	<u>Credit</u>	<u>Other (a)</u>	<u>Total</u>
Statement of Financial Condition						
Assets						
Investments	\$35,516,755	\$57,053,881	\$11,529,163	\$12,150,918	\$ 26,839	\$116,277,556
Other Assets	389,265	3,441,977	1,114,404	2,678,742	128,826	7,753,214
Total Assets	<u>\$35,906,020</u>	<u>\$60,495,858</u>	<u>\$12,643,567</u>	<u>\$14,829,660</u>	<u>\$155,665</u>	<u>\$124,030,770</u>
Liabilities and Partners' Capital						
Debt	\$ 1,691,018	\$ 3,013,762	\$ 63,830	\$ 1,165,405	\$ 967	\$ 5,934,982
Other Liabilities	54,909	886,445	689,964	1,131,557	14,222	2,777,097
Total Liabilities	<u>1,745,927</u>	<u>3,900,207</u>	<u>753,794</u>	<u>2,296,962</u>	<u>15,189</u>	<u>8,712,079</u>
Partners' Capital	<u>34,160,093</u>	<u>56,595,651</u>	<u>11,889,773</u>	<u>12,532,698</u>	<u>140,476</u>	<u>115,318,691</u>
Total Liabilities and Partners' Capital	<u>\$35,906,020</u>	<u>\$60,495,858</u>	<u>\$12,643,567</u>	<u>\$14,829,660</u>	<u>\$155,665</u>	<u>\$124,030,770</u>
Statement of Operations						
Interest Income	\$ 294,171	\$ 140,879	\$ 224	\$ 630,902	\$ 4	\$ 1,066,180
Other Income	10,580	752,184	89,632	30,937	101,214	984,547
Interest Expense	(37,846)	(51,544)	(310)	(68,973)	—	(158,673)
Other Expenses	(88,957)	(108,580)	(71,326)	(105,706)	(65,197)	(439,766)
Net Realized and Unrealized						
Gain from Investments	<u>9,002,197</u>	<u>13,225,141</u>	<u>1,127,173</u>	<u>1,979,078</u>	<u>2,944</u>	<u>25,336,533</u>
Net Income	<u>\$ 9,180,145</u>	<u>\$13,958,080</u>	<u>\$ 1,145,393</u>	<u>\$ 2,466,238</u>	<u>\$ 38,965</u>	<u>\$ 26,788,821</u>

- (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.

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**Notes to Consolidated Financial Statements—Continued**  
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The summarized financial information of the Partnership's equity method investments for December 31, 2012 are as follows:

	December 31, 2012 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Other (a)	Total
Statement of Financial Condition						
Assets						
Investments	\$31,308,915	\$40,230,098	\$8,193,041	\$11,066,214	\$ 22,345	\$90,820,613
Other Assets	1,289,961	1,714,990	1,173,627	2,516,388	46,178	6,741,144
Total Assets	<u>\$32,598,876</u>	<u>\$41,945,088</u>	<u>\$9,366,668</u>	<u>\$13,582,602</u>	<u>\$ 68,523</u>	<u>\$97,561,757</u>
Liabilities and Partners' Capital						
Debt	\$ 1,478,929	\$ 1,336,305	\$ 65,103	\$ 1,043,595	\$ 972	\$ 3,924,904
Other Liabilities	91,519	703,412	642,925	1,401,910	20,192	2,859,958
Total Liabilities	<u>1,570,448</u>	<u>2,039,717</u>	<u>708,028</u>	<u>2,445,505</u>	<u>21,164</u>	<u>6,784,862</u>
Partners' Capital	<u>31,028,428</u>	<u>39,905,371</u>	<u>8,658,640</u>	<u>11,137,097</u>	<u>47,359</u>	<u>90,776,895</u>
Total Liabilities and Partners' Capital	<u>\$32,598,876</u>	<u>\$41,945,088</u>	<u>\$9,366,668</u>	<u>\$13,582,602</u>	<u>\$ 68,523</u>	<u>\$97,561,757</u>
Statement of Operations						
Interest Income	\$ 350,153	\$ 128,624	\$ 194	\$ 712,490	\$ —	\$ 1,191,461
Other Income	13,255	294,105	36,797	7,283	76,809	428,249
Interest Expense	(23,060)	(39,103)	(1,024)	(60,082)	—	(123,269)
Other Expenses	(48,926)	(64,569)	(60,114)	(101,451)	(48,744)	(323,804)
Net Realized and Unrealized Gain (Loss) from						
Investments	<u>3,916,697</u>	<u>4,979,027</u>	<u>798,892</u>	<u>1,362,351</u>	<u>1,014</u>	<u>11,057,981</u>
Net Income (Loss)	<u>\$ 4,208,119</u>	<u>\$ 5,298,084</u>	<u>\$ 774,745</u>	<u>\$ 1,920,591</u>	<u>\$ 29,079</u>	<u>\$12,230,618</u>

(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.

**Blackstone's Treasury Cash Management Strategies**

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

	Year Ended December 31,		
	2014	2013	2012
Realized Gains (Losses)	\$11,689	\$ (5,793)	\$9,095
Net Change in Unrealized Gains (Losses)	<u>2,002</u>	<u>(9,342)</u>	<u>(502)</u>
	<u>\$13,691</u>	<u>\$(15,135)</u>	<u>\$8,593</u>

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**Performance Fees**

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

	<u>Private Equity</u>	<u>Real Estate</u>	<u>Hedge Fund Solutions</u>	<u>Credit</u>	<u>Total</u>
Performance Fees, December 31, 2013	\$ 971,860	\$ 3,268,606	\$ 9,468	\$ 424,858	\$ 4,674,792
Performance Fees Allocated as a Result of					
Changes in Fund Fair Values	1,977,029	2,054,558	48,263	182,237	4,262,087
Foreign Exchange Gain	—	(44,893)	—	—	(44,893)
Fund Distributions	(733,305)	(1,556,520)	(42,700)	(222,416)	(2,554,941)
Performance Fees, December 31, 2014	<u>\$2,215,584</u>	<u>\$ 3,721,751</u>	<u>\$ 15,031</u>	<u>\$ 384,679</u>	<u>\$ 6,337,045</u>

**Other Investments**

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

	<u>Year Ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Realized Gains	\$ 5,082	\$13,468	\$ 743
Net Change in Unrealized Gains (Losses)	(6,309)	(6,758)	(371)
	<u>\$(1,227)</u>	<u>\$ 6,710</u>	<u>\$ 372</u>

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

A summary of fair value by strategy type alongside the remaining unfunded commitments and ability to redeem such investments as of December 31, 2014 is presented below:

<u>Strategy</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>
Diversified Instruments	\$ 183,719	\$ 1,415	(a)	(a)
Credit Driven	333,674	—	(b)	(b)
Event Driven	191,704	—	(c)	(c)
Equity	360,132	—	(d)	(d)
Commodities	65,529	—	(e)	(e)
Private Equity	89,561	—	(f)	(f)
	<u>\$1,224,319</u>	<u>\$ 1,415</u>		

- (a) Diversified Instruments include investments in funds that invest across multiple strategies. Investments representing 80% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 14% of the fair value of the investments in this category represent investments in hedge funds that are in the process of liquidating. Distributions from these funds will be received as underlying investments are liquidated. The time at which this redemption restriction

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may lapse cannot be estimated. The remaining 6% of investments in this category are redeemable as of the reporting date. As of the reporting date, the investee fund manager had elected to side-pocket 8% of Blackstone’s investments in this category.

- (b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 69% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. Investments representing 30% of the fair value of the investments in this category are redeemable as of the reporting date. Investments representing 1% of the total fair value in the credit driven category are subject to redemption restrictions at the discretion of the investee fund manager who may choose (but may not have exercised such ability) to side-pocket such investments. As of the reporting date, the investee fund manager had not elected to side-pocket any of Blackstone’s investments in this category.
- (c) The Event Driven category includes investments in hedge funds whose primary investing strategy is to identify certain event-driven investments. Withdrawals are not permitted in this category. Distributions will be received as the underlying investments are liquidated.
- (d) The Equity category includes investments in hedge funds that invest primarily in domestic and international equity securities. Withdrawals are generally not permitted for the investments in this category. Distributions will be received as the underlying investments are liquidated.
- (e) The Commodities category includes investments in commodities-focused funds that primarily invest in futures and physical-based commodity driven strategies. Withdrawals are not permitted for investments representing 95% of the fair value of investments in this category. Distributions will be received as the underlying investments are liquidated. The remaining 5% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date.
- (f) The Private Equity category includes investments in private equity funds that primarily invest in private equity, revenue interests and other private investments. Withdrawals are not permitted for investments in this category.

**6. DERIVATIVE FINANCIAL INSTRUMENTS**

Blackstone and the Blackstone Funds enter into derivative contracts in the normal course of business to achieve certain risk management objectives and for general investment purposes. Blackstone may enter into derivative contracts in order to hedge its interest rate risk exposure against the effects of interest rate changes. Additionally, Blackstone may also enter into derivative contracts in order to hedge its foreign currency risk exposure against the effects of a portion of its non-U.S. dollar denominated currency net investments. 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**

In June 2012, Blackstone removed the fair value designation of its interest rate swaps that were previously used to hedge a portion of the interest rate risk on the Partnership’s fixed rate borrowings. The impact to the Consolidated Statements of Operations for the period up through the date of de-designation is reflected within “Fair Value Hedges” in the table below. Changes in the fair value of the interest rate swaps subsequent to the date of de-designation are reflected within Freestanding Derivatives within Interest Rate Contracts in the table below.

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**Net Investment Hedges**

To manage the potential exposure from adverse changes in currency exchange rates arising from Blackstone's net investment in foreign operations, during December 2014, Blackstone entered into several foreign currency forward contracts to hedge a portion of the net investment in Blackstone's non-U.S. dollar denominated foreign operations.

Blackstone uses foreign currency forward contracts to hedge portions of Blackstone's net investments in foreign operations. The gains and losses due to change in fair value attributable to changes in spot exchange rates on foreign currency derivatives designated as net investment hedges were recognized in Other Comprehensive Income (Loss), Net of Tax — Currency Translation Adjustment. For the year ended December 31, 2014 the resulting gain was \$0.5 million.

**Freestanding Derivatives**

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

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

	December 31, 2014				December 31, 2013			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
<b>Net Investment Hedges</b>								
Foreign Currency Contracts	\$ 62,078	\$ 523	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Freestanding Derivatives</b>								
Blackstone — Other								
Interest Rate Contracts	223,886	407	879,412	4,590	1,994,276	8,521	1,083,140	2,676
Foreign Currency Contracts	192,163	2,798	148,873	681	166,066	1,480	163,787	1,015
Total Return Swaps	—	—	—	—	326,929	342	—	—
Credit Default Swaps	19,500	85	56,000	868	—	—	10,000	591
Investments of Consolidated Blackstone Funds								
Foreign Currency Contracts	199,364	8,915	250,244	21,875	396,569	30,830	239,037	10,018
Interest Rate Contracts	22,659	2,281	—	—	62,193	3,726	—	—
Credit Default Swaps	—	—	91,372	2,514	—	—	—	—
	<u>657,572</u>	<u>14,486</u>	<u>1,425,901</u>	<u>30,528</u>	<u>2,946,033</u>	<u>44,899</u>	<u>1,495,964</u>	<u>14,300</u>
<b>Total</b>	<u>\$719,650</u>	<u>\$15,009</u>	<u>\$1,425,901</u>	<u>\$30,528</u>	<u>\$2,946,033</u>	<u>\$44,899</u>	<u>\$1,495,964</u>	<u>\$14,300</u>

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

	Year Ended December 31,		
	2014	2013	2012
<b>Fair Value Hedges — Interest Rate Swaps</b>			
Hedge Ineffectiveness	\$ —	\$ —	\$ 548
Excluded from Assessment of Effectiveness	\$ —	\$ —	\$ (938)
Realized Gain	\$ —	\$ —	\$22,941
<b>Freestanding Derivatives</b>			
Realized Gains (Losses)			
Interest Rate Contracts	\$ (1,012)	\$34,206	\$ (2,752)
Foreign Currency Contracts	8,251	4,022	(3,816)
Credit Default Swaps	1,363	752	(1)
Total	\$ 8,602	\$38,980	\$ (6,569)
Net Change in Unrealized Gains (Losses)			
Interest Rate Contracts	\$ (7,757)	\$ (1,947)	\$12,134
Foreign Currency Contracts	(31,728)	2,636	(5,523)
Other	5,193	392	—
Total	\$(34,292)	\$ 1,081	\$ 6,611

Since the inception of the above mentioned fair value hedge designation, Blackstone recognized a \$64.2 million increase in the fair value of the hedged borrowing. This basis adjustment is being accreted using the effective interest method through August 15, 2019, the remaining term of the hedged borrowing.

As of December 31, 2014, 2013 and 2012, the Partnership had not designated any derivatives as cash flow hedges.



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7. FAIR VALUE OPTION

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

	December 31,	
	2014	2013
<b>Assets</b>		
Loans and Receivables	\$ 40,397	\$ 137,788
Equity and Preferred Securities	102,907	88,568
Assets of Consolidated CLO Vehicles		
Corporate Loans	6,279,592	8,466,889
Corporate Bonds	292,690	161,382
Other	44,513	41,061
	<u>\$6,760,099</u>	<u>\$8,895,688</u>
<b>Liabilities</b>		
Liabilities of Consolidated CLO Vehicles		
Senior Secured Notes	\$6,448,352	\$8,302,572
Subordinated Notes	348,752	610,435
	<u>\$6,797,104</u>	<u>\$8,913,007</u>

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,					
	2014		2013		2012	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains	Net Change in Unrealized Gains (Losses)
<b>Assets</b>						
Loans and Receivables	\$ (1,703)	\$ (3,022)	\$ 43	\$ (1,101)	\$ (308)	\$ (375)
Equity and Preferred Securities	(2,038)	6,885	(2,833)	7,273	(353)	500
Assets of Consolidated CLO Vehicles						
Corporate Loans	(77,041)	(28,054)	37,464	172,968	(35,428)	554,628
Corporate Bonds	(1,405)	(7,931)	4,510	(5,058)	393	13,264
Other	22,625	17,649	2,647	(476)	2,425	11,889
	<u>\$(59,562)</u>	<u>\$ (14,473)</u>	<u>\$41,831</u>	<u>\$ 173,606</u>	<u>\$(33,271)</u>	<u>\$ 579,906</u>
<b>Liabilities</b>						
Liabilities of Consolidated CLO Vehicles						
Senior Secured Notes	\$ (6,626)	\$ (133,274)	\$ (6,078)	\$ (485,655)	\$ 17	\$ (603,250)
Subordinated Notes	—	108,611	—	96,991	—	(69,141)
	<u>\$(6,626)</u>	<u>\$ (24,663)</u>	<u>\$(6,078)</u>	<u>\$ (388,664)</u>	<u>\$ 17</u>	<u>\$ (672,391)</u>

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

	December 31, 2014			December 31, 2013		
	For Financial Assets Past Due (a)			For Financial Assets Past Due (a)		
	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess (Deficiency) of Fair Value Over Principal	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess (Deficiency) of Fair Value Over Principal
Loans and Receivables	\$ (5,323)	\$ —	\$ —	\$ (533)	\$ —	\$ —
Assets of Consolidated CLO Vehicles						
Corporate Loans	(197,580)	4,369	(21,876)	(281,254)	57,837	(176,379)
Corporate Bonds	(7,814)	—	—	(1,789)	—	—
	<u>\$ (210,717)</u>	<u>\$4,369</u>	<u>\$ (21,876)</u>	<u>\$ (283,576)</u>	<u>\$57,837</u>	<u>\$ (176,379)</u>

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

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

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8. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

	December 31, 2014			Total
	Level I	Level II	Level III	
<b>Assets</b>				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	\$ —	\$ —	\$1,103,210	\$ 1,103,210
Equity Securities	58,934	114,115	179,311	352,360
Partnership and LLC Interests	—	187,140	1,496,422	1,683,562
Debt Instruments	—	1,502,314	105,970	1,608,284
Assets of Consolidated CLO Vehicles				
Corporate Loans	—	5,691,517	588,075	6,279,592
Corporate Bonds	—	292,690	—	292,690
Freestanding Derivatives — Foreign Currency Contracts	—	8,915	—	8,915
Freestanding Derivatives — Interest Rate Contracts	—	2,281	—	2,281
Other	13	19,455	25,045	44,513
Total Investments of Consolidated Blackstone Funds	58,947	7,818,427	3,498,033	11,375,407
Blackstone's Treasury Cash Management Strategies				
Investment Funds	307,111	—	—	307,111
Equity Securities	71,746	—	—	71,746
Debt Instruments	—	1,141,301	84,894	1,226,195
Other	—	50,850	10,159	61,009
Total Blackstone's Treasury Cash Management Strategies	378,857	1,192,151	95,053	1,666,061
Money Market Funds	198,278	—	—	198,278
Net Investment Hedges — Foreign Currency Contracts	—	523	—	523
Freestanding Derivatives				
Interest Rate Contracts	263	144	—	407
Foreign Currency Contracts	—	2,798	—	2,798
Credit Default Swaps	—	85	—	85
Loans and Receivables	—	—	40,397	40,397
Other Investments	31,731	7,310	107,210	146,251
	<u>\$668,076</u>	<u>\$9,021,438</u>	<u>\$3,740,693</u>	<u>\$13,430,207</u>
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	\$ —	\$ —	\$6,448,352	\$ 6,448,352
Subordinated Notes	—	—	348,752	348,752
Freestanding Derivatives — Foreign Currency Contracts	—	21,875	—	21,875
Freestanding Derivatives — Credit Default Swaps	—	2,514	—	2,514
Freestanding Derivatives				
Interest Rate Contracts	1,357	3,233	—	4,590
Foreign Currency Contracts	—	681	—	681
Credit Default Swaps	—	868	—	868
Securities Sold, Not Yet Purchased	—	85,878	—	85,878
	<u>\$ 1,357</u>	<u>\$ 115,049</u>	<u>\$6,797,104</u>	<u>\$ 6,913,510</u>

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	December 31, 2013			Total
	Level I	Level II	Level III	
<b>Assets</b>				
Investments of Consolidated Blackstone Funds (a)				
Investment Funds	\$ —	\$ —	\$ 897,843	\$ 897,843
Equity Securities	51,147	130,816	193,699	375,662
Partnership and LLC Interests	—	88,555	1,254,903	1,343,458
Debt Instruments	—	1,154,902	45,495	1,200,397
Assets of Consolidated CLO Vehicles				
Corporate Loans		7,537,661	929,228	8,466,889
Corporate Bonds	—	161,382	—	161,382
Freestanding Derivatives — Foreign Currency				
Contracts	—	30,830	—	30,830
Freestanding Derivatives — Interest Rate				
Contracts	—	3,726	—	3,726
Other	3,477	—	37,584	41,061
Total Investments of Consolidated Blackstone Funds	<u>54,624</u>	<u>9,107,872</u>	<u>3,358,752</u>	<u>12,521,248</u>
Blackstone's Treasury Cash Management Strategies				
Investment Funds	19,629	—	—	19,629
Debt Instruments	—	1,041,039	34,010	1,075,049
Other	—	—	10,122	10,122
Total Blackstone's Treasury Cash Management Strategies	<u>19,629</u>	<u>1,041,039</u>	<u>44,132</u>	<u>1,104,800</u>
Money Market Funds	173,781	—	—	173,781
Freestanding Derivatives				
Interest Rate Contracts	7,423	1,098	—	8,521
Foreign Currency Contracts	—	1,480	—	1,480
Total Return Swaps	—	342	—	342
Loans and Receivables	—	—	137,788	137,788
Other Investments	87,068	17,270	14,466	118,804
	<u>\$342,525</u>	<u>\$10,169,101</u>	<u>\$3,555,138</u>	<u>\$14,066,764</u>
<b>Liabilities</b>				
Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes	\$ —	\$ —	\$8,302,572	\$ 8,302,572
Subordinated Notes	—	—	610,435	610,435
Freestanding Derivatives — Foreign Currency				
Contracts	—	10,018	—	10,018
Freestanding Derivatives				
Interest Rate Contracts	2,484	192	—	2,676
Foreign Currency Contracts	—	1,015	—	1,015
Credit Default Swaps	—	591	—	591
Securities Sold, Not Yet Purchased	—	76,195	—	76,195
	<u>\$ 2,484</u>	<u>\$ 88,011</u>	<u>\$8,913,007</u>	<u>\$ 9,003,502</u>

(a) Pursuant to GAAP consolidation guidance, the Partnership is required to consolidate all VIEs in which it has been identified as the primary beneficiary, including certain CLO vehicles, and other funds in which a

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consolidated entity of the Partnership, as the general partner of the fund, is presumed to have control. While the Partnership is required to consolidate certain funds, including CLO vehicles, for GAAP purposes, the Partnership has no ability to utilize the assets of these funds and there is no recourse to the Partnership for their liabilities since these are client assets and liabilities.

The following table summarizes the fair value transfers between Level I and Level II for positions that existed as of December 31, 2014 and 2013, respectively:

	<u>Year Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Transfers from Level I into Level II (a)	\$ 1,639	\$ 28,670
Transfers from Level II into Level I (b)	\$ 23,758	\$ 1,308

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

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The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of December 31, 2014:

<b>Financial Assets</b>	<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Ranges</b>	<b>Weighted Average (a)</b>
Investments of Consolidated Blackstone Funds					
Investment Funds	\$1,103,210	NAV as Fair Value	N/A	N/A	N/A
Equity Securities	106,727	Discounted Cash Flows	Discount Rate	8.4% - 24.7%	11.8%
			Revenue CAGR	0.7% - 24.4%	7.1%
			Exit Multiple - EBITDA	5.0x - 13.0x	10.1x
			Exit Multiple - P/E	10.5x - 17.0x	11.2x
	67,706	Transaction Price	N/A	N/A	N/A
	163	Market Comparable Companies	EBITDA Multiple	6.7x - 7.6x	6.9x
	45	Third Party Pricing	N/A	N/A	N/A
	4,670	Other	N/A	N/A	N/A
Partnership and LLC Interests	485,748	Discounted Cash Flows	Discount Rate	4.4% - 21.5%	9.5%
			Revenue CAGR	-4.4% - 41.7%	6.5%
			Exit Multiple - EBITDA	1.0x - 19.1x	9.7x
			Exit Capitalization Rate	2.0% - 19.1%	6.8%
	996,199	Transaction Price	N/A	N/A	N/A
	13,793	Third Party Pricing	N/A	N/A	N/A
	682	Other	N/A	N/A	N/A
Debt Instruments	9,570	Discounted Cash Flows	Discount Rate	8.8% - 24.7%	16.1%
			Revenue CAGR	4.7% - 6.8%	5.0%
			Exit Multiple - EBITDA	5.9x - 11.3x	11.0x
			Exit Capitalization Rate	1.0% - 12.4%	9.3%
			Default Rate	2%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	95,542	Third Party Pricing	N/A	N/A	N/A
	686	Transaction Price	N/A	N/A	N/A
	172	Market Comparable Companies	EBITDA Multiple	6.6x - 7.9x	6.6x
Assets of Consolidated CLO Vehicles	318,636	Third Party Pricing	N/A	N/A	N/A
	290,658	Market Comparable Companies	EBITDA Multiple	3.8x - 15.0x	6.1x
	3,826	Discounted Cash Flows	Discount Rate	8.0%	N/A
Total Investments of Consolidated Blackstone Funds	3,498,033				

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	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Ranges</u>	<u>Weighted Average (a)</u>
Blackstone's Treasury Cash Management Strategies	\$ 26,167	Discounted Cash Flows	Default Rate	1.0%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	30.0%	N/A
			Reinvestment Rate	LIBOR + 450 bps	N/A
			Discount Rate	5.8% - 10.0%	7.2%
	54,257	Third Party Pricing	N/A	N/A	N/A
	10,159	NAV as Fair Value	N/A	N/A	N/A
	4,470	Transaction Price	N/A	N/A	N/A
Loans and Receivables	26,247	Discounted Cash Flows	Discount Rate	10.5% - 12.2%	10.9%
	14,150	Transaction Price	N/A	N/A	N/A
Other Investments	11,887	Transaction Price	N/A	N/A	N/A
	2,719	NAV as Fair Value	N/A	N/A	N/A
	92,604	Discounted Cash Flows	Discount Rate	1.3% - 12.5%	2.9%
			Default Rate	2.0%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
Total	<u>\$3,740,693</u>				
<b>Financial Liabilities</b>					
Liabilities of Consolidated CLO Vehicles	<u>\$6,797,104</u>	Discounted Cash Flows	Default Rate	2.0%	N/A
			Recovery Rate	30.0% - 70.0%	66.0%
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Discount Rate	0.3% - 19.3%	2.3%
			Reinvestment Rate	LIBOR + 400 bps	N/A

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

<b>Financial Assets</b>	<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Ranges</b>	<b>Weighted Average (a)</b>
Investments of Consolidated Blackstone Funds					
Investment Funds	\$ 897,843	NAV as Fair Value	N/A	N/A	N/A
Equity Securities	112,117	Discounted Cash Flows	Discount Rate	9.2% - 26.3%	12.4%
			Revenue CAGR	0.9% - 46.2%	6.8%
			Exit Multiple - EBITDA	5.0x - 14.0x	8.9x
			Exit Multiple - P/E	8.5x - 17.0x	9.8x
	78,154	Transaction Price	N/A	N/A	N/A
	275	Market Comparable Companies	EBITDA Multiple	6.3x - 7.5x	6.9x
	50	Third Party Pricing	N/A	N/A	N/A
	3,103	Other	N/A	N/A	N/A
Partnership and LLC Interests	557,534	Discounted Cash Flows	Discount Rate	5.0% - 22.5%	9.0%
			Revenue CAGR	-0.7% - 17.7%	5.5%
			Exit Multiple - EBITDA	3.0x - 23.3x	9.4x
			Exit Capitalization Rate	4.3% - 10.5%	7.0%
	687,246	Transaction Price	N/A	N/A	N/A
	9,181	Third Party Pricing	N/A	N/A	N/A
	942	Other	N/A	N/A	N/A
Debt Instruments	11,814	Discounted Cash Flows	Discount Rate	10.7% - 21.0%	19.2%
			Revenue CAGR	4.8% - 5.5%	4.8%
			Exit Multiple - EBITDA	5.8x - 11.1x	10.8x
			Exit Capitalization Rate	6.4% - 7.5%	6.7%
			Default Rate	2.0%	N/A
			Recovery Rate	67.0%	N/A
			Recovery Lag	12 months	N/A
			Pre-payment Rate	20.0%	N/A
			Reinvestment Rate	LIBOR + 400 bps	N/A
	31,675	Third Party Pricing	N/A	N/A	N/A
	1,772	Transaction Price	N/A	N/A	N/A
	234	Market Comparable Companies	EBITDA Multiple	6.2x - 8.0x	6.2x
Assets of Consolidated CLO Vehicles	615,414	Third Party Pricing	N/A	N/A	N/A
	293,382	Market Comparable Companies	EBITDA Multiple	3.5x - 11.3x	7.3x
	57,936	Discounted Cash Flows	Discount Rate	7.0% - 14.0%	7.8%
			Revenue CAGR	4.2%	N/A
			Exit Multiple - EBITDA	8.0x	N/A
	80	Transaction Price	N/A	N/A	N/A
Total Investments of Consolidated Blackstone Funds	3,358,752				

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

N/A Not applicable.

CAGR Compound annual growth rate.

EBITDA Earnings before interest, taxes, depreciation and amortization.

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

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

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

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

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**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

Since December 31, 2012, there have been no changes in valuation techniques within Level II and Level III that have had a material impact on the valuation of financial instruments.

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

	Level III Financial Assets at Fair Value							
	Year Ended December 31,							
	2014				2013			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments (c)	Total
Balance, Beginning of Period	\$ 3,358,752	\$ 137,788	\$ 58,598	\$ 3,555,138	\$ 3,017,699	\$ 30,663	\$ 28,104	\$ 3,076,466
Transfer In Due to Consolidation and Acquisition (a)	276,806	—	—	276,806	673,031	—	11,960	684,991
Transfer Out Due to Deconsolidation	(335,357)	—	—	(335,357)	(284,960)	—	—	(284,960)
Transfer In to Level III (b)	570,902	—	32,681	603,583	624,450	—	12,627	637,077
Transfer Out of Level III (b)	(358,406)	—	(48,282)	(406,688)	(481,637)	—	(9,241)	(490,878)
Purchases	1,125,697	192,568	193,369	1,511,634	733,356	370,508	129,122	1,232,986
Sales	(1,299,608)	(284,920)	(18,346)	(1,602,874)	(1,249,271)	(265,996)	(112,833)	(1,628,100)
Settlements	—	(1,171)	(522)	(1,693)	—	2,312	(1,958)	354
Changes in Gains (Losses) Included in Earnings and Other Comprehensive Income	159,247	(3,868)	(15,235)	140,144	326,084	301	817	327,202
Balance, End of Period	<u>\$ 3,498,033</u>	<u>\$ 40,397</u>	<u>\$ 202,263</u>	<u>\$ 3,740,693</u>	<u>\$ 3,358,752</u>	<u>\$ 137,788</u>	<u>\$ 58,598</u>	<u>\$ 3,555,138</u>
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	<u>\$ 58,563</u>	<u>\$ (4,048)</u>	<u>\$ (2,012)</u>	<u>\$ 52,503</u>	<u>\$ 261,403</u>	<u>\$ 258</u>	<u>\$ (13,117)</u>	<u>\$ 248,544</u>



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

	Level III Financial Liabilities at Fair Value					
	Year Ended December 31,					
	2014			2013		
	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total	Collateralized Loan Obligations Senior Notes	Collateralized Loan Obligations Subordinated Notes	Total
Balance, Beginning of Period	\$ 8,302,572	\$ 610,435	\$ 8,913,007	\$10,695,136	\$ 846,471	\$11,541,607
Transfer In Due to						
Consolidation and						
Acquisition (a)	1,990,703	144,107	2,134,810	—	—	—
Transfer Out Due to						
Deconsolidation	(2,231,852)	(277,302)	(2,509,154)	(1,100,842)	(150,925)	(1,251,767)
Issuances	557,780	10,000	567,780	41,233	784	42,017
Settlements	(1,807,845)	(703)	(1,808,548)	(2,034,367)	(530)	(2,034,897)
Changes in Gains (Losses)						
Included in Earnings and						
Other Comprehensive						
Income	(363,006)	(137,785)	(500,791)	701,412	(85,365)	616,047
Balance, End of Period	<u>\$ 6,448,352</u>	<u>\$ 348,752</u>	<u>\$ 6,797,104</u>	<u>\$ 8,302,572</u>	<u>\$ 610,435</u>	<u>\$ 8,913,007</u>
Changes in Unrealized (Gains)						
Losses Included in Earnings						
Related to Liabilities Still						
Held at the Reporting Date	<u>\$ 127,011</u>	<u>\$ (79,423)</u>	<u>\$ 47,588</u>	<u>\$ 695,334</u>	<u>\$ (85,365)</u>	<u>\$ 609,969</u>

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

**9. VARIABLE INTEREST ENTITIES**

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

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

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

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equity interests and fee arrangements. The maximum exposure to loss represents the loss of assets recognized by Blackstone relating to non-consolidated entities, any amounts due to non-consolidated entities and any clawback obligation relating to previously distributed Carried Interest. The assets and liabilities recognized in the Partnership's Consolidated Statements of Financial Condition related to the Partnership's interest in these non-consolidated VIEs and the Partnership's maximum exposure to loss relating to non-consolidated VIEs were as follows:

	December 31,	
	2014	2013
Investments	\$ 776,079	\$ 758,304
Accounts Receivable	125,316	166,908
Due from Affiliates	53,751	86,246
Total VIE Assets	955,146	1,011,458
Due to Affiliates	108	397
Accounts Payable, Accrued Expenses and Other Liabilities	124	2
Potential Clawback Obligation	206,725	63,290
Maximum Exposure to Loss	<u>\$1,162,103</u>	<u>\$1,075,147</u>

**10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS**

At December 31, 2014, the Partnership pledged securities with a carrying value of \$44.8 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

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

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

Other Assets consists of the following:

	December 31,	
	2014	2013
Furniture, Equipment and Leasehold Improvements	\$ 318,672	\$ 325,700
Less: Accumulated Depreciation	<u>(182,932)</u>	<u>(188,612)</u>
Furniture, Equipment and Leasehold Improvements, Net	135,740	137,088
Prepaid Expenses	102,503	61,226
Other Assets	96,501	75,815
Freestanding Derivatives	3,290	10,343
Net Investment Hedges	523	—
	<u>\$ 338,557</u>	<u>\$ 284,472</u>

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Notes to Consolidated Financial Statements—Continued  
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Depreciation expense of \$28.6 million, \$33.6 million and \$34.0 million related to furniture, equipment and leasehold improvements for the years ended December 31, 2014, 2013 and 2012, respectively, is included in General, Administrative and Other in the Consolidated Statements of Operations.

Accounts Payable, Accrued Expenses and Other Liabilities includes \$97.8 million and \$57.0 million as of December 31, 2014 and 2013, respectively, relating to redemptions that were legally payable to investors of the consolidated Blackstone Funds of \$591.7 million and \$229.1 million, respectively, of payables relating to unsettled purchases.

**12. OFFSETTING OF ASSETS AND LIABILITIES**

The following tables present the offsetting of assets and liabilities as of December 31, 2014:

	Gross and Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Received	
<b>Assets</b>				
Net Investment Hedges	\$ 523	\$ —	\$ —	\$ 523
Freestanding Derivatives	3,290	1,132	352	1,806
Total	<u>\$ 3,813</u>	<u>\$ 1,132</u>	<u>\$ 352</u>	<u>\$ 2,329</u>

	Gross and Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Pledged	
<b>Liabilities</b>				
Freestanding Derivatives	\$ 8,653	\$ 1,132	\$ 7,424	\$ 97
Repurchase Agreements	29,907	29,438	469	—
Total	<u>\$ 38,560</u>	<u>\$ 30,570</u>	<u>\$ 7,893</u>	<u>\$ 97</u>

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

	Gross and Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
		Financial Instruments	Cash Collateral Received	
<b>Assets</b>				
Freestanding Derivatives	\$ 10,343	\$ 3,025	\$ 582	\$ 6,736
Reverse Repurchase Agreements	148,984	148,394	—	590
Total	<u>\$ 159,327</u>	<u>\$151,419</u>	<u>\$ 582</u>	<u>\$ 7,326</u>

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

Reverse Repurchase Agreements and Repurchase Agreements are presented separately on the Statements of Financial Condition. Freestanding Derivative assets are included in Other Assets in the Statements of Financial Condition. See Note 11. “Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities” for the components of Other Assets.

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

**Notional Pooling Arrangement**

Blackstone has a notional cash pooling arrangement with a financial institution for cash management purposes. This arrangement allows for cash withdrawals based upon aggregate cash balances on deposit at the same financial institution. Cash withdrawals cannot exceed aggregate cash balances on deposit. The net balance of cash on deposit and overdrafts is used as a basis for calculating net interest expense or income. As of December 31, 2014, the aggregate cash balance on deposit relating to the cash pooling arrangement was \$1.2 billion, which was fully offset with an accompanying overdraft.

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**Notes to Consolidated Financial Statements—Continued**  
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**13. 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 Blackstone Funds. 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,					
	2014			2013		
	Credit Available	Borrowing Outstanding	Weighted Average Interest Rate	Credit Available	Borrowing Outstanding	Weighted Average Interest Rate
Revolving Credit Facility (a)	\$ 1,100,000	\$ 689	0.88%	\$ 1,100,000	\$ 717	1.25%
Blackstone Issued 6.625% Notes Due 8/15/2019 (b)(f)	585,000	585,000	6.63%	585,000	585,000	6.63%
Blackstone Issued 5.875% Notes Due 3/15/2021 (c)(f)	400,000	400,000	5.88%	400,000	400,000	5.88%
Blackstone Issued 4.750% Notes Due 2/15/2023 (d)(f)	400,000	400,000	4.75%	400,000	400,000	4.75%
Blackstone Issued 6.250% Notes Due 8/15/2042 (d)(f)	250,000	250,000	6.25%	250,000	250,000	6.25%
Blackstone Issued 5.000% Notes Due 6/15/2044 (e)(f)	500,000	500,000	5.00%	—	—	n/a
	<u>3,235,000</u>	<u>2,135,689</u>	5.71%	<u>2,735,000</u>	<u>1,635,717</u>	5.92%
Blackstone Fund Facilities (g)	6,877	6,877	2.53%	13,075	13,075	3.19%
CLO Vehicles (h)	7,519,660	7,334,316	1.27%	9,891,473	9,826,621	1.09%
	<u>\$10,761,537</u>	<u>\$9,476,882</u>	2.27%	<u>\$12,639,548</u>	<u>\$11,475,413</u>	1.78%

- (a) Blackstone, through indirect subsidiaries, has a \$1.1 billion unsecured revolving credit facility (the "Credit Facility") with Citibank, N.A., as Administrative Agent with a maturity date of May 29, 2019. 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-earning assets under management, each tested quarterly. As of December 31, 2014, there was an outstanding but undrawn letter of credit against the credit facility for \$0.7 million.
- (b) On August 20, 2009, Blackstone Holdings Finance Co. L.L.C. (the "Issuer"), an indirect subsidiary of the Partnership, issued \$600 million of senior notes. The notes, which were issued at a discount, accrue interest from August 20, 2009. Interest is paid semi-annually in arrears on February 15 and August 15 of each year, commencing on February 15, 2010. Interest expense on the notes was \$38.8 million, \$38.8 million and \$39.4 million for the years ended December 31, 2014, December 31, 2013 and December 31, 2012, respectively. The carrying and fair values are determined using the original \$600 million par amount less \$15 million attributable to these notes which were acquired but not retired by Blackstone during 2012.
- (c) On September 15, 2010, the Issuer issued \$400 million of senior notes. The notes, which were issued at a discount, accrue interest from September 20, 2010. Interest is payable semiannually in arrears on March 15 and



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September 15 of each year, commencing on March 15, 2011. Interest expense on the notes was \$23.5 million, \$23.5 million and \$23.5 million for the years ended December 31, 2014, December 31, 2013 and December 31, 2012, respectively.

- (d) On August 17, 2012, the Issuer issued \$400 million of senior notes due February 15, 2023 and \$250 million of senior notes maturing August 15, 2042. The notes, which were issued at a discount, accrue interest from August 17, 2012. Interest is payable semiannually in arrears on February 15 and September 15 of each year, commencing on February 15, 2013. Interest expense on the \$400 million note was \$19.0 million and \$19.0 million for the years ended December 31, 2014 and December 31, 2013, respectively. Interest expense on the \$250 million note was \$15.6 million and \$15.6 million for the years ended December 31, 2014 and December 31, 2013, respectively.
- (e) On April 7, 2014, the Issuer issued \$500 million aggregate principal amount of Senior Notes maturing June 15, 2044 (the “2014 Notes”). The 2014 Notes have an interest rate of 5.000% per annum, accruing from April 7, 2014. Interest is payable semiannually in arrears on June 15 and December 15 of each year, commencing December 15, 2014. Interest expense on the 2014 Notes was \$18.3 million and \$0.0 million for the years ended December 31, 2014 and December 31, 2013, respectively. The 2014 Notes are unsecured and unsubordinated obligations of the Issuer. The 2014 Notes are fully and unconditionally guaranteed, jointly and severally, by the Partnership, Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P. and Blackstone Holdings IV L.P. (the “2014 Guarantors”). The guarantees are unsecured and unsubordinated obligations of the 2014 Guarantors. Transaction costs related to the issuance of the 2014 Notes have been capitalized and are being amortized over the life of the 2014 Notes.
- (f) Represents long term borrowings in the form of senior notes (the “Notes”) issued by the Issuer. 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. Transaction costs related to the issuance of the Notes have been capitalized and are being amortized over the life of the Notes. 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 provide 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.
- (g) 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. Because 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

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**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
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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.

- (h) Represents borrowings due to the holders of debt securities issued by CLO vehicles consolidated by Blackstone. These amounts are included within Loans Payable and Due to Affiliates within the Consolidated Statements of Financial Condition.

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

	December 31,			
	2014		2013	
	Carrying Value	Fair Value (a)	Carrying Value	Fair Value (a)
Blackstone Issued 6.625%, \$600 Million Par, Notes Due 8/15/2019 (b)	\$625,111	\$684,158	\$632,823	\$684,860
Blackstone Issued 5.875%, \$400 Million Par, Notes Due 3/15/2021	\$398,710	\$462,360	\$398,543	\$447,120
Blackstone Issued 4.750%, \$400 Million Par, Notes Due 2/15/2023	\$393,805	\$436,240	\$393,202	\$415,760
Blackstone Issued 6.250%, \$250 Million Par, Notes Due 8/15/2042	\$239,864	\$307,125	\$239,738	\$278,550
Blackstone Issued 5.000%, \$500 Million Par, Notes Due 6/15/2044	\$493,013	\$527,500	\$ —	\$ —

- (a) Fair value is determined by broker quote and these notes would be classified as Level II within the fair value hierarchy.  
(b) The carrying and fair values are determined using the original \$600 million par amount less \$15 million attributable to these notes which were acquired but not retired by Blackstone during 2012.

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

	December 31,					
	2014			2013		
	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years	Borrowing Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes	\$6,594,266	1.27%	3.8	\$8,605,553	1.09%	4.1
Subordinated Notes	740,050(a)		N/A	1,221,068(a)		N/A
	<u>\$7,334,316</u>			<u>\$9,826,621</u>		

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

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Senior Secured Notes and Subordinated Notes comprise the following amounts:

	December 31,					
	2014			2013		
	Fair Value	Amounts Due to Non-Consolidated Affiliates		Fair Value	Amounts Due to Non-Consolidated Affiliates	
		Borrowing Outstanding	Fair Value		Borrowing Outstanding	Fair Value
Senior Secured Notes	\$6,448,352	\$ 2,500	\$ 2,504	\$8,302,572	\$ 14,500	\$ 13,732
Subordinated Notes	\$ 348,752	\$ 24,200	\$14,377	\$ 610,435	\$ 224,444	\$110,197

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, 2014 and 2013, the fair value of the consolidated CLO assets was \$8.0 billion and \$9.5 billion, respectively. 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, 2014.

Scheduled principal payments for borrowings at December 31, 2014 are as follows:

	Operating Borrowings	Blackstone Fund Facilities / CLO Vehicles	Total Borrowings
2015	\$ —	\$ —	\$ —
2016	—	6,877	6,877
2017	—	488,508	488,508
2018	—	—	—
2019	585,000	—	585,000
Thereafter	1,550,000	6,845,808	8,395,808
Total	<u>\$2,135,000</u>	<u>\$ 7,341,193</u>	<u>\$ 9,476,193</u>

**14. INCOME TAXES**

The Provision for Income Taxes consists of the following:

	Year Ended December 31,		
	2014	2013	2012
<b>Current</b>			
Federal Income Tax	\$135,193	\$ 19,237	\$ 5,928
Foreign Income Tax	24,199	13,302	16,921
State and Local Income Tax	69,281	33,273	36,022
	<u>228,673</u>	<u>65,812</u>	<u>58,871</u>
<b>Deferred</b>			
Federal Income Tax	54,375	157,962	100,875
Foreign Income Tax	(416)	(638)	(691)
State and Local Income Tax	8,541	32,506	25,968
	<u>62,500</u>	<u>189,830</u>	<u>126,152</u>
Provision for Taxes	<u>\$291,173</u>	<u>\$255,642</u>	<u>\$185,023</u>

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**Notes to Consolidated Financial Statements—Continued**  
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The following table summarizes Blackstone's tax position:

	Year Ended December 31,		
	2014	2013	2012
Income Before Provision for Taxes	\$3,986,726	\$3,148,561	\$1,014,905
Total Provision for Taxes	\$ 291,173	\$ 255,642	\$ 185,023
Effective Income Tax Rate	7.3%	8.1%	18.2%

The following table reconciles the effective income tax rate to the U.S. federal statutory tax rate:

	Year Ended December 31,		
	2014	2013	2012
Statutory U.S. Federal Income Tax Rate	35.0%	35.0%	35.0%
Income Passed Through to Common Unitholders and Non-Controlling Interest Holders (a)	-28.7%	-28.7%	-23.6%
Interest Expense	-0.5%	-0.9%	-3.4%
Foreign Income Taxes	-0.3%	-0.2%	-3.2%
State and Local Income Taxes	1.5%	1.7%	3.0%
Equity-Based Compensation	1.1%	1.6%	9.3%
Change in Tax Rate	0.0%	0.6%	-0.1%
Net Unrecognized Tax Positions	0.1%	-0.2%	0.7%
Non Deductible Expenses	0.2%	0.0%	0.6%
Tax Deductible Compensation	-0.4%	-0.3%	-0.4%
Other	-0.7%	-0.5%	0.3%
Effective Income Tax Rate (b)	<u>7.3%</u>	<u>8.1%</u>	<u>18.2%</u>

- (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 for Taxes.

In 2013, a subsidiary of the Partnership received Letter Rulings allowing the application of New York State and New York City laws that prescribe the sourcing of income of a registered securities or commodities broker resulting in a reduction to the rate of tax for 2013 and the rate of tax that Blackstone will pay in the future. In 2011, application of the New York State and New York City tax laws that source various types of receipts from services performed by registered brokers and dealers of securities and commodities for purposes of apportioning income resulted in a reduction to Blackstone's rate of tax for that year and to the rate of tax that Blackstone will pay in subsequent years.

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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,	
	2014	2013
<b>Deferred Tax Assets</b>		
Fund Management Fees	\$ 21,607	\$ 8,728
Equity-Based Compensation	56,783	54,810
Unrealized Gains from Investments	(119,428)	(117,685)
Depreciation and Amortization	1,314,570	1,285,042
Net Operating Loss Carry Forward	—	12
Other	(21,302)	(21,700)
Total Deferred Tax Assets	<u>\$1,252,230</u>	<u>\$1,209,207</u>
<b>Deferred Tax Liabilities</b>		
Depreciation and Amortization	\$ 10	\$ 10
Total Deferred Tax Liabilities	<u>\$ 10</u>	<u>\$ 10</u>

Future realization of tax benefits depends on the expectation of taxable income within a period of time that the tax benefits will reverse. 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 a taxable loss of \$56.8 million and \$81.4 million for the years ended December 31, 2011 and 2010, respectively, of which \$8.8 million was carried back and utilized against prior year taxable income, \$74.9 million was utilized against taxable income generated in the tax year ended December 31, 2012 and \$54.6 million was utilized against taxable income generated in the tax year ended December 31, 2013. 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.

The Partnership also considers projections of taxable income in evaluating its ability to utilize deferred tax assets. In projecting its taxable income, the Partnership begins with historic results and incorporates assumptions of the amount of future pretax operating income. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates that the Partnership uses to manage its business. 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, 2014.

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

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regulators. As of December 31, 2014, Blackstone's U.S. federal income tax returns for the years 2011 through 2013 are open under the normal three-year statute of limitations and therefore subject to examination. The Internal Revenue Service is examining a corporate subsidiary's 2012 U.S. federal income tax return. State and local tax returns are generally subject to audit from 2010 through 2013. Currently, the State of New York is examining the tax returns filed by a subsidiary for the years 2010 through 2011 and the City of New York is examining certain other subsidiaries' tax returns for the years 2007 through 2011. The Income Tax Department of the Government of India is examining the tax returns of the Indian subsidiaries for the years 2008 and 2009. Blackstone believes that during 2015 certain tax audits have a reasonable possibility of being completed and does not expect the results of these audits to have a material impact on the consolidated financial statements.

Blackstone's unrecognized tax benefits, excluding related interest and penalties, were:

	December 31,	
	2014	2013
Unrecognized Tax Benefits — January 1	\$18,862	\$ 30,742
Additions based on Tax Positions Related to Current Year	2,104	6,517
Additions for Tax Positions of Prior Years	4,002	3,435
Reductions for Tax Positions of Prior Years	(2,503)	(17,686)
Settlements	(1,062)	(3,538)
Exchange Rate Fluctuations	(1,567)	(608)
Unrecognized Tax Benefits — December 31	<u>\$19,836</u>	<u>\$ 18,862</u>

If the above tax benefits were recognized, \$19.8 million and \$18.9 million for the years ended December 31, 2014 and 2013, respectively, would reduce the annual effective rate. Blackstone does not believe that it will have a material increase or decrease in its unrecognized tax benefits during the coming year.

The unrecognized tax benefits are recorded in Accounts Payable, Accrued Expense and Other Liabilities in the Consolidated Statements of Financial Condition.

Blackstone recognizes interest and penalties accrued related to unrecognized tax positions in General, Administrative and Other Expense. During the year ended December 31, 2014, \$2.0 million of interest expense and no penalties were accrued. During the year ended December 31, 2013, \$1.0 million of interest expense and no penalties were accrued. During the year ended December 31, 2012, \$5.8 million of interest expense and \$0.5 million of penalties were accrued.

On September 13, 2013, the U.S. Treasury Department and the IRS issued final regulations that address costs incurred in acquiring, producing, or improving tangible property ("the tangible property regulations"). The tangible property regulations are generally effective for tax years beginning on or after January 1, 2014, and may be adopted in earlier years. Management does not anticipate the impact of these changes to be material to the Partnership's consolidated financial condition or results of operations.

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**15. NET INCOME (LOSS) PER COMMON UNIT**

Basic and diluted net income (loss) per common unit for the years ended December 31, 2014, 2013 and 2012 was calculated as follows:

	Year Ended December 31,		
	2014	2013	2012
<b>Net Income Attributable to The Blackstone Group L.P.</b>	\$ 1,584,589	\$ 1,171,202	\$ 218,598
<b>Basic Net Income Per Common Unit</b>			
Weighted-Average Common Units Outstanding	608,803,111	587,018,828	533,703,606
Basic Net Income Per Common Unit	\$ 2.60	\$ 2.00	\$ 0.41
<b>Diluted Net Income Per Common Unit</b>			
Weighted-Average Common Units Outstanding	608,803,111	587,018,828	533,703,606
Weighted-Average Unvested Deferred Restricted Common Units	4,373,294	3,527,812	4,965,464
Weighted-Average Diluted Common Units Outstanding	613,176,405	590,546,640	538,669,070
Diluted Net Income Per Common Unit	\$ 2.58	\$ 1.98	\$ 0.41
<b>Distributions Declared Per Common Unit (a)</b>	\$ 1.92	\$ 1.18	\$ 0.52

(a) Distributions declared reflects the calendar date of declaration for each distribution. The fourth quarter distribution, if any, for any fiscal year will be declared and paid in the subsequent fiscal year.

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

	Year Ended December 31,		
	2014	2013	2012
Weighted-Average Blackstone Holdings Partnership Units	542,553,088	553,579,525	590,446,577

**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 years ended December 31, 2014, 2013 and 2012, no units were repurchased. As of December 31, 2014, the amount remaining available for repurchases under this program was \$335.8 million.

**16. EQUITY-BASED COMPENSATION**

The Partnership has granted equity-based compensation awards to Blackstone's senior managing directors, non-partner professionals, non-professionals and selected external advisers under the Partnership's 2007 Equity Incentive Plan (the "Equity Plan"), the majority of which to date were granted in connection with Blackstone's

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initial public offering (“IPO”). The Equity Plan allows for the granting of options, unit appreciation rights or other unit-based awards (units, restricted units, restricted common units, deferred restricted common units, phantom restricted common units or other unit-based awards based in whole or in part on the fair value of the Blackstone common units or Blackstone Holdings Partnership Units) which may contain certain service or performance requirements. As of January 1, 2014, the Partnership had the ability to grant 164,224,426 units under the Equity Plan.

For the years ended December 31, 2014, 2013 and 2012 the Partnership recorded compensation expense of \$734.7 million, \$855.1 million, and \$949.6 million, respectively, in relation to its equity-based awards with corresponding tax benefits of \$23.1 million, \$33.3 million, and \$25.0 million, respectively.

As of December 31, 2014, there was \$710.6 million of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 2.4 years.

Total vested and unvested outstanding units, including Blackstone common units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,158,741,134 as of December 31, 2014.

A summary of the status of the Partnership’s unvested equity-based awards as of December 31, 2014 and of changes during the period January 1, 2014 through December 31, 2014 is presented below:

	<u>Blackstone Holdings</u>		<u>The Blackstone Group L.P.</u>			
	<u>Partnership Units</u>	<u>Weighted-Average Grant Date Fair Value</u>	<u>Equity Settled Awards</u>		<u>Cash Settled Awards</u>	
			<u>Deferred Restricted Common Units</u>	<u>Weighted-Average Grant Date Fair Value</u>	<u>Phantom Units</u>	<u>Weighted-Average Grant Date Fair Value</u>
<u>Unvested Units</u>						
Balance, December 31, 2013	48,057,816	\$ 26.64	20,004,139	\$ 15.57	147,169	\$ 12.00
Granted	6,071,140	33.17	2,253,591	30.73	461	28.05
Vested	(19,115,193)	29.46	(3,783,459)	18.35	(144,526)	11.71
Forfeited	(447,276)	17.83	(904,899)	15.02	(1,649)	32.09
Cancelled	(1,068,250)	31.00	—	—	—	—
Balance, December 31, 2014	<u>33,498,237</u>	\$ 26.19	<u>17,569,372</u>	\$ 16.95	<u>1,455</u>	\$ 31.95

**Units Expected to Vest**

The following unvested units, after expected forfeitures, as of December 31, 2014, are expected to vest:

	<u>Units</u>	<u>Weighted-Average Service Period in Years</u>
Blackstone Holdings Partnership Units	31,398,029	1.80
Deferred Restricted Blackstone Common Units	15,287,617	1.80
Total Equity-Based Awards	<u>46,685,646</u>	<u>1.80</u>
Phantom Units	<u>1,293</u>	<u>0.90</u>



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**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 advisers and phantom units (cash settled equity-based awards) to other senior and 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 one to nine years. Additionally, the calculation of the compensation expense assumes forfeiture rates based upon historical turnover rates, ranging from 1% to 12.1% annually by employee class, and a per unit discount, ranging from \$0.01 to \$7.54. 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.

The phantom units vest over the assumed service period, which ranges from 3 to 4 years. 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 4.4% to 12.1% annually by employee class. Blackstone is accounting for these cash settled awards as a liability.

Blackstone paid \$1.1 million, \$0.6 million and \$0.4 million to non-senior managing director employees in settlement of phantom units for the years ended December 31, 2014, 2013 and 2012, respectively.

**Blackstone Holdings Partnership Units**

At the time of the Reorganization, Blackstone's predecessor owners and selected advisers 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 over the vesting period. 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 9 years. Additionally, the calculation of the compensation expense assumes a forfeiture rate of up to 12.1%, based on historical experience.

**Equity-Based Awards with Performance Conditions**

The Partnership has also granted certain equity-based awards with performance requirements. These awards are based on the performance of certain businesses over a three to five year period beginning January 2012, relative to a predetermined threshold. Blackstone has determined that it is probable that the relevant performance thresholds will be exceeded in future periods and, therefore, has recorded compensation expense since the beginning of the performance period of \$90.7 million.

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(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)****17. RELATED PARTY TRANSACTIONS****Affiliate Receivables and Payables**

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

	December 31,	
	2014	2013
<b>Due from Affiliates</b>		
Accrual for Potential Clawback of Previously Distributed Carried Interest	\$ 2,518	\$ 1,561
Primarily Interest Bearing Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees for Investments in Blackstone Funds	237,341	151,493
Amounts Due from Portfolio Companies and Funds	372,820	307,926
Investments Redeemed in Non-Consolidated Funds of Hedge Funds	32,020	259,787
Management and Performance Fees Due from Non-Consolidated Funds	355,657	325,389
Payments Made on Behalf of Non-Consolidated Entities	111,796	133,790
Advances Made to Certain Non-Controlling Interest Holders and Blackstone Employees	16,256	12,098
	<u>\$1,128,408</u>	<u>\$1,192,044</u>
	December 31,	
	2014	2013
<b>Due to Affiliates</b>		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	\$1,234,890	\$1,235,168
Accrual for Potential Repayment of Previously Received Performance Fees	3,889	4,270
Due to Note Holders of Consolidated CLO Vehicles	16,881	123,929
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	21,266	11,293
Payable to Affiliates for Consolidated Funds	22,447	29,803
Distributions Received on Behalf of Blackstone Entities	176,304	22,815
Payments Made by Non-Consolidated Entities	14,411	9,581
	<u>\$1,490,088</u>	<u>\$1,436,859</u>

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

The founder, senior managing directors, employees and certain other related parties invest on a discretionary basis in the consolidated Blackstone Funds both directly and through consolidated entities. These investments generally are subject to preferential management fee and performance fee arrangements. As of December 31, 2014 and 2013, such investments aggregated \$1.0 billion and \$1.0 billion, respectively. Their share of the Net Income Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated \$176.0 million, \$224.7 million and \$114.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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**Revenues Earned from Affiliates**

Management and Advisory Fees, Net earned from affiliates totaled \$327.1 million, \$253.9 million and \$254.7 million for the years ended December 31, 2014, 2013 and 2012, respectively. Fees relate primarily to transaction and monitoring fees which are made in the ordinary course of fundraising and investment activities.

**Loans to Affiliates**

Loans to affiliates consist of interest-bearing advances to certain Blackstone individuals to finance their investments in certain Blackstone Funds. These loans earn interest at Blackstone's cost of borrowing and such interest totaled \$2.9 million, \$3.4 million and \$4.4 million for the years ended December 31, 2014, 2013 and 2012, respectively.

**Contingent Repayment Guarantee**

Blackstone and its personnel who have received Carried Interest distributions have guaranteed payment on a several basis (subject to a cap) to the Carry Funds of any clawback obligation with respect to the excess Carried Interest allocated to the general partners of such funds and indirectly received thereby to the extent that either Blackstone or its personnel fails to fulfill its clawback obligation, if any. The Accrual for Potential Repayment of Previously Received Performance Fees represents amounts previously paid to Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone Funds if the Carry Funds were to be liquidated based on the fair value of their underlying investments as of December 31, 2014. See Note 18. "Commitments and Contingencies — Contingencies — Contingent Obligations (Clawback)".

**Aircraft and Other Services**

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

In addition, on occasion, certain of Blackstone's executive officers and their families may make use of an aircraft in which Blackstone owns a fractional interest, as well as other assets of Blackstone. Any such personal use of Blackstone assets is charged to the executive officer based on market rates and usage. Personal use of Blackstone resources is also reimbursed to Blackstone at market rates.

The transactions described herein are not material to the 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.

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**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

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

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.

During the fourth quarter of 2013 and 2011, the effective tax rate of the corporate taxpayers was reduced due to the adoption of New York State and New York City tax laws for sourcing of revenue for apportionment purposes. This resulted in a reduction of \$20.5 million and \$197.8 million, respectively, due to pre-IPO owners and the others mentioned above. Assuming no future material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreements (which are taxable to the recipients) will aggregate \$1.2 billion over the next 15 years. The after-tax net present value of these estimated payments totals \$413.7 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. On September 30, 2014, payments totaling \$6.2 million were made to certain pre-IPO owners and the others mentioned above in accordance with the tax receivable agreement and related to tax benefits the Partnership received for the 2008 and 2010 taxable years. Subsequent to December 31, 2014, payments totaling \$82.8 million were made to certain pre-IPO owners and others mentioned above in accordance with the tax receivable agreements and related tax benefits the Partnership received for the 2013 taxable year.

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

**Other**

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

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**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

**18. COMMITMENTS AND CONTINGENCIES**

**Commitments**

*Operating Leases*

The Partnership leases office space under non-cancelable lease and sublease agreements, which expire on various dates through 2032. 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, 2014, 2013 and 2012, was \$97.2 million, \$78.6 million and \$74.8 million, respectively. At December 31, 2014 and 2013, the Partnership maintained irrevocable standby letters of credit and cash deposits as security for the leases of \$8.5 million and \$9.0 million, respectively. As of December 31, 2014, the aggregate minimum future payments, net of sublease income, required on the operating leases are as follows:

2015	\$ 71,589
2016	65,449
2017	59,811
2018	56,443
2019	55,685
Thereafter	491,849
Total	<u>\$800,826</u>

*Investment Commitments*

Blackstone had \$1.4 billion of investment commitments as of December 31, 2014 representing general partner capital funding commitments to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. The consolidated Blackstone Funds had signed investment commitments of \$45.8 million as of December 31, 2014 which includes \$27.7 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 \$9.1 million as of December 31, 2014.

On March 28, 2012, the Blackstone Holdings Partnerships entered into a guaranty agreement with a lending institution in which the Holdings Partnerships guarantee certain loans held by employees for investment in Blackstone funds. The amount guaranteed as of December 31, 2014 was \$88.8 million.

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

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

*Contingent Obligations (Clawback)*

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

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

The following table presents the clawback obligations by segment:

<u>Segment</u>	<u>December 31,</u>					
	<u>2014</u>			<u>2013</u>		
	<u>Blackstone Holdings</u>	<u>Current and Former Personnel</u>	<u>Total</u>	<u>Blackstone Holdings</u>	<u>Current and Former Personnel</u>	<u>Total</u>
Private Equity	\$ —	\$ —	\$ —	\$ (5)	\$ 151	\$ 146
Real Estate	130	1,647	1,777	1,501	518	2,019
Credit	1,241	871	2,112	1,213	892	2,105
Total	<u>\$ 1,371</u>	<u>\$ 2,518</u>	<u>\$3,889</u>	<u>\$ 2,709</u>	<u>\$ 1,561</u>	<u>\$4,270</u>

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, 2014, \$459.1 million was held in segregated accounts for the purpose of meeting any clawback obligations of current and former personnel if such payments are required.

**19. EMPLOYEE BENEFIT PLANS**

The Partnership provides a 401(k) plan (the "Plan") for eligible employees in the United States. For certain administrative employees who are eligible for participation in the Plan, the Partnership makes a non-elective contribution of 2% of such employee's annual compensation up to a maximum of one thousand six hundred dollars regardless of whether the employee makes any elective contributions to the Plan. In addition, the Partnership will also contribute 50% of certain eligible employee's contribution to the Plan with a maximum matching contribution of one thousand six hundred dollars. For the years ended December 31, 2014, 2013 and 2012, the Partnership incurred expenses of \$1.9 million, \$1.7 million and \$1.5 million in connection with such Plan.

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

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, 2014, 2013 and 2012, the Partnership incurred expenses of \$0.7 million, \$0.4 million and \$0.4 million, respectively, in connection with the U.K. Plan.

**20. REGULATED ENTITIES**

The Partnership has certain entities that are registered broker-dealers that are subject to the minimum net capital requirements of the United States Securities and Exchange Commission (“SEC”). These entities have continuously operated in excess of these requirements. The Partnership also has certain entities based in London, Hong Kong and Ireland, which are subject to the capital requirements of the Financial Conduct Authority, the Securities & Future Commission and the Central Bank of Ireland, respectively. 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 that 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, 2014, \$27.7 million of net assets of consolidated entities may be restricted as to the payment of cash dividends and advances to the Partnership.

**21. SEGMENT REPORTING**

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

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

- Private Equity — Blackstone’s Private Equity segment comprises its management of private equity funds, certain multi-asset class investment funds and secondary private funds of funds.
- Real Estate — Blackstone’s Real Estate segment primarily comprises its management of global, European focused and Asian focused opportunistic real estate funds. In addition, the segment has debt investment funds and a publicly traded REIT targeting non-controlling real estate debt-related investment opportunities in the public and private markets, primarily in the United States and Europe.
- Hedge Fund Solutions — Blackstone’s Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management (“BAAM”), an institutional solutions provider utilizing hedge funds across a variety of strategies.
- Credit — Blackstone’s Credit segment, which principally includes GSO Capital Partners LP (“GSO”), manages credit-focused products within private debt and public market strategies. GSO’s products include senior credit-focused funds, distressed debt funds, mezzanine funds, general credit-focused funds, registered investment companies, separately managed accounts and CLO vehicles.
- Financial Advisory — Blackstone’s Financial Advisory segment comprises its financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services and Park Hill Group, which provides fund placement services for alternative investment funds.

**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued  
(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

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

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

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



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**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following table presents the financial data for Blackstone's five segments as of and for the years ended December 31, 2014, 2013 and 2012:

	December 31, 2014 and the Year Then Ended					Total Segments
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	
Segment Revenues						
Management and Advisory Fees, Net						
Base Management Fees	\$ 415,841	\$ 628,502	\$ 482,981	\$ 460,205	\$ —	\$ 1,987,529
Advisory Fees	—	—	—	—	420,845	420,845
Transaction and Other Fees, Net	134,642	91,610	569	18,161	1,455	246,437
Management Fee Offsets	(19,146)	(34,443)	(5,014)	(28,168)	—	(86,771)
Total Management and Advisory Fees, Net	<u>531,337</u>	<u>685,669</u>	<u>478,536</u>	<u>450,198</u>	<u>422,300</u>	<u>2,568,040</u>
Performance Fees						
Realized						
Carried Interest	754,402	1,487,762	—	208,432	—	2,450,596
Incentive Fees	—	11,499	140,529	109,717	—	261,745
Unrealized						
Carried Interest	1,222,828	524,046	—	(37,913)	—	1,708,961
Incentive Fees	—	(5,521)	(879)	(23,025)	—	(29,425)
Total Performance Fees	<u>1,977,230</u>	<u>2,017,786</u>	<u>139,650</u>	<u>257,211</u>	<u>—</u>	<u>4,391,877</u>
Investment Income (Loss)						
Realized	202,719	309,095	21,550	9,354	707	543,425
Unrealized	(23,914)	(58,930)	5,132	5,055	860	(71,797)
Total Investment Income	<u>178,805</u>	<u>250,165</u>	<u>26,682</u>	<u>14,409</u>	<u>1,567</u>	<u>471,628</u>
Interest and Dividend Revenue	21,983	30,197	11,114	23,040	10,010	96,344
Other	6,569	2,863	1,855	(2,310)	428	9,405
Total Revenues	<u>2,715,924</u>	<u>2,986,680</u>	<u>657,837</u>	<u>742,548</u>	<u>434,305</u>	<u>7,537,294</u>
Expenses						
Compensation and Benefits						
Compensation	276,447	326,317	131,658	188,200	230,889	1,153,511
Performance Fee Compensation						
Realized						
Carried Interest	266,393	432,996	—	116,254	—	815,643
Incentive Fees	—	5,980	42,451	61,668	—	110,099
Unrealized						
Carried Interest	210,446	197,174	—	(28,583)	—	379,037
Incentive Fees	—	(2,751)	(273)	(16,252)	—	(19,276)
Total Compensation and Benefits	<u>753,286</u>	<u>959,716</u>	<u>173,836</u>	<u>321,287</u>	<u>230,889</u>	<u>2,439,014</u>
Other Operating Expenses	142,898	146,083	86,129	90,524	88,148	553,782
Total Expenses	<u>896,184</u>	<u>1,105,799</u>	<u>259,965</u>	<u>411,811</u>	<u>319,037</u>	<u>2,992,796</u>
Economic Income	<u>\$1,819,740</u>	<u>\$1,880,881</u>	<u>\$ 397,872</u>	<u>\$ 330,737</u>	<u>\$115,268</u>	<u>\$ 4,544,498</u>
Segment Assets	<u>\$6,135,072</u>	<u>\$8,032,854</u>	<u>\$1,472,992</u>	<u>\$2,592,313</u>	<u>\$866,392</u>	<u>\$19,099,623</u>

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

December 31, 2013 and the Year Then Ended

	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
Segment Revenues						
Management and Advisory Fees, Net						
Base Management Fees	\$ 368,146	\$ 565,182	\$ 409,321	\$ 398,158	\$ —	\$ 1,740,807
Advisory Fees	—	—	—	—	410,514	410,514
Transaction and Other Fees, Net	96,988	79,675	623	28,586	1,105	206,977
Management Fee Offsets	(5,683)	(22,821)	(3,387)	(40,329)	—	(72,220)
Total Management and Advisory Fees, Net	<u>459,451</u>	<u>622,036</u>	<u>406,557</u>	<u>386,415</u>	<u>411,619</u>	<u>2,286,078</u>
Performance Fees						
Realized						
Carried Interest	329,993	486,773	—	127,192	—	943,958
Incentive Fees	—	45,862	207,735	220,736	—	474,333
Unrealized						
Carried Interest	398,232	1,651,700	—	108,078	—	2,158,010
Incentive Fees	—	(28,753)	7,718	1,107	—	(19,928)
Total Performance Fees	<u>728,225</u>	<u>2,155,582</u>	<u>215,453</u>	<u>457,113</u>	<u>—</u>	<u>3,556,373</u>
Investment Income (Loss)						
Realized	88,026	52,359	27,613	4,098	(1,625)	170,471
Unrealized	161,749	350,201	(9,306)	13,951	739	517,334
Total Investment Income (Loss)	<u>249,775</u>	<u>402,560</u>	<u>18,307</u>	<u>18,049</u>	<u>(886)</u>	<u>687,805</u>
Interest and Dividend Revenue	15,602	21,563	7,605	18,146	8,020	70,936
Other	4,259	3,384	688	527	1,450	10,308
Total Revenues	<u>1,457,312</u>	<u>3,205,125</u>	<u>648,610</u>	<u>880,250</u>	<u>420,203</u>	<u>6,611,500</u>
Expenses						
Compensation and Benefits						
Compensation	236,120	294,222	136,470	186,514	262,314	1,115,640
Performance Fee Compensation						
Realized						
Carried Interest	38,953	148,837	—	69,411	—	257,201
Incentive Fees	—	23,878	65,793	111,244	—	200,915
Unrealized						
Carried Interest	342,733	566,837	—	57,147	—	966,717
Incentive Fees	—	(15,015)	2,856	508	—	(11,651)
Total Compensation and Benefits	<u>617,806</u>	<u>1,018,759</u>	<u>205,119</u>	<u>424,824</u>	<u>262,314</u>	<u>2,528,822</u>
Other Operating Expenses	124,137	116,391	66,966	96,940	82,205	486,639
Total Expenses	<u>741,943</u>	<u>1,135,150</u>	<u>272,085</u>	<u>521,764</u>	<u>344,519</u>	<u>3,015,461</u>
Economic Income	<u>\$ 715,369</u>	<u>\$2,069,975</u>	<u>\$ 376,525</u>	<u>\$ 358,486</u>	<u>\$ 75,684</u>	<u>\$ 3,596,039</u>
Segment Assets	<u>\$4,444,227</u>	<u>\$7,496,591</u>	<u>\$1,325,631</u>	<u>\$2,381,603</u>	<u>\$781,469</u>	<u>\$16,429,521</u>

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**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

	December 31, 2012 and the Year Then Ended					
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Financial Advisory	Total Segments
Segment Revenues						
Management and Advisory Fees, Net						
Base Management Fees	\$348,594	\$ 551,322	\$346,210	\$345,277	\$ —	\$1,591,403
Advisory Fees	—	—	—	—	357,417	357,417
Transaction and Other Fees, Net	100,080	85,681	188	40,875	295	227,119
Management Fee Offsets	<u>(5,926)</u>	<u>(28,609)</u>	<u>(1,414)</u>	<u>(5,004)</u>	<u>—</u>	<u>(40,953)</u>
Total Management and Advisory Fees, Net	<u>442,748</u>	<u>608,394</u>	<u>344,984</u>	<u>381,148</u>	<u>357,712</u>	<u>2,134,986</u>
Performance Fees						
Realized						
Carried Interest	109,797	165,114	—	52,511	—	327,422
Incentive Fees	—	25,656	83,433	192,375	—	301,464
Unrealized						
Carried Interest	148,381	683,764	—	162,045	—	994,190
Incentive Fees	—	(119)	9,042	(38,234)	—	(29,311)
Total Performance Fees	<u>258,178</u>	<u>874,415</u>	<u>92,475</u>	<u>368,697</u>	<u>—</u>	<u>1,593,765</u>
Investment Income						
Realized	25,823	45,302	7,270	15,611	1,392	95,398
Unrealized	<u>85,337</u>	<u>90,875</u>	<u>8,517</u>	<u>4,769</u>	<u>1,348</u>	<u>190,846</u>
Total Investment Income	111,160	136,177	15,787	20,380	2,740	286,244
Interest and Dividend Revenue	13,556	14,448	2,139	9,330	7,157	46,630
Other	2,417	894	3,816	(1,174)	(804)	5,149
Total Revenues	<u>828,059</u>	<u>1,634,328</u>	<u>459,201</u>	<u>778,381</u>	<u>366,805</u>	<u>4,066,774</u>
Expenses						
Compensation and Benefits						
Compensation	222,709	271,122	119,731	182,077	235,137	1,030,776
Performance Fee Compensation						
Realized						
Carried Interest	3,679	62,418	—	30,336	—	96,433
Incentive Fees	—	13,060	23,080	103,902	—	140,042
Unrealized						
Carried Interest	58,555	165,482	—	97,562	—	321,599
Incentive Fees	—	(583)	1,317	(45,262)	—	(44,528)
Total Compensation and Benefits	284,943	511,499	144,128	368,615	235,137	1,544,322
Other Operating Expenses	<u>130,845</u>	<u>123,714</u>	<u>57,809</u>	<u>84,488</u>	<u>84,589</u>	<u>481,445</u>
Total Expenses	<u>415,788</u>	<u>635,213</u>	<u>201,937</u>	<u>453,103</u>	<u>319,726</u>	<u>2,025,767</u>
Economic Income	<u>\$412,271</u>	<u>\$ 999,115</u>	<u>\$257,264</u>	<u>\$325,278</u>	<u>\$ 47,079</u>	<u>\$2,041,007</u>

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**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

The following table reconciles the Total Segments to Blackstone's Income Before Provision for Taxes and Total Assets as of and for the years ended December 31, 2014, 2013 and 2012:

	<u>December 31, 2014 and the Year Then Ended</u>		
	<u>Total Segments</u>	<u>Consolidation Adjustments and Reconciling Items</u>	<u>Blackstone Consolidated</u>
Revenues	\$ 7,537,294	\$ (52,566)(a)	\$ 7,484,728
Expenses	\$ 2,992,796	\$ 863,060(b)	\$ 3,855,856
Other Income	\$ —	\$ 357,854(c)	\$ 357,854
Economic Income	\$ 4,544,498	\$ (557,772)(d)	\$ 3,986,726
Total Assets	\$19,099,623	\$12,411,271(e)	\$31,510,894

	<u>December 31, 2013 and the Year Then Ended</u>		
	<u>Total Segments</u>	<u>Consolidation Adjustments and Reconciling Items</u>	<u>Blackstone Consolidated</u>
Revenues	\$ 6,611,500	\$ 1,668(a)	\$ 6,613,168
Expenses	\$ 3,015,461	\$ 851,279(b)	\$ 3,866,740
Other Income	\$ —	\$ 402,133(c)	\$ 402,133
Economic Income	\$ 3,596,039	\$ (447,478)(d)	\$ 3,148,561
Total Assets	\$16,429,521	\$13,249,085(e)	\$29,678,606

	<u>Year Ended December 31, 2012</u>		
	<u>Total Segments</u>	<u>Consolidation Adjustments and Reconciling Items</u>	<u>Blackstone Consolidated</u>
Revenues	\$4,066,774	\$ (47,333)(a)	\$4,019,441
Expenses	\$2,025,767	\$ 1,234,914(b)	\$3,260,681
Other Income	\$ —	\$ 256,145(c)	\$ 256,145
Economic Income	\$2,041,007	\$ (1,026,102)(d)	\$1,014,905

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

	<u>Year Ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Fund Management Fees and Performance Fees Eliminated in Consolidation and Transactional Investment Loss	\$ 52,219	\$ (5,575)	\$ 43,393
Fund Expenses Added in Consolidation	19,169	30,727	37,548
Non-Controlling Interests in Income (Loss) of Consolidated Entities	409,864	381,872	203,557
Transaction-Related Other Income (Loss)	(123,398)	(4,891)	(28,353)
Total Consolidation Adjustments and Reconciling Items	<u>\$ 357,854</u>	<u>\$402,133</u>	<u>\$256,145</u>

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**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**  
**(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)**

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

	Year Ended December 31,		
	2014	2013	2012
Economic Income	\$4,544,498	\$3,596,039	\$ 2,041,007
Adjustments			
Amortization of Intangibles	(111,254)	(106,643)	(150,148)
IPO and Acquisition-Related Charges	(856,382)	(722,707)	(1,079,511)
Non-Controlling Interests in Income (Loss) of Consolidated Entities	409,864	381,872	203,557
Total Consolidation Adjustments and Reconciling Items	(557,772)	(447,478)	(1,026,102)
Income Before Provision for Taxes	<u>\$3,986,726</u>	<u>\$3,148,561</u>	<u>\$ 1,014,905</u>

- (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.

**22. SUBSEQUENT EVENTS**

There have been no events since December 31, 2014 that require recognition or disclosure in the Consolidated Financial Statements.

**23. QUARTERLY FINANCIAL DATA (UNAUDITED)**

	Three Months Ended			
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Revenues	\$1,526,668	\$2,257,860	\$1,679,426	\$2,020,774
Expenses	887,851	1,089,781	1,055,138	823,086
Other Income	70,155	138,585	8,682	140,432
Income Before Provision for Taxes	<u>\$ 708,972</u>	<u>\$1,306,664</u>	<u>\$ 632,970</u>	<u>\$1,338,120</u>
Net Income	<u>\$ 654,875</u>	<u>\$1,223,382</u>	<u>\$ 553,862</u>	<u>\$1,263,434</u>
Net Income Attributable to The Blackstone Group L.P.	<u>\$ 265,617</u>	<u>\$ 517,016</u>	<u>\$ 250,505</u>	<u>\$ 551,451</u>
Net Income Per Common Unit — Basic and Diluted				
Common Units — Basic	<u>\$ 0.44</u>	<u>\$ 0.85</u>	<u>\$ 0.41</u>	<u>\$ 0.90</u>
Common Units — Diluted	<u>\$ 0.44</u>	<u>\$ 0.85</u>	<u>\$ 0.41</u>	<u>\$ 0.89</u>
Distributions Declared (a)	<u>\$ 0.58</u>	<u>\$ 0.35</u>	<u>\$ 0.55</u>	<u>\$ 0.44</u>

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**THE BLACKSTONE GROUP L.P.**

**Notes to Consolidated Financial Statements—Continued**

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

	<b>Three Months Ended</b>			
	<b>March 31, 2013</b>	<b>June 30, 2013</b>	<b>September 30, 2013</b>	<b>December 31, 2013</b>
Revenues	\$1,246,473	\$1,440,470	\$1,216,845	\$2,709,380
Expenses	835,101	914,762	786,405	1,330,472
Other Income	67,210	40,966	87,952	206,005
Income Before Provision for Taxes	<u>\$ 478,582</u>	<u>\$ 566,674</u>	<u>\$ 518,392</u>	<u>\$1,584,913</u>
Net Income	<u>\$ 427,589</u>	<u>\$ 510,592</u>	<u>\$ 460,915</u>	<u>\$1,493,823</u>
Net Income Attributable to The Blackstone Group L.P.	<u>\$ 167,635</u>	<u>\$ 211,148</u>	<u>\$ 171,164</u>	<u>\$ 621,255</u>
Net Income Per Common Unit — Basic and Diluted				
Common Units — Basic	<u>\$ 0.29</u>	<u>\$ 0.36</u>	<u>\$ 0.29</u>	<u>\$ 1.05</u>
Common Units — Diluted	<u>\$ 0.29</u>	<u>\$ 0.36</u>	<u>\$ 0.29</u>	<u>\$ 1.04</u>
Distributions Declared (a)	<u>\$ 0.42</u>	<u>\$ 0.30</u>	<u>\$ 0.23</u>	<u>\$ 0.23</u>

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

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ITEM 8A. UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION

THE BLACKSTONE GROUP L.P.

Unaudited Consolidating Statements of Financial Condition  
(Dollars in Thousands)

	December 31, 2014			
	<u>Consolidated Operating Partnerships</u>	<u>Consolidated Blackstone Funds (a)</u>	<u>Reclasses and Eliminations</u>	<u>Consolidated</u>
<b>Assets</b>				
Cash and Cash Equivalents	\$ 1,412,472	\$ —	\$ —	\$ 1,412,472
Cash Held by Blackstone Funds and Other	348,957	1,459,135	—	1,808,092
Investments	12,123,708	11,835,242	(1,193,361)	22,765,589
Accounts Receivable	364,927	194,394	—	559,321
Due from Affiliates	1,060,831	723,285	(655,708)	1,128,408
Intangible Assets, Net	458,833	—	—	458,833
Goodwill	1,787,392	—	—	1,787,392
Other Assets	290,273	48,284	—	338,557
Deferred Tax Assets	1,252,230	—	—	1,252,230
<b>Total Assets</b>	<u>\$19,099,623</u>	<u>\$14,260,340</u>	<u>\$(1,849,069)</u>	<u>\$31,510,894</u>
<b>Liabilities and Partners' Capital</b>				
Loans Payable	\$ 2,150,503	\$ 6,787,135	\$ —	\$ 8,937,638
Due to Affiliates	1,289,552	1,350,911	(1,150,375)	1,490,088
Accrued Compensation and Benefits	2,439,257	—	—	2,439,257
Securities Sold, Not Yet Purchased	—	85,878	—	85,878
Repurchase Agreements	—	29,907	—	29,907
Accounts Payable, Accrued Expenses and Other Liabilities	430,712	763,867	—	1,194,579
<b>Total Liabilities</b>	<u>6,310,024</u>	<u>9,017,698</u>	<u>(1,150,375)</u>	<u>14,177,347</u>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>				
	<u>—</u>	<u>2,441,854</u>	<u>—</u>	<u>2,441,854</u>
<b>Partners' Capital</b>				
Partners' Capital	6,999,830	698,694	(698,694)	6,999,830
Appropriated Partners' Capital	—	81,301	—	81,301
Accumulated Other Comprehensive Income	(21,932)	1,068	—	(20,864)
Non-Controlling Interests in Consolidated Entities	1,395,631	2,019,725	—	3,415,356
Non-Controlling Interests in Blackstone Holdings	4,416,070	—	—	4,416,070
<b>Total Partners' Capital</b>	<u>12,789,599</u>	<u>2,800,788</u>	<u>(698,694)</u>	<u>14,891,693</u>
<b>Total Liabilities and Partners' Capital</b>	<u>\$19,099,623</u>	<u>\$14,260,340</u>	<u>\$(1,849,069)</u>	<u>\$31,510,894</u>

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**THE BLACKSTONE GROUP L.P.**  
**Unaudited Consolidating Statements of Financial Condition**  
**(Dollars in Thousands)**

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

(a) The Consolidated Blackstone Funds consisted of the following:

- Blackstone AG Investment Partners L.P.\*
- Blackstone Distressed Securities Fund L.P.
- Blackstone Market Opportunities Fund L.P.
- Blackstone Real Estate Partners VIC — ESH L.P.\*
- Blackstone Real Estate Special Situations Fund L.P.\*
- Blackstone Real Estate Special Situations Offshore Fund Ltd.\*
- Blackstone Strategic Alliance Fund II L.P.
- Blackstone Strategic Alliance Fund L.P.



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Blackstone Strategic Capital Holdings B L.P.\*  
Blackstone Strategic Capital Holdings L.P.\*  
Blackstone Strategic Equity Fund L.P.  
Blackstone Value Recovery Fund L.P.  
Blackstone/GSO Loan Financing Limited\*  
Blackstone/GSO Secured Trust Ltd.  
BREP Edens Investment Partners L.P.  
BSSF I AIV L.P.\*  
BTD CP Holdings, LP  
GSO Legacy Associates II LLC  
GSO Legacy Associates LLC  
Shanghai Blackstone Equity Investment Partnership L.P.  
Private equity side-by-side investment vehicles  
Real estate side-by-side investment vehicles  
Mezzanine side-by-side investment vehicles  
Collateralized loan obligation vehicles

\* Consolidated as of December 31, 2014 only.

Blackstone

**\*\*HIGHLY CONFIDENTIAL  
INFORMATION REMOVED\*\***

November 2, 2015

*CONFIDENTIAL*

South Central MCN LLC  
c/o GridLiance Holdco, LP  
2 N. LaSalle Street, Suite 420  
Chicago, Illinois 60602

Commitment Letter

**\*\*HIGHLY CONFIDENTIAL INFORMATION REMOVED\*\***

**\*\*HIGHLY CONFIDENTIAL INFORMATION REMOVED\*\***

**\*\*HIGHLY CONFIDENTIAL INFORMATION REMOVED\*\***

**\*\*HIGHLY CONFIDENTIAL INFORMATION REMOVED\*\***

**\*\*HIGHLY CONFIDENTIAL INFORMATION REMOVED\*\***


Very truly yours,

**BLACKSTONE**

**\*\*HIGHLY CONFIDENTIAL  
INFORMATION REMOVED\*\***

Agreed to and accepted:

SOUTH CENTRAL MCN LLC  
a Delaware limited liability company

By:   
Name: Edward M. Rahill  
Title: President and Chief Executive Officer



BANK OF AMERICA - CONFIDENTIAL

PAGE: 1

DATE: NOVEMBER 2, 2015

IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER: 68121405

ISSUING BANK  
BANK OF AMERICA, N.A.  
ONE FLEET WAY  
PA6-580-02-30  
SCRANTON, PA 18507-1999

**\*\*HIGHLY CONFIDENTIAL  
INFORMATION REMOVED\*\***

APPLICANT  
BLACKSTONE   
**\*\*HIGHLY CONFIDENTIAL INFORMATION  
REMOVED\*\***

**\*\*HIGHLY CONFIDENTIAL INFORMATION REMOVED\*\***



**\*\*HIGHLY CONFIDENTIAL INFORMATION REMOVED\*\***

**\*\*HIGHLY CONFIDENTIAL INFORMATION REMOVED\*\***

**\*\*HIGHLY CONFIDENTIAL INFORMATION REMOVED\*\***

FIRST AMENDMENT  
to  
ASSET PURCHASE AGREEMENT  
BY AND AMONG  
SOUTH CENTRAL MCN LLC  
GRIDLIANCE HEARTLAND LLC  
AND  
CITY OF NIXA, MISSOURI

Effective as of August 14, 2015

## FIRST AMENDMENT TO ASSET PURCHASE AGREEMENT

THIS FIRST AMENDMENT TO ASSET PURCHASE AGREEMENT (this Amendment) is executed on December \_\_, 2015 but is effective as of August 14, 2015 (the Effective Date), by and among the City of Nixa, Missouri (as Seller), South Central MCN LLC (as Buyer), and Gridliance Heartland LLC (Heartland). Seller, Buyer and Heartland are individually referred to herein as a Party and together as the Parties.

### RECITALS:

WHEREAS, on August 14, 2015, Seller and Buyer entered into that certain Asset Purchase Agreement (the Agreement), whereby Seller agreed to sell to Buyer certain transmission assets owned by the Seller, as more fully described therein;

WHEREAS, Seller and Buyer have agreed to increase the Purchase Price and to allocate the Purchase Price among the Assets and other consideration to be paid by Buyer to Seller pursuant to the Agreement and to amend the Agreement to reflect the same;

WHEREAS, Seller and Buyer have further agreed to amend the Agreement to reflect the timing of the payment of the Purchase Price; and

WHEREAS, Heartland owns 100% of the membership interests in Buyer and has agreed to join the Agreement solely for the purpose of directly funding a portion of the Purchase Price.

NOW, THEREFORE, in consideration of ten and no/100 dollars (\$10.00), the mutual premises and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby agree to amend the Agreement as follows:

**Section 1. Defined Terms.** Capitalized terms used herein, but not defined, shall have the meaning set forth in the Agreement.

**Section 2. Purchase Price.** Section 1.1.53 of the Agreement is hereby deleted in its entirety and replaced with the following:

**1.1.53 *Purchase Price.*** Purchase Price means an amount not to exceed Twelve Million Two Hundred Fifteen Thousand One Hundred Sixty and No/100 Dollars (\$12,215,160).

The Purchase Price shall be payable in accordance with Section 3 below.

**Section 3. Purchase Price Allocation.** The Purchase Price comprises the following components and shall be allocated as follows:

- (a) Ten Million One Hundred Fifteen Thousand One Hundred Sixty and No/100 Dollars (\$10,115,160) payable by Buyer to Seller at Closing for the Assets;
- (b) Six Hundred Thousand and No/100 Dollars (\$600,000) payable by Buyer to Seller at Closing to reimburse Seller for a portion of its transaction costs; and
- (c) Up to One Million Five Hundred Thousand and No/100 Dollars (\$1,500,000 in Transmission Charge Reimbursements (as hereinafter defined), as more fully set forth in Section 4 hereof.

**Section 4. Reimbursement of Transmission Charges.** For the purpose of reimbursing Seller for the increased transmission charges incurred after Closing (the Increased Charges), as a component of the

Purchase Price, Heartland has agreed to pay to Seller an additional amount up to One Million Five Hundred Thousand and No/100 Dollars (\$1,500,000.00) (Transmission Charge Reimbursement), payable in two (2) installments:

(a) The first installment of the Transmission Charge Reimbursement shall be Seven Hundred Fifty Thousand (\$750,000) and shall be paid at Closing.

(b) The second installment of the Transmission Charge Reimbursement shall be paid on January 1, 2017 (Final Payment Date), and shall be Seven Hundred Fifty Thousand and No/100 Dollars (\$750,000), unless, on or before December 31, 2016, the Parties have successfully negotiated the unconditional (including, without limitation, no requirement to pay a termination fee) termination of all non-federal SWPA charges to Nixa during calendar year 2017 and thereafter. In the event of such a successful negotiation, the amount of the second installment shall be equal to the non-federal SWPA charges projected to be billed by SWPA to Nixa during calendar year 2017. By way of example, if the SWPA non-federal charges to Nixa will be unconditionally terminated effective April 1, 2017, then Heartland shall pay to Nixa an amount equal to the projected bill for non-federal SWPA charges for January through March 2017.

**Section 5. Termination of SWPA Services and Transition to SWPA Zone.** Seller and Buyer shall promptly work collectively to negotiate the termination of services provided by SWPA for delivery of non-federal power and the elimination of all non-federal SWPA charges. In addition, Buyer shall use its commercially reasonable efforts to transfer the Assets from SPP Zone 3 to the SWPA Zone, and Seller shall use its commercially reasonable efforts to assist Buyer in such efforts.

**Section 6. Joinder.** Heartland hereby joins the Agreement for the sole purpose of paying the portion of the Purchase Price set forth in Section 3(c) and Section 4, as and when provided in Section 4 hereof. The Parties acknowledge and agree that, but for Heartland's obligation to pay such portion of the Purchase Price, Heartland shall have no further rights, duties or obligations under the Agreement and Heartland's liability under the Agreement (as amended by this Amendment) shall be limited to that portion of the Purchase Price for which Heartland is responsible.

**Section 7. Miscellaneous.**

(a) **Continuing Effectiveness.** Except as amended herein, the Agreement shall remain unmodified and in full force and effect. Each reference in the Agreement to "this Agreement," "hereunder," "hereof," or words of like import, and each reference to the "Agreement" in any and all instruments or documents provided for in the Agreement or delivered or to be delivered thereunder or in connection therewith, shall, except where the context otherwise requires, be deemed a reference to such agreement as amended hereby.

(b) **Governing Law.** This Amendment and all matters arising hereunder or in connection herewith shall be governed by, interpreted under, construed and enforced in accordance with the laws of the State.

(c) **Effectiveness.** This Amendment shall be effective on, and shall be binding upon, the Parties hereto upon the full execution and delivery of this Amendment, as of the Effective Date.

(d) **Counterparts.** This Amendment may be executed by the Parties in one or more counterparts, all of which taken together, shall constitute one and the same instrument. The facsimile or .pdf signatures of the Parties shall be deemed to constitute original signatures, and facsimile or .pdf copies hereof shall be deemed to constitute duplicate originals.

IN WITNESS WHEREOF, the Parties have caused this Amendment to be executed by their duly authorized representatives on the date first set forth above but effective on the Effective Date.

**SELLER**

**City of Nixa, Missouri**

By: \_\_\_\_\_  
Brian Steele  
Mayor

**BUYER**

**South Central MCN LLC**

By: \_\_\_\_\_  
  
Edward M. Rahill  
President and Chief Executive Officer

**HEARTLAND**

**GridLiance Heartland LLC**

By: \_\_\_\_\_  
  
Edward M. Rahill  
President and Chief Executive Officer