

Blackstone Group L.P.  
Form 10-Q  
August 08, 2017  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017**  
**OR**

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

**The Blackstone Group L.P.**

(Exact name of Registrant as specified in its charter)

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

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

Identification No.)

**345 Park Avenue**

**New York, New York 10154**

(Address of principal executive offices)(Zip Code)

**(212) 583-5000**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of the Registrant's voting common units representing limited partner interests outstanding as of August 1, 2017 was 617,906,597.

The number of the Registrant's non-voting common units representing limited partner interests outstanding as of August 1, 2017 was 31,019,086.

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### **Forward-Looking Statements**

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, indicator, believes, expects, potential, continues, will, should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2016 and in this report, as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (SEC), which are accessible on the SEC's website at [www.sec.gov](http://www.sec.gov). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. The forward-looking statements speak only as of the date of this report, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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

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

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

Blackstone Funds, our funds and our investment funds refer to the private equity funds, real estate funds, funds of hedge funds, credit-focused funds, collateralized loan obligation (CLO), real estate investment trusts and registered investment companies that are managed by Blackstone.

Our carry funds refers to the private equity funds, real estate funds and certain of the hedge fund solutions and credit-focused funds (with multi-year drawdown, commitment-based structures that only pay carry on the realization of an investment) that are managed by Blackstone. We refer to our general corporate private equity funds as Blackstone Capital Partners (BCP) funds, our energy-focused private equity funds as Blackstone Energy Partners (BEP) funds, our core private equity fund as Blackstone Core Equity Partners (BCEP), our opportunistic investment platform that invests globally across asset classes, industries and geographies as Blackstone Tactical Opportunities (Tactical Opportunities), our secondary private equity fund of funds business as Strategic Partners Fund Solutions (Strategic Partners), a multi-asset investment program for eligible high net worth investors offering exposure to certain of our key illiquid investment strategies through a single commitment as Blackstone Total Alternatives Solution (BTAS) and our capital markets services business as Blackstone Capital Markets (BXXCM). We refer to our real estate opportunistic funds as Blackstone Real Estate Partners (BREP) funds and our real estate debt investment funds as Blackstone Real Estate Debt Strategies (BREDS) funds. We refer to our core+ real estate funds, which target substantially stabilized assets in prime markets, as Blackstone Property Partners (BPP) funds. We refer to our real

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estate investment trusts as REITs, to Blackstone Mortgage Trust, Inc., our NYSE-listed REIT, as BXMT, and to Blackstone Real Estate Income Trust, Inc., our non-exchange traded REIT, as BREIT. Our hedge funds refers to our funds of hedge funds, certain of our real estate debt investment funds, including a registered investment company, and certain other credit-focused funds which are managed by Blackstone.

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

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods, plus for certain credit-oriented funds the amounts available to be borrowed under asset based credit facilities,
- (b) the net asset value of (1) our hedge funds, real estate debt carry funds, open ended core+ real estate fund, and our Hedge Fund Solutions carry and drawdown funds (plus, in each case, the capital that we are entitled to call from investors in those funds, including commitments yet to commence their investment periods), and (2) our funds of hedge funds, our Hedge Fund Solutions registered investment companies, and our non-exchange traded REIT,
- (c) the invested capital, fair value or net asset value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs after the reinvestment period,
- (f) the gross or net amount of assets (including leverage where applicable) for our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by BXMT.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds, hedge funds, funds structured like hedge funds and other open ended funds in our Hedge Fund Solutions, Credit and Real Estate segments generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, annually or quarterly), typically with 30 to 95 days notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to certain separately managed accounts in our Hedge Fund Solutions and Credit segments may generally be terminated by an investor on 30 to 90 days notice.

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

- (a) for our Private Equity segment funds and Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, remaining invested capital, fair value, net asset value or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,

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- (c) the remaining invested capital or fair value of assets held in co-investment vehicles managed by us on which we receive fees,
  
- (d) the net asset value of our funds of hedge funds, hedge funds, open ended core+ real estate fund, co-investments managed by us on which we receive fees, certain registered investment companies, our non-exchange traded REIT, and certain of our Hedge Fund Solutions drawdown funds,

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- (e) the invested capital, fair value of assets or the net asset value we manage pursuant to separately managed accounts,
- (f) the net proceeds received from equity offerings and accumulated core earnings of BXMT, subject to certain adjustments,
- (g) the aggregate par amount of collateral assets, including principal cash, of our CLOs, and
- (h) the gross amount of assets (including leverage) or the net assets (plus leverage where applicable) for certain of our credit-focused registered investment companies.

Each of our segments may include certain Fee-Earning Assets Under Management on which we earn performance fees but not management fees.

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

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

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

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

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 1,745,547	\$ 1,837,253
Cash Held by Blackstone Funds and Other	1,526,033	1,005,161
Investments (including assets pledged of \$91,340 and \$119,139 at June 30, 2017 and December 31, 2016, respectively)	20,549,367	17,694,975
Accounts Receivable	1,109,316	772,695
Reverse Repurchase Agreements		118,495
Due from Affiliates	1,711,574	1,442,378
Intangible Assets, Net	240,677	262,604
Goodwill	1,718,519	1,718,519
Other Assets	234,175	264,788
Deferred Tax Assets	1,292,723	1,286,469
<b>Total Assets</b>	<b>\$ 30,127,931</b>	<b>\$ 26,403,337</b>
<b>Liabilities and Partners' Capital</b>		
Loans Payable	\$ 11,188,779	\$ 8,866,366
Due to Affiliates	1,296,896	1,321,772
Accrued Compensation and Benefits	2,441,469	2,327,762
Securities Sold, Not Yet Purchased	143,819	215,398
Repurchase Agreements	60,611	75,324
Accounts Payable, Accrued Expenses and Other Liabilities	1,739,358	1,081,782
<b>Total Liabilities</b>	<b>16,870,932</b>	<b>13,888,404</b>
<b>Commitments and Contingencies</b>		
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>	<b>190,700</b>	<b>185,390</b>
<b>Partners' Capital</b>		
The Blackstone Group L.P. Partners' Capital		
Partners' Capital (common units: 653,801,394 issued and outstanding as of June 30, 2017; 643,459,542 issued and outstanding as of December 31, 2016)	6,558,159	6,523,929
Accumulated Other Comprehensive Loss	(47,479)	(62,887)
<b>Total The Blackstone Group L.P. Partners' Capital</b>	<b>6,510,680</b>	<b>6,461,042</b>
Non-Controlling Interests in Consolidated Entities	3,123,171	2,428,964
Non-Controlling Interests in Blackstone Holdings	3,432,448	3,439,537
<b>Total Partners' Capital</b>	<b>13,066,299</b>	<b>12,329,543</b>



<b>Total Liabilities and Partners</b>	<b>Capital</b>	\$ 30,127,931	\$ 26,403,337
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continued

See notes to condensed consolidated financial statements.

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

The following presents the portion of the consolidated balances presented above, after intercompany eliminations, 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.

	June 30, 2017	December 31, 2016
<b>Assets</b>		
Cash Held by Blackstone Funds and Other	\$ 1,348,206	\$ 740,760
Investments	9,159,542	6,459,355
Accounts Receivable	550,908	355,364
Due from Affiliates	25,421	21,300
Other Assets	3,666	2,602
<b>Total Assets</b>	<b>\$ 11,087,743</b>	<b>\$ 7,579,381</b>
<b>Liabilities</b>		
Loans Payable	\$ 7,710,507	\$ 5,466,444
Due to Affiliates	66,038	72,609
Securities Sold, Not Yet Purchased	82,229	81,309
Repurchase Agreements	60,611	66,221
Accounts Payable, Accrued Expenses and Other Liabilities	1,248,784	545,481
<b>Total Liabilities</b>	<b>\$ 9,168,169</b>	<b>\$ 6,232,064</b>

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Revenues</b>				
Management and Advisory Fees, Net	\$ 686,586	\$ 607,823	\$ 1,328,728	\$ 1,216,729
<b>Performance Fees</b>				
Realized				
Carried Interest	602,160	323,734	1,713,416	554,643
Incentive Fees	40,805	29,441	87,965	57,860
Unrealized				
Carried Interest	65,197	88,292	(89,486)	135,878
Incentive Fees	48,235	7,776	107,644	15,355
Total Performance Fees	756,397	449,243	1,819,539	763,736
<b>Investment Income</b>				
Realized	125,058	65,037	376,402	53,036
Unrealized	7,275	40,102	(32,913)	43,595
Total Investment Income	132,333	105,139	343,489	96,631
Interest and Dividend Revenue	33,703	22,286	62,198	45,361
Other	(59,664)	7,935	(63,876)	2,323
<b>Total Revenues</b>	<b>1,549,355</b>	<b>1,192,426</b>	<b>3,490,078</b>	<b>2,124,780</b>
<b>Expenses</b>				
<b>Compensation and Benefits</b>				
Compensation	367,203	355,424	718,792	701,427
<b>Performance Fee Compensation</b>				
Realized				
Carried Interest	195,289	87,580	561,480	146,084
Incentive Fees	21,481	15,250	44,233	29,374
Unrealized				
Carried Interest	74,500	75,202	70,113	105,203
Incentive Fees	20,600	2,689	43,739	6,137
Total Compensation and Benefits	679,073	536,145	1,438,357	988,225
General, Administrative and Other	115,281	130,988	221,325	254,033
Interest Expense	41,089	36,878	81,335	74,234
Fund Expenses	49,669	8,592	73,745	13,821
<b>Total Expenses</b>	<b>885,112</b>	<b>712,603</b>	<b>1,814,762</b>	<b>1,330,313</b>
<b>Other Income</b>				
Net Gains from Fund Investment Activities	110,054	30,703	176,186	49,845
<b>Income Before Provision for Taxes</b>	<b>774,297</b>	<b>510,526</b>	<b>1,851,502</b>	<b>844,312</b>
<b>Provision for Taxes</b>	<b>29,608</b>	<b>47,415</b>	<b>87,045</b>	<b>56,561</b>

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<b>Net Income</b>	744,689	463,111	1,764,457	787,751
<b>Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	991	(2,049)	2,991	(8,450)
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	112,944	64,729	251,629	104,815
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>	287,979	201,805	705,237	333,007
<b>Net Income Attributable to The Blackstone Group L.P.</b>	\$ 342,775	\$ 198,626	\$ 804,600	\$ 358,379
<b>Net Income Per Common Unit</b>				
Common Units, Basic	\$ 0.52	\$ 0.31	\$ 1.21	\$ 0.55
Common Units, Diluted	\$ 0.51	\$ 0.30	\$ 1.20	\$ 0.54
<b>Weighted-Average Common Units Outstanding</b>				
Common Units, Basic	664,681,299	646,933,698	662,820,839	645,915,774
Common Units, Diluted	1,200,006,339	1,194,478,212	1,199,756,390	1,194,375,807
<b>Distributions Declared Per Common Unit</b>	\$ 0.87	\$ 0.28	\$ 1.34	\$ 0.89
<b>Revenues Earned from Affiliates</b>				
Management and Advisory Fees, Net	\$ 30,051	\$ 44,148	\$ 64,448	\$ 100,823

See notes to condensed consolidated financial statements.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Net Income	\$ 744,689	\$ 463,111	\$ 1,764,457	\$ 787,751
Other Comprehensive Income (Loss), Net of Tax    Currency Translation Adjustment	35,089	(5,768)	46,593	11,844
<b>Comprehensive Income</b>	<b>779,778</b>	<b>457,343</b>	<b>1,811,050</b>	<b>799,595</b>
Less:				
Comprehensive Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	991	(2,049)	2,991	(8,450)
Comprehensive Income Attributable to Non-Controlling Interests in Consolidated Entities	140,311	58,783	282,814	110,026
Comprehensive Income Attributable to Non-Controlling Interests in Blackstone Holdings	287,979	201,805	705,237	333,007
<b>Comprehensive Income Attributable to The Blackstone Group L.P.</b>	<b>\$ 350,497</b>	<b>\$ 198,804</b>	<b>\$ 820,008</b>	<b>\$ 365,012</b>

See notes to condensed consolidated financial statements.

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

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P. Accumulated				Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners Capital	Redeemable Non- Controlling Interests in Consolidated Entities
	Common Units	Partners Capital	Other Compre- hensive Income (Loss)	Total				
<b>Balance at December 31, 2016</b>	643,459,542	\$ 6,523,929	\$ (62,887)	\$ 6,461,042	\$ 2,428,964	\$ 3,439,537	\$ 12,329,543	\$ 185,390
Net Income		804,600		804,600	251,629	705,237	1,761,466	2,991
Currency Translation Adjustment			15,408	15,408	31,185		46,593	
Consolidation of a Fund Entity					387,006		387,006	
Capital Contributions					375,308		375,308	21,354
Capital Distributions		(882,889)		(882,889)	(348,513)	(754,398)	(1,985,800)	(19,035)
Transfer of Non-Controlling Interests in Consolidated Entities					(2,408)		(2,408)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		7,286		7,286			7,286	
Equity-Based Compensation		87,964		87,964		72,561	160,525	
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	3,775,544	(12,430)		(12,430)		(790)	(13,220)	
Change in The Blackstone Group L.P.'s Ownership Interest		(13,821)		(13,821)		13,821		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	6,566,308	43,520		43,520		(43,520)		
<b>Balance at June 30, 2017</b>	653,801,394	\$ 6,558,159	\$ (47,479)	\$ 6,510,680	\$ 3,123,171	\$ 3,432,448	\$ 13,066,299	\$ 190,700

See notes to condensed consolidated financial statements.

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

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P. Accumulated				Non- Controlling Interests in Consolidated Entities	Non- Controlling Interests in Blackstone Holdings	Total Partners Capital	Redeemable Non- Controlling Interests in Consolidated Entities
	Common Units	Partners Capital	Other Compre- hensive Income (Loss)	Total				
<b>Balance at December 31, 2015</b>	624,450,162	\$ 6,322,307	\$ (52,519)	\$ 6,269,788	\$ 2,408,701	\$ 3,368,509	\$ 12,046,998	\$ 183,459
Net Income (Loss)		358,379		358,379	104,815	333,007	796,201	(8,450)
Currency Translation Adjustment			6,632	6,632	5,211		11,843	
Capital Contributions					185,952		185,952	
Capital Distributions		(569,794)		(569,794)	(160,529)	(505,969)	(1,236,292)	(1,004)
Transfer of Non-Controlling Interests in Consolidated Entities					(5,591)		(5,591)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		208		208			208	
Equity-Based Compensation		78,052		78,052		78,458	156,510	
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	4,139,648	(14,414)		(14,414)			(14,414)	
Change in The Blackstone Group L.P.'s Ownership Interest		3,836		3,836		(3,836)		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	4,944,571	29,813		29,813		(29,813)		
<b>Balance at June 30, 2016</b>	633,534,381	\$ 6,208,387	\$ (45,887)	\$ 6,162,500	\$ 2,538,559	\$ 3,240,356	\$ 11,941,415	\$ 174,005

See notes to condensed consolidated financial statements.

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

(Dollars in Thousands)

	Six Months Ended June 30,	
	2017	2016
<b>Operating Activities</b>		
Net Income	\$ 1,764,457	\$ 787,751
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Blackstone Funds Related		
Net Realized Gains on Investments	(2,284,430)	(670,157)
Change in Unrealized (Gains) Losses on Investments	41,952	(112,675)
Non-Cash Performance Fees	(18,158)	(73,806)
Non-Cash Performance Fee Compensation	719,565	286,797
Equity-Based Compensation Expense	179,729	164,124
Amortization of Intangibles	21,927	45,655
Other Non-Cash Amounts Included in Net Income	131,935	33,514
Cash Flows Due to Changes in Operating Assets and Liabilities		
Cash Held by Blackstone Funds and Other	(448,740)	(140,795)
Cash Relinquished in Deconsolidation and Liquidation of Fund Entity	(33,566)	
Accounts Receivable	191,454	73,459
Reverse Repurchase Agreements	118,495	161,008
Due from Affiliates	(131,421)	14,424
Other Assets	9,772	18,883
Accrued Compensation and Benefits	(621,807)	(234,646)
Securities Sold, Not Yet Purchased	(73,633)	(68,611)
Accounts Payable, Accrued Expenses and Other Liabilities	(700,207)	(247,201)
Repurchase Agreements	(14,713)	15,414
Due to Affiliates	(26,290)	13,682
Investments Purchased	(7,991,469)	(2,921,777)
Cash Proceeds from Sale of Investments	8,279,495	3,101,900
Net Cash Provided by (Used in) Operating Activities	(885,653)	246,943
<b>Investing Activities</b>		
Purchase of Furniture, Equipment and Leasehold Improvements	(13,663)	(16,165)
Changes in Restricted Cash	18,038	5,843
Net Cash Provided by (Used in) Investing Activities	4,375	(10,322)

See notes to condensed consolidated financial statements.



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

(Dollars in Thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>Financing Activities</b>		
Distributions to Non-Controlling Interest Holders in Consolidated Entities	\$ (330,209)	\$ (161,533)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	392,983	179,657
Payments Under Tax Receivable Agreement	(59,667)	(78,985)
Net Settlement of Vested Common Units and Repurchase of Common and Blackstone Holdings Partnership Units	(13,220)	(14,414)
Proceeds from Loans Payable	2,550,559	717,545
Repayment and Repurchase of Loans Payable	(127,464)	(145,149)
Distributions to Unitholders	(1,637,287)	(1,075,763)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>775,695</b>	<b>(578,642)</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	13,877	163
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(91,706)</b>	<b>(341,858)</b>
Cash and Cash Equivalents, Beginning of Period	1,837,253	1,837,324
Cash and Cash Equivalents, End of Period	\$ 1,745,547	\$ 1,495,466
<b>Supplemental Disclosure of Cash Flows Information</b>		
Payments for Interest	\$ 77,111	\$ 80,979
Payments for Income Taxes	\$ 46,919	\$ 33,454
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities</b>		
Non-Cash Contributions from Non-Controlling Interest Holders	\$ 1,327	\$ 740
Non-Cash Distributions to Non-Controlling Interest Holders	\$ (37,339)	\$
Net Assets Related to the Consolidation of a Fund Entity	\$ 387,006	\$
Transfer of Interests to Non-Controlling Interest Holders	\$ (2,408)	\$ (5,591)
Change in The Blackstone Group L.P.'s Ownership Interest	\$ (13,821)	\$ 3,836
Net Settlement of Vested Common Units	\$ 62,631	\$ 64,309
Conversion of Blackstone Holdings Partnership Units to Common Units	\$ 43,520	\$ 29,813
Acquisition of Ownership Interests from Non-Controlling Interest Holders	\$	\$
Deferred Tax Asset	\$ (48,017)	\$ (25,553)
Due to Affiliates	\$ 40,731	\$ 25,345

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Partners Capital

\$ 7,286 \$ 208

See notes to condensed consolidated financial statements.

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements**

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

**1. ORGANIZATION**

The Blackstone Group L.P., together with its subsidiaries ( Blackstone or the Partnership ), is a leading global manager of private capital. 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, separately managed accounts and registered investment companies (collectively referred to as the Blackstone Funds ). Blackstone s business is organized into four segments: private equity, real estate, hedge fund solutions and credit.

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 AI 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 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 from each of the Holding Partnerships for one Blackstone common unit.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of the Partnership have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information and the instructions to Form 10-Q. The condensed consolidated financial statements, including these notes, are unaudited and exclude some of the disclosures required in audited financial statements. Management believes it has made all necessary adjustments (consisting of only normal recurring items) so that the condensed consolidated financial statements are presented fairly and that estimates made in preparing its condensed consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Partnership s Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission. As disclosed in the audited consolidated financial statements, the Partnership adopted certain accounting guidance for the quarter ended June 30, 2016 and any adjustments were reflected prospectively as of January 1, 2016. As such, the condensed consolidated financial statements for the three months ended March 31, 2016 were recast from the amounts originally reported in the Partnership s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016.

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

All intercompany balances and transactions have been eliminated in consolidation.

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

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

**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 has a controlling financial interest. The Partnership has a controlling interest in Blackstone Holdings because 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.

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 or indirectly by the Partnership. The consolidation analysis can generally be performed qualitatively; however, if it is not readily apparent that the Partnership is not the primary beneficiary, a quantitative analysis may also be performed. Investments and redemptions (either by the Partnership, affiliates of the Partnership or third parties) or amendments to the governing documents of the respective Blackstone Funds could affect an entity s status as a VIE or the determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

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

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

**Fair Value of Financial Instruments**

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

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

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 types 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, including corporate bonds and loans held within CLO vehicles, government and agency securities, less liquid and restricted equity securities, and certain over-the-counter derivatives where the fair value is based on observable inputs. Senior and subordinated notes issued by CLO vehicles are classified within Level II of the fair value hierarchy.

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, and certain over-the-counter derivatives where the fair value is based on unobservable inputs.

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 and debt securities sold, not yet purchased. Certain equity securities and derivative instruments valued using observable inputs are also classified as Level II.

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

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

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based on an observable price for an identical security adjusted for the effect of a restriction.

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

Freestanding Derivatives are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.

Senior and subordinate notes issued by CLO vehicles are classified based on the more observable fair value of CLO assets less (a) the fair value of any beneficial interests held by Blackstone, and (b) the carrying value of any beneficial interests that represent compensation for services.

***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.

***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. For credit-focused investments that are not publicly traded or whose market prices are not readily available, Blackstone may utilize other valuation techniques, including the discounted cash flow method or a market approach. The discounted cash flow method projects the expected cash flows of the debt instrument based on contractual terms, and discounts such cash flows back to the valuation date using a market-based yield. The market-based yield is estimated using yields of publicly traded debt instruments issued by companies operating in similar industries as the subject investment, with similar leverage statistics and time to maturity.

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**THE BLACKSTONE GROUP L.P.**

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

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

The market approach is generally used to determine the enterprise value of the issuer of a credit investment, and considers valuation multiples of comparable companies or transactions. The resulting enterprise value will dictate whether or not such credit investment has adequate enterprise value coverage. In cases of distressed credit instruments, the market approach may be used to estimate a recovery value in the event of a restructuring.

***Level III Valuation Process***

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration factors including 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 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 Condensed Consolidated Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Fund Investment Activities in the Condensed Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date, at current market conditions (i.e., the exit price).

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

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables 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 Condensed Consolidated Statements of Financial Condition. Debt securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-focused and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Condensed Consolidated Statements of Operations. Interest income on interest bearing loans and receivables 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.



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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

In 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. Historically, the adjustment resulting from the difference between the fair value of assets and liabilities for each of these events was presented as a transition and acquisition adjustment to Appropriated Partners' Capital. Assets of the consolidated CLOs are presented within Investments within the Condensed Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. 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. Historically, amounts attributable to Non-Controlling Interests in Consolidated Entities had a corresponding adjustment to Appropriated Partners' Capital. On the adoption of the new CLO measurement guidance, there is no attribution of amounts to Non-Controlling Interests and no corresponding adjustments to Appropriated Partners' Capital.

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

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

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

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

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

**Equity Method Investments**

Investments in which the Partnership is deemed to exert significant influence, but not control, are accounted for using the equity method of accounting. Under the equity method of accounting, the Partnership's share of earnings

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

(losses) from equity method investments is included in Investment Income (Loss) in the Condensed Consolidated Statements of Operations. The carrying amounts of equity method investments are reflected in Investments in the Condensed Consolidated Statements of Financial Condition. As the underlying investments of the Partnership's equity method investments in Blackstone Funds are reported at fair value, the carrying value of the Partnership's equity method investments approximates fair value.

**Repurchase and Reverse Repurchase Agreements**

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

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

The Partnership takes possession of securities purchased under reverse repurchase agreements and is permitted to repledge, deliver or otherwise use such securities. The Partnership also pledges its financial instruments to counterparties to collateralize repurchase agreements. Financial instruments pledged that can be repledged, delivered or otherwise used by the counterparty are recorded in Investments in the Condensed Consolidated Statements of Financial Condition. Additional disclosures relating to reverse repurchase and repurchase agreements are discussed in Note 10. Reverse Repurchase and Repurchase Agreements.

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

**Securities Sold, Not Yet Purchased**

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

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

**Derivative Instruments**

The Partnership recognizes all derivatives as assets or liabilities on its Condensed Consolidated Statements of Financial Condition at fair value. On the date the Partnership enters into a derivative contract, it designates and documents each derivative contract as one of the following: (a) a hedge of a recognized asset or liability (fair value

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

hedge ), (b) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ( cash flow hedge ), (c) a hedge of a net investment in a foreign operation, or (d) a derivative instrument not designated as a hedging instrument ( freestanding derivative ). For a fair value hedge, Blackstone records changes in the fair value of the derivative and, to the extent that it is highly effective, changes in the fair value of the hedged asset or liability attributable to the hedged risk, in current period earnings in General, Administrative and Other in the Condensed Consolidated Statements of Operations. Changes in the fair value of derivatives designated as hedging instruments caused by factors other than changes in the risk being hedged, which are excluded from the assessment of hedge effectiveness, are recognized in current period earnings. Gains or losses on a derivative instrument that is designated as, and is effective as, an economic hedge of a net investment in a foreign operation are reported in the cumulative translation adjustment section of other comprehensive income to the extent it is effective as a hedge. The ineffective portion of a net investment hedge is recognized in current period earnings.

The Partnership formally documents at inception its hedge relationships, including identification of the hedging instruments and the hedged items, its risk management objectives, strategy for undertaking the hedge transaction and the Partnership's evaluation of effectiveness of its hedged transaction. At least monthly, the Partnership also formally assesses whether the derivative it designated in each hedging relationship is expected to be, and has been, highly effective in offsetting changes in estimated fair values or cash flows of the hedged items using either the regression analysis or the dollar offset method. For net investment hedges, the Partnership uses a method based on changes in spot rates to measure effectiveness. 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 values of hedging derivative instruments are reflected within Other Assets in the Condensed Consolidated Statements of Financial Condition.

For freestanding derivative contracts, the Partnership presents changes in fair value in current period earnings. Changes in the fair value of derivative instruments held by consolidated Blackstone Funds are reflected in Net Gains (Losses) from Fund Investment Activities or, where derivative instruments are held by the Partnership, within Investment Income (Loss) in the Condensed Consolidated Statements of Operations. The fair value of freestanding derivative assets of the consolidated Blackstone Funds are recorded within Investments, the fair value of freestanding derivative assets that are not part of the consolidated Blackstone Funds are recorded within Other Assets and the fair value of freestanding derivative liabilities are recorded within Accounts Payable, Accrued Expenses and Other Liabilities in the Condensed Consolidated Statements of Financial Condition.

The Partnership has elected to not offset derivative assets and liabilities or financial assets in its Condensed 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 11. Offsetting of Assets and Liabilities .

**Affiliates**

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

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

**Distributions**

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

**Recent Accounting Developments**

In May 2014, the Financial Accounting Standards Board ( 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.

In August 2015, the FASB issued new guidance deferring the effective date of the new revenue recognition standard by one year. The new guidance should be applied for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period.

Blackstone has concluded that capital allocation-based Performance Fees ( Capital Allocation-Based Arrangements ) represent equity method investments that are not in the scope of the amended revenue recognition guidance. Therefore, effective January 1, 2018, Blackstone will amend the recognition and measurement of Capital Allocation-Based Arrangements. This accounting change will not change the timing or amount of revenue recognized related to Capital Allocation-Based Arrangements. These amounts are currently recognized within Realized and Unrealized Performance Fees Carried Interest and Incentive Fees in the Consolidated Statements of Operations. Under the equity method of accounting Blackstone will recognize its allocations of Carried Interest or Incentive Fees within Investment Income along with the allocations proportionate to Blackstone's ownership interests in the Blackstone Funds. Blackstone will apply a retrospective application and prior periods shall be restated. The impact of adoption is a reclassification of Carried Interest to Investment Income. This change will have no impact on Net Income Attributable to The Blackstone Group L.P. Blackstone has concluded that the majority of its Incentive Fees are not part of a Capital Allocation-Based Arrangement ( Contractual Incentive Fees ), and are within the scope of the amended revenue recognition guidance. This accounting change will delay recognition of Contractual Incentive Fees compared to our current accounting treatment, and it is not expected to have a material impact on Blackstone's financial statements.

The Partnership has evaluated the impact of the amended revenue recognition guidance on other revenue streams including management fees and it is not expected to have a material impact on Blackstone's financial statements. The Partnership is still evaluating considerations for reporting revenue gross versus net.

In February 2016, the FASB issued amended guidance on the accounting for leases. The guidance requires the recognition of lease assets and lease liabilities for those leases classified as operating leases under previous GAAP.



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The guidance retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases under previous GAAP. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly from previous GAAP.

For operating leases, a lessee is required to do the following: (a) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the Statement of Financial Condition, (b) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis, and (c) classify all cash payments within operating activities in the statement of cash flows.

The guidance is effective for fiscal periods beginning after December 15, 2018. Early application is permitted. Blackstone is evaluating the impact of the amended guidance on the Consolidated Statement of Financial Condition. It is not expected to have a material impact on the Consolidated Statements of Operations or the Consolidated Statements of Cash Flows.

**3. INTANGIBLE ASSETS**

Intangible Assets, Net consists of the following:

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
Finite-Lived Intangible Assets/Contractual Rights	\$ 1,400,876	\$ 1,400,876
Accumulated Amortization	(1,160,199)	(1,138,272)
<b>Intangible Assets, Net</b>	<b>\$ 240,677</b>	<b>\$ 262,604</b>

Amortization expense associated with Blackstone's intangible assets was \$11.0 million and \$21.9 million for the three and six month periods ended June 30, 2017, respectively, and \$22.8 million and \$45.7 million for the three and six month periods ended June 30, 2016, respectively.

Amortization of Intangible Assets held at June 30, 2017 is expected to be \$43.9 million, \$43.8 million, \$43.8 million, \$43.8 million, and \$43.8 million for each of the years ending December 31, 2017, 2018, 2019, 2020 and 2021, respectively. Blackstone's intangible assets as of June 30, 2017 are expected to amortize over a weighted-average period of 5.6 years.

**4. INVESTMENTS**

Investments consist of the following:

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
Investments of Consolidated Blackstone Funds	\$ 9,171,258	\$ 6,480,674

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Equity Method Investments	2,990,128	3,092,378
Corporate Treasury Investments	2,849,749	2,518,438
Performance Fees	5,233,854	5,320,994
Other Investments	304,378	282,491
	\$ 20,549,367	\$ 17,694,975

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

Blackstone's share of Investments of Consolidated Blackstone Funds totaled \$475.4 million and \$384.4 million at June 30, 2017 and December 31, 2016, 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 Condensed Consolidated Statements of Operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Realized Gains (Losses)	\$ 51,777	\$ (2,435)	\$ 107,685	\$ 10,947
Net Change in Unrealized Gains (Losses)	19,483	16,893	(9,039)	(8,348)
Realized and Net Change in Unrealized Gains from Consolidated Blackstone Funds	71,260	14,458	98,646	2,599
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	38,794	16,245	77,540	47,246
Other Income Net Gains from Fund Investment Activities	\$ 110,054	\$ 30,703	\$ 176,186	\$ 49,845

**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 six months ended June 30, 2017 and 2016, 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.

The Partnership recognized net gains related to its equity method investments of \$124.1 million and \$52.0 million for the three months ended June 30, 2017 and 2016, respectively. The Partnership recognized net gains related to its equity method investments of \$292.6 million and \$69.7 million for the six months ended June 30, 2017 and 2016, respectively.



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**Corporate Treasury Investments**

The portion of corporate treasury investments included in Investments represents the Partnership's investments into primarily fixed income securities, mutual fund interests, and other fund interests. These strategies are managed by a combination of Blackstone personnel and third party advisors. The following table presents the Realized and Net Change in Unrealized Gains (Losses) on these investments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Realized Gains (Losses)	\$ 2,252	\$ 9,364	\$ (3,429)	\$ (9,245)
Net Change in Unrealized Gains	12,815	12,913	43,295	14,695
	\$ 15,067	\$ 22,277	\$ 39,866	\$ 5,450

**Performance Fees**

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

	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
Performance Fees, December 31, 2016	\$ 1,984,792	\$ 2,970,448	\$ 6,132	\$ 359,622	\$ 5,320,994
Performance Fees Allocated as a Result of Changes in Fund Fair Values	598,107	945,904	34,693	67,564	1,646,268
Foreign Exchange Gain		43,968			43,968
Fund Distributions	(857,819)	(896,060)	(3,347)	(20,150)	(1,777,376)
Performance Fees, June 30, 2017	\$ 1,725,080	\$ 3,064,260	\$ 37,478	\$ 407,036	\$ 5,233,854

**Other Investments**

Other Investments consist primarily of proprietary investment securities held by Blackstone. The following table presents Blackstone's Realized and Net Change in Unrealized Gains (Losses) in other investments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Realized Gains (Losses)	\$ 2,865	\$ (256)	\$ 2,870	\$ 4,477
Net Change in Unrealized Gains (Losses)	4,803	3,283	10,291	(2,952)

\$ 7,668	\$ 3,027	\$ 13,161	\$ 1,525
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**5. NET ASSET VALUE AS FAIR VALUE**

A summary of fair value by strategy type alongside the remaining unfunded commitments and ability to redeem such investments as of June 30, 2017 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	\$ 182,910	\$ 125	(a)	(a)
Credit Driven	151,555	268	(b)	(b)
Equity	59,082		(c)	(c)
Commodities	2,124		(d)	(d)
	\$ 395,671	\$ 393		

- (a) Diversified Instruments include investments in funds that invest across multiple strategies. Investments representing 4% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 96% of investments in this category are redeemable as of the reporting date.
- (b) The Credit Driven category includes investments in hedge funds that invest primarily in domestic and international bonds. Investments representing 58% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date. The remaining 42% of investments in this category are redeemable as of the reporting date.
- (c) The Equity category includes investments in hedge funds that invest primarily in domestic and international equity securities. Investments representing 100% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date.
- (d) The Commodities category includes investments in commodities-focused funds that primarily invest in futures and physical-based commodity driven strategies. Investments representing 100% of the fair value of the investments in this category may not be redeemed at, or within three months of, the reporting date.

**6. DERIVATIVE FINANCIAL INSTRUMENTS**

Blackstone and the consolidated 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.

**Net Investment Hedges**

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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.

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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 three months ended June 30, 2017 the resulting loss was \$4.6 million. For the six months ended June 30, 2017 the resulting loss was \$5.2 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.

	June 30, 2017				December 31, 2016			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
<b>Net Investment Hedges</b>								
Foreign Currency Contracts	\$ 465	\$ 7	\$ 53,664	\$ 1,260	\$	\$	\$ 51,267	\$ 587
<b>Freestanding Derivatives</b>								
Blackstone								
Interest Rate Contracts	270,100	627	305,280	1,873	2,651,583	2,356	546,211	2,355
Foreign Currency Contracts	208,266	4,160	257,758	5,109	164,247	1,037	127,444	966
Credit Default Swaps	2,073		2,073				3,819	215
Investments of Consolidated Blackstone Funds								
Foreign Currency Contracts	455,303	36,591	97,611	2,493	254,162	25,050	136,025	3,903
Credit Default Swaps	37,598	5,521	54,990	7,187			113,057	3,350
	973,340	46,899	717,712	16,662	3,069,992	28,443	926,556	10,789
	\$ 973,805	\$ 46,906	\$ 771,376	\$ 17,922	\$ 3,069,992	\$ 28,443	\$ 977,823	\$ 11,376

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Net Investment Hedges</b>				
<b>Foreign Currency Contracts</b>				
Hedge Ineffectiveness	\$ (13)	\$ (257)	\$ (35)	\$ (128)
<b>Freestanding Derivatives</b>				
Realized Gains (Losses)				
Interest Rate Contracts	\$ (3,007)	\$ 546	\$ (3,947)	\$ (6,812)
Foreign Currency Contracts	(6,663)	(410)	(3,312)	(4,720)
Credit Default Swaps	268	(738)	(1,658)	(4,549)
	\$ (9,402)	\$ (602)	\$ (8,917)	\$ (16,081)
<b>Net Change in Unrealized Gains (Losses)</b>				
Interest Rate Contracts	\$ (426)	\$ (4,576)	\$ (643)	\$ (7,242)
Foreign Currency Contracts	14,642	8,869	12,682	24,191
Credit Default Swaps	1,214	794	3,161	(3,482)
	\$ 15,430	\$ 5,087	\$ 15,200	\$ 13,467

As of June 30, 2017 and December 31, 2016, the Partnership had not designated any derivatives as cash flow hedges.

**7. FAIR VALUE OPTION**

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

	June 30, 2017	December 31, 2016
<b>Assets</b>		
Loans and Receivables	\$ 306,279	\$ 211,359
Equity and Preferred Securities	472,299	444,713
Assets of Consolidated CLO Vehicles		
Corporate Loans	7,477,166	4,762,071
Corporate Bonds	700,177	710,947
Other	1,708	
	\$ 8,957,629	\$ 6,129,090

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**Liabilities**

Liabilities of Consolidated CLO Vehicles

Senior Secured Notes	\$ 7,254,854	\$ 5,125,804
Subordinated Notes		
Loans Payable	452,873	337,846
Due to Affiliates	7,088	7,748
	\$ 7,714,815	\$ 5,471,398

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The following tables present the Realized and Net Change in Unrealized Gains (Losses) on financial instruments on which the fair value option was elected:

	Three Months Ended June 30,			
	2017 Realized Gains (Losses)	2017 Net Change in Unrealized Gains (Losses)	2016 Realized Gains (Losses)	2016 Net Change in Unrealized Gains (Losses)
<b>Assets</b>				
Loans and Receivables	\$	\$	\$	\$ 1,085
Equity and Preferred Securities	1	7,116	(296)	5,256
Debt Securities				(365)
Assets of Consolidated CLO Vehicles				
Corporate Loans	(543)	25,084	(15,253)	36,564
Corporate Bonds	2,580	(927)	247	(1,214)
Other	65	129	88	
	\$ 2,103	\$ 31,402	\$ (15,214)	\$ 41,326

**Liabilities**

Liabilities of Consolidated CLO Vehicles				
Subordinated Notes	\$	\$ 24,800	\$	\$ (14,281)

	Six Months Ended June 30,			
	2017 Realized Gains	2017 Net Change in Unrealized Gains (Losses)	2016 Realized Gains (Losses)	2016 Net Change in Unrealized Gains (Losses)
<b>Assets</b>				
Loans and Receivables	\$	\$ 7,418	\$	\$ (2,693)
Equity and Preferred Securities	1	20,225	(293)	1,424
Debt Securities				(1,054)
Assets of Consolidated CLO Vehicles				
Corporate Loans	1,329	13,695	(28,960)	37,521
Corporate Bonds	8,214	(6,801)	437	(943)
Other	65	129	266	
	\$ 9,609	\$ 34,666	\$ (28,550)	\$ 34,255

**Liabilities**

Liabilities of Consolidated CLO Vehicles				
Subordinated Notes	\$	\$ 32,712	\$	\$ (1,868)





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

	June 30, 2017			December 31, 2016		
	For Financial Assets Past Due (a)			For Financial Assets Past Due (a)		
	Excess of Fair Value Over Principal	Fair Value	Excess of Fair Value Over Principal	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess of Fair Value Over Principal
Loans and Receivables	\$ 2,240	\$	\$	\$ (6,476)	\$	\$
Assets of Consolidated CLO Vehicles						
Corporate Loans	18,273			2,616		
Corporate Bonds	7,729			7,259		
Other	(46)					
	\$ 28,196	\$	\$	\$ 3,399	\$	\$

(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 June 30, 2017 and December 31, 2016, no Loans and Receivables for which the fair value option was elected were past due or in non-accrual status. As of June 30, 2017 and December 31, 2016, 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:

	Level I	Level II	June 30, 2017 Level III	NAV	Total
<b>Assets</b>					
Cash and Cash Equivalents	\$ 560,893	\$	\$	\$	\$ 560,893
<b>Investments</b>					
Investments of Consolidated Blackstone Funds (a)					
Investment Funds				147,778	147,778
Equity Securities	52,208	50,435	109,997		212,640
Partnership and LLC Interests		1,588	351,865		353,453
Debt Instruments		229,238	6,986		236,224
<b>Freestanding Derivatives</b>					
Foreign Currency Contracts		1,772			1,772
Credit Default Swaps		5,521			5,521
<b>Assets of Consolidated CLO Vehicles</b>					
Corporate Loans		7,231,978	245,188		7,477,166
Corporate Bonds		700,177			700,177
Freestanding Derivatives		34,819			34,819
Other			1,708		1,708
<b>Total Investments of Consolidated Blackstone Funds</b>	<b>52,208</b>	<b>8,255,528</b>	<b>715,744</b>	<b>147,778</b>	<b>9,171,258</b>
<b>Corporate Treasury Investments</b>					
Equity Securities	295,956				295,956
Debt Instruments		2,306,345	19,739		2,326,084
Other				227,709	227,709
<b>Total Corporate Treasury Investments</b>	<b>295,956</b>	<b>2,306,345</b>	<b>19,739</b>	<b>227,709</b>	<b>2,849,749</b>
<b>Other Investments</b>	<b>176,744</b>	<b>11,500</b>	<b>95,950</b>	<b>20,184</b>	<b>304,378</b>
<b>Total Investments</b>	<b>524,908</b>	<b>10,573,373</b>	<b>831,433</b>	<b>395,671</b>	<b>12,325,385</b>
Accounts Receivable			306,279		306,279
<b>Other Assets</b>					
<b>Freestanding Derivatives</b>					
Interest Rate Contracts	574	53			627
Foreign Currency Contracts		4,160			4,160
<b>Total Freestanding Derivatives</b>	<b>574</b>	<b>4,213</b>			<b>4,787</b>
Net Investment Hedges		7			7

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Total Other Assets	574	4,220			4,794
	\$ 1,086,375	\$ 10,577,593	\$ 1,137,712	\$ 395,671	\$ 13,197,351

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	June 30, 2017			
	Level I	Level II	Level III	Total
<b>Liabilities</b>				
Loans Payable	Liabilities of Consolidated CLO Vehicles (a)			
Senior Secured Notes (b)	\$	\$ 7,254,854	\$	\$ 7,254,854
Subordinated Notes (b)		452,873		452,873
<b>Total Loans Payable</b>		<b>7,707,727</b>		<b>7,707,727</b>
Due to Affiliates	Liabilities of Consolidated CLO Vehicles (a)			
Subordinated Notes (b)		7,088		7,088
<b>Total Due to Affiliates</b>		<b>7,088</b>		<b>7,088</b>
Securities Sold, Not Yet Purchased		143,819		143,819
Accounts Payable, Accrued Expenses and Other Liabilities	Liabilities of Consolidated Blackstone Funds			
Freestanding Derivatives (a)				
Foreign Currency Contracts		2,493		2,493
Credit Default Swaps		7,187		7,187
<b>Total Liabilities of Consolidated Blackstone Funds</b>		<b>9,680</b>		<b>9,680</b>
Freestanding Derivatives				
Interest Rate Contracts	140	1,733		1,873
Foreign Currency Contracts		5,109		5,109
<b>Total Freestanding Derivatives</b>	<b>140</b>	<b>6,842</b>		<b>6,982</b>
Net Investment Hedges				
Foreign Currency Contracts		1,260		1,260
<b>Total Accounts Payable, Accrued Expenses and Other Liabilities</b>	<b>140</b>	<b>17,782</b>		<b>17,922</b>
	<b>\$ 140</b>	<b>\$ 7,876,416</b>	<b>\$</b>	<b>\$ 7,876,556</b>

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	Level I	Level II	December 31, 2016 Level III	NAV	Total
<b>Assets</b>					
Cash and Cash Equivalents Money Market Funds	\$ 443,442	\$	\$	\$	\$ 443,442
<b>Investments</b>					
Investments of Consolidated Blackstone Funds (a)					
Investment Funds				148,993	148,993
Equity Securities	76,381	70,544	93,657		240,582
Partnership and LLC Interests		29,430	337,230		366,660
Debt Instruments		219,049	7,322		226,371
Freestanding Derivatives Foreign Currency Contracts		2,327			2,327
Assets of Consolidated CLO Vehicles					
Corporate Loans		4,514,407	247,664		4,762,071
Corporate Bonds		710,947			710,947
Freestanding Derivatives Foreign Currency Contracts		22,723			22,723
Total Investments of Consolidated Blackstone Funds	76,381	5,569,427	685,873	148,993	6,480,674
<b>Corporate Treasury Investments</b>					
Equity Securities	281,505				281,505
Debt Instruments		1,944,171	30,424	54,907	2,029,502
Other				207,431	207,431
Total Corporate Treasury Investments	281,505	1,944,171	30,424	262,338	2,518,438
Other Investments	163,548		100,164	18,779	282,491
Total Investments	521,434	7,513,598	816,461	430,110	9,281,603
Accounts Receivable Loans and Receivables			211,359		211,359
<b>Other Assets</b>					
Freestanding Derivatives					
Interest Rate Contracts	1,883	473			2,356
Foreign Currency Contracts		1,037			1,037
Total Freestanding Derivatives	1,883	1,510			3,393
Total Other Assets	1,883	1,510			3,393
	\$ 966,759	\$ 7,515,108	\$ 1,027,820	\$ 430,110	\$ 9,939,797

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

	December 31, 2016			
	Level I	Level II	Level III	Total
<b>Liabilities</b>				
Loans Payable	Liabilities of Consolidated CLO Vehicles (a)			
Senior Secured Notes (b)	\$	\$ 5,125,804	\$	\$ 5,125,804
Subordinated Notes (b)		337,846		337,846
<b>Total Loans Payable</b>		<b>5,463,650</b>		<b>5,463,650</b>
Due to Affiliates	Liabilities of Consolidated CLO Vehicles (a)			
Subordinated Notes (b)		7,748		7,748
<b>Total Due to Affiliates</b>		<b>7,748</b>		<b>7,748</b>
Securities Sold, Not Yet Purchased		215,398		215,398
Accounts Payable, Accrued Expenses and Other Liabilities	Liabilities of Consolidated Blackstone Funds			
Freestanding Derivatives (a)				
Foreign Currency Contracts		3,903		3,903
Credit Default Swaps		3,350		3,350
<b>Total Liabilities of Consolidated Blackstone Funds</b>		<b>7,253</b>		<b>7,253</b>
Freestanding Derivatives				
Interest Rate Contracts	750	1,605		2,355
Foreign Currency Contracts		966		966
Credit Default Swaps		215		215
<b>Total Freestanding Derivatives</b>	<b>750</b>	<b>2,786</b>		<b>3,536</b>
Net Investment Hedges				
Foreign Currency Contracts		587		587
<b>Total Accounts Payable, Accrued Expenses and Other Liabilities</b>	<b>750</b>	<b>10,626</b>		<b>11,376</b>
	\$ 750	\$ 5,697,422	\$	\$ 5,698,172

- (a) Pursuant to GAAP consolidation guidance, the Partnership is required to consolidate all VIEs in which it has been identified as the primary beneficiary, including certain CLO vehicles, and other funds in which a consolidated entity of the Partnership, as the general partner of the fund, has a controlling financial interest. 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.
- (b) Senior and subordinate notes issued by CLO vehicles are classified based on the more observable fair value of CLO assets less (a) the fair value of any beneficial interests held by Blackstone, and (b) the carrying value of any beneficial interests that represent compensation for services.

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The following table summarizes the fair value transfers between Level I and Level II for positions that existed as of June 30, 2017 and 2016, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Transfers from Level I into Level II (a)	\$ 762	\$	\$ 762	\$ 2,114
Transfers from Level II into Level I (b)	\$	\$	\$	\$ 28,346

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

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of June 30, 2017:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average (a)
<b>Financial Assets</b>					
Investments of Consolidated Blackstone Funds					
Equity Securities	\$ 68,064	Discounted Cash Flows	Discount Rate	7.3% - 31.7%	12.5%
			Revenue CAGR	0.0% - 41.7%	6.6%
			Exit Capitalization Rate	5.3% - 11.4%	8.4%
			Exit Multiple - EBITDA	4.0x - 19.0x	10.0x
			Exit Multiple - P/E	9.5x - 17.0x	10.1x
	3,098	Market Comparable Companies	Book Value Multiple	0.8x - 0.9x	0.9x
			Exit Multiple - EBITDA	8.0x	N/A
	17,262	Other	N/A	N/A	N/A
	19,895	Transaction Price	N/A	N/A	N/A
	1,678	Third Party Pricing	N/A	N/A	N/A
Partnership and LLC Interests	307,299	Discounted Cash Flows	Discount Rate	4.7% - 26.4%	9.5%
			Revenue CAGR	-20.0% - 31.5%	5.7%
			Exit Capitalization Rate	1.6% - 11.5%	5.9%
			Exit Multiple - EBITDA	0.1x - 18.7x	10.1x
			Exit Multiple - P/E	9.3x	N/A
	530	Market Comparable Companies	Book Value Multiple	0.9x	N/A
	23,508	Other	N/A	N/A	N/A
	236	Third Party Pricing	N/A	N/A	N/A
	20,292	Transaction Price	N/A	N/A	N/A
Debt Instruments	5,072	Discounted Cash Flows	Discount Rate	7.8% - 20.0%	10.6%
			Revenue CAGR	-3.8% - 5.1%	1.9%
			Exit Capitalization Rate	4.2% - 8.3%	7.2%
			Exit Multiple - EBITDA	12.0x	N/A
	1,914	Transaction Price	N/A	N/A	N/A
Assets of Consolidated CLO Vehicles	3,141	Discounted Cash Flows	Discount Rate	6.3%	N/A
	11,727	Market Comparable Companies	EBITDA Multiple	7.0x	N/A
	232,028	Third Party Pricing	N/A	N/A	N/A
Total Investments of Consolidated Blackstone Funds	715,744				

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## THE BLACKSTONE GROUP L.P.

## Notes to Condensed Consolidated Financial Statements Continued

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

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average (a)
Corporate Treasury Investments	\$ 6,911	Discounted Cash Flows	Discount Rate	5.1% - 6.2%	5.8%
			Default Rate	2.0%	N/A
			Pre-payment Rate	20.0%	N/A
			Recovery Lag	12 Months	N/A
			Recovery Rate	30.0% - 70.0%	68.4%
			Reinvestment Rate	LIBOR +400 bps	N/A
	12,828	Third Party Pricing	N/A	N/A	N/A
Loans and Receivables	306,279	Discounted Cash Flows	Discount Rate	9.1% - 15.1%	11.5%
Other Investments	63,379	Discounted Cash Flows	Discount Rate	0.9% - 13.1%	2.6%
			Default Rate	2.0%	N/A
			Pre-payment Rate	20.0%	N/A
			Recovery Lag	12 Months	N/A
			Recovery Rate	70.0%	N/A
			Reinvestment Rate	LIBOR +400 bps	N/A
	32,571	Transaction Price	N/A	N/A	N/A
	\$ 1,137,712				

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

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of December 31, 2016:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average (a)
<b>Financial Assets</b>					
Investments of Consolidated Blackstone Funds					
Equity Securities	\$ 58,826	Discounted Cash Flows	Discount Rate	7.3% - 28.7%	12.7%
			Revenue CAGR	-0.2% - 20.1%	6.3%
			Exit Capitalization Rate	5.0% - 11.4%	8.5%
			Exit Multiple - EBITDA	4.0x - 20.0x	10.0x
			Exit Multiple - P/E	10.5x - 17.0x	11.0x
	2,032	Market Comparable Companies	Book Value Multiple	0.9x	N/A
	22,843	Other	N/A	N/A	N/A
	9,956	Transaction Price	N/A	N/A	N/A
Partnership and LLC Interests	303,281	Discounted Cash Flows	Discount Rate	3.4% - 27.6%	9.4%
			Revenue CAGR	-27.1% - 47.3%	7.2%
			Exit Capitalization Rate	3.0% - 11.0%	6.0%
			Exit Multiple - EBITDA	3.9x - 18.3x	10.5x
			Exit Multiple - P/E	9.3x	N/A
	13,945	Market Comparable Companies	Capitalization Rate	5.0% - 5.6%	5.2%
	12,916	Other	N/A	N/A	N/A
	1,238	Third Party Pricing	N/A	N/A	N/A
	5,850	Transaction Price	N/A	N/A	N/A
Debt Instruments	5,002	Discounted Cash Flows	Discount Rate	8.3% - 20.0%	12.9%
			Revenue CAGR	4.8% - 70.8%	33.8%
			Exit Capitalization Rate	4.7% - 8.3%	7.5%
			Exit Multiple - EBITDA	9.6x - 12.0x	11.0x
	2,227	Third Party Pricing	N/A	N/A	N/A
	93	Transaction Price	N/A	N/A	N/A
Assets of Consolidated CLO Vehicles					
	13,723	Market Comparable Companies	EBITDA Multiple	9.6x	N/A
	233,941	Third Party Pricing	N/A	N/A	N/A
Total Investments of Consolidated Blackstone Funds	685,873				

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

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

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average (a)
Corporate Treasury Investments	\$ 9,783	Discounted Cash Flows	Discount Rate	6.1% - 10.0%	7.1%
			Default Rate	1.0% - 2.0%	1.8%
			Pre-payment Rate	20.0%	N/A
			Recovery Lag	12 Months	N/A
			Recovery Rate	18.5% - 76.5%	66.4%
			Reinvestment Rate	LIBOR +350 bps - LIBOR +400 bps	
	20,641	Third Party Pricing	N/A	N/A	N/A
Loans and Receivables	211,359	Discounted Cash Flows	Discount Rate	12.0% - 16.4%	13.3%
Other Investments	78,619	Discounted Cash Flows	Discount Rate	1.2% - 15.0%	3.1%
			Default Rate	2.0%	N/A
			Pre-payment Rate	20.0%	N/A
			Recovery Lag	12 Months	N/A
			Recovery Rate	70.0%	N/A
			Reinvestment Rate	LIBOR +400 bps	N/A
	21,545	Transaction Price	N/A	N/A	N/A
	\$ 1,027,820				

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.
Third Party Pricing	Third Party Pricing is generally determined on the basis of unadjusted prices between market participants provided by reputable dealers or pricing services.
Transaction Price	Includes recent acquisitions or transactions.
(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 corporate treasury investments, debt instruments and other investments 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 limited liability company ( 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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(All Dollars Are in Thousands, Except Unit and Per Unit Data, Except Where Noted)

Since December 31, 2016, 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 either Investment Income (Loss) or Net Gains (Losses) from Fund Investment Activities in the Condensed Consolidated Statements of Operations.

	Level III Financial Assets at Fair Value Three Months Ended June 30,							
	2017				2016			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments (a)	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments (a)	Total
Balance, Beginning of Period	\$ 685,966	\$ 112,056	\$ 138,433	\$ 936,455	\$ 736,698	\$ 287,858	\$ 130,264	\$ 1,154,820
Transfer In Due to Consolidation and Acquisition	35,040			35,040				
Transfer In (Out) Due to Deconsolidation	(44,095)			(44,095)				
Transfer In to Level III (b)	68,127		6,473	74,600	18,177		9,037	27,214
Transfer Out of Level III (b)	(105,165)		(11,930)	(117,095)	(38,865)		(6,199)	(45,064)
Purchases	112,405	268,222	9,155	389,782	33,883	5,278	6,973	46,134
Sales	(46,140)	(75,342)	(34,014)	(155,496)	(52,776)	(87,696)	(10,683)	(151,155)
Settlements		(1,392)	(993)	(2,385)		(2,431)	(114)	(2,545)
Changes in Gains (Losses) Included in Earnings and Other Comprehensive Income (Loss)	9,606	2,735	8,565	20,906	9,315	4,510	(1,224)	12,601
Balance, End of Period	\$ 715,744	\$ 306,279	\$ 115,689	\$ 1,137,712	\$ 706,432	\$ 207,519	\$ 128,054	\$ 1,042,005
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	\$ (2,163)	\$ 2,735	\$ 123	\$ 695	\$ 2,845	\$ 4,552	\$ 1,255	\$ 8,652

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

	Level III Financial Assets at Fair Value Six Months Ended June 30,							
	2017				2016			
	Investments of Consolidated Funds	Loans and Receivables	Other Investments (a)	Total	Investments of Consolidated Funds	Loans and Receivables	Other Investments (a)	Total
Balance, Beginning of Period	\$ 685,873	\$ 211,359	\$ 130,588	\$ 1,027,820	\$ 774,392	\$ 261,994	\$ 155,841	\$ 1,192,227
Transfer In Due to Consolidation and Acquisition	34,651			34,651				
Transfer Out Due to Deconsolidation	(38,629)			(38,629)				
Transfer In to Level III (b)	63,125		16,396	79,521	52,332		9,327	61,659
Transfer Out of Level III (b)	(140,571)		(18,010)	(158,581)	(81,837)		(10,204)	(92,041)
Purchases	219,248	337,705	21,603	578,556	96,206	303,657	6,973	406,836
Sales	(145,890)	(251,502)	(44,045)	(441,437)	(142,180)	(355,251)	(30,690)	(528,121)
Settlements		(3,894)	(1,093)	(4,987)		(5,922)	(254)	(6,176)
Changes in Gains (Losses) Included in Earnings and Other Comprehensive Income (Loss)	37,937	12,611	10,250	60,798	7,519	3,041	(2,939)	7,621
Balance, End of Period	\$ 715,744	\$ 306,279	\$ 115,689	\$ 1,137,712	\$ 706,432	\$ 207,519	\$ 128,054	\$ 1,042,005
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	\$ 1,031	\$ 12,610	\$ 462	\$ 14,103	\$ (16,793)	\$ 3,083	\$ (46)	\$ (13,756)

(a) Represents corporate treasury investments and Other Investments.

(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.

There were no Level III financial liabilities as of and for the three and six months ended June 30, 2017 and 2016.

**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.



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

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
Investments	\$ 698,777	\$ 644,546
Accounts Receivable	27,136	12,308
Due from Affiliates	92,174	35,099
Total VIE Assets	818,087	691,953
Due to Affiliates	491	577
Accounts Payable, Accrued Expenses and Other Liabilities	66	38
Potential Clawback Obligation	94,532	81,936
Maximum Exposure to Loss	\$ 913,176	\$ 774,504

**10. REVERSE REPURCHASE AND REPURCHASE AGREEMENTS**

At June 30, 2017, the Partnership pledged securities with a carrying value of \$91.3 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

At December 31, 2016, 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 \$117.8 million as collateral for reverse repurchase agreements that could be repledged, delivered or otherwise used. Securities with a fair value of \$68.8 million and cash were used to cover Securities Sold, Not Yet Purchased. The Partnership also pledged securities with a carrying value of \$119.1 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.



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

The following tables provide information regarding the Partnership's Repurchase Agreements obligation by type of collateral pledged:

	June 30, 2017				Total
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater than 90 days	
<b>Repurchase Agreements</b>					
Asset-Backed Securities	\$	\$ 26,746	\$ 17,339	\$ 16,526	\$ 60,611
Gross Amount of Recognized Liabilities for Repurchase Agreements in Note 11. Offsetting of Assets and Liabilities					\$ 60,611
Amounts Related to Agreements Not Included in Offsetting Disclosure in Note 11. Offsetting of Assets and Liabilities					\$

	December 31, 2016				Total
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater than 90 days	
<b>Repurchase Agreements</b>					
U.S. Treasury and Agency Securities	\$ 7,034	\$	\$	\$	\$ 7,034
Asset-Backed Securities		12,805	30,796	24,689	68,290
	\$ 7,034	\$ 12,805	\$ 30,796	\$ 24,689	\$ 75,324
Gross Amount of Recognized Liabilities for Repurchase Agreements in Note 11. Offsetting of Assets and Liabilities					\$ 75,324
Amounts Related to Agreements Not Included in Offsetting Disclosure in Note 11. Offsetting of Assets and Liabilities					\$

**11. OFFSETTING OF ASSETS AND LIABILITIES**

The following tables present the offsetting of assets and liabilities as of June 30, 2017:

	Gross and Net Amounts of Assets Presented in the	Gross Amounts Not Offset in the Statement of Financial Condition		Net Amount
	Statement of Financial Condition	Financial Instruments	Cash Collateral Received	
<b>Assets</b>				
Net Investment Hedges	\$ 7	\$	\$	\$ 7
Freestanding Derivatives	12,080	515	7,294	4,271

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\$ 12,087 \$ 515 \$ 7,294 \$ 4,278

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

	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>				
Net Investment Hedges	\$ 1,260	\$	\$	\$ 1,260
Freestanding Derivatives	14,583	515	12,326	1,742
Repurchase Agreements	60,611	56,880	3,731	
	\$ 76,454	\$ 57,395	\$ 16,057	\$ 3,002

The following tables present the offsetting of assets and liabilities as of December 31, 2016:

	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	\$ 5,720	\$ 1,064	\$ 2,892	\$ 1,764
Reverse Repurchase Agreements	118,495	117,775		720
	\$ 124,215	\$ 118,839	\$ 2,892	\$ 2,484

	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>				
Net Investment Hedges	\$ 587	\$	\$	\$ 587
Freestanding Derivatives	6,886	1,064	5,638	184
Repurchase Agreements	75,324	72,195	3,129	
	\$ 82,797	\$ 73,259	\$ 8,767	\$ 771

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

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	<b>June 30, 2017</b>	<b>December 31, 2016</b>
Furniture, Equipment and Leasehold Improvements, Net	\$ 128,075	\$ 126,784
Prepaid Expenses	81,646	96,888
Other Assets	19,660	37,723
Freestanding Derivatives	4,787	3,393
Net Investment Hedges	7	
	\$ 234,175	\$ 264,788

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

**Notional Pooling Arrangement**

Blackstone has a notional cash pooling arrangement with a financial institution for cash management purposes. This arrangement allows for cash withdrawals based upon aggregate cash balances on deposit at the same financial institution. Cash withdrawals cannot exceed aggregate cash balances on deposit. The net balance of cash on deposit and overdrafts is used as a basis for calculating net interest expense or income. As of June 30, 2017, the aggregate cash balance on deposit relating to the cash pooling arrangement was \$1.3 billion, which was offset with an accompanying overdraft of \$1.3 billion.

**12. BORROWINGS**

The following table presents the general characteristics of each of our Notes, as well as their carrying value and fair value. The Notes are included in Loans Payable within the Condensed Consolidated Statements of Financial Condition. All of the Notes were issued at a discount. All of the Notes accrue interest from the Issue Date and all pay interest in arrears on a semi-annual basis or annual basis.

	June 30, 2017		December 31, 2016	
	Carrying Value	Fair Value (a)	Carrying Value	Fair Value (a)
<b>Senior Notes</b>				
6.625%, Due 8/15/2019 (b)	\$ 603,071	\$ 637,299	\$ 607,121	\$ 648,765
5.875%, Due 3/15/2021	398,306	444,240	398,105	447,600
4.750%, Due 2/15/2023	393,641	437,320	393,158	426,520
6.250%, Due 8/15/2042	237,923	311,925	237,830	285,450
5.000%, Due 6/15/2044	488,435	547,100	488,337	497,200
4.450%, Due 7/15/2045	343,870	351,155	343,816	322,525
2.000%, Due 5/19/2025	338,348	358,822	310,805	331,096
1.000%, Due 10/5/2026	674,678	647,854	620,750	598,270
	\$ 3,478,272	\$ 3,735,715	\$ 3,399,922	\$ 3,557,426

(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.

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**THE BLACKSTONE GROUP L.P.**

**Notes to Condensed Consolidated Financial Statements Continued**

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

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

	June 30, 2017			December 31, 2016		
	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	\$ 7,263,332	2.23%	5.2	\$ 5,124,241	2.17%	5.4
Subordinated Notes	528,553	(a)	N/A	382,735	(a)	N/A
	\$ 7,791,885			\$ 5,506,976		

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

Senior Secured Notes and Subordinated Notes comprise the following amounts:

	Fair Value	June 30, 2017 Amounts Due to Non-Consolidated Affiliates		December 31, 2016 Amounts Due to Non-Consolidated Affiliates	
		Borrowing Outstanding	Fair Value	Borrowing Outstanding	Fair Value
Senior Secured Notes	\$ 7,254,854	\$	\$	\$ 5,125,804	\$
Subordinated Notes	459,961	10,000	7,088	345,594	10,000
	\$ 7,714,815	\$ 10,000	\$ 7,088	\$ 5,471,398	\$ 10,000

The Loans Payable of the consolidated CLO vehicles are collateralized by assets held by each respective CLO vehicle and assets of one vehicle may not be used to satisfy the liabilities of another. As of June 30, 2017 and December 31, 2016, the fair value of the consolidated CLO assets was \$10.0 billion and \$6.4 billion, respectively. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

Scheduled principal payments for borrowings as of June 30, 2017 were as follows:

	Operating Borrowings	Blackstone Fund Facilities/CLO Vehicles	Total Borrowings
2017	\$	\$ 345,560	\$ 345,560

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2018			
2019	585,000		585,000
2020			
2021	400,000		400,000
Thereafter	2,528,340	7,449,105	9,977,445
	\$ 3,513,340	\$ 7,794,665	\$ 11,308,005

**13. INCOME TAXES**

Blackstone's effective tax rate was 3.8% and 9.3% for the three months ended June 30, 2017 and 2016, respectively, and 4.7% and 6.7% for the six months ended June 30, 2017 and 2016, respectively. Blackstone's

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income tax provision was \$29.6 million and \$47.4 million for the three months ended June 30, 2017 and 2016, respectively, and \$87.0 million and \$56.6 million for the six months ended June 30, 2017 and 2016, respectively.

The Blackstone Group L.P. and certain of its subsidiaries operate in the U.S. as partnerships for income tax purposes (partnerships generally are not subject to federal income taxes) and generally as corporate entities in non-U.S. jurisdictions. Blackstone's effective tax rate for the three and six months ended June 30, 2017 and 2016 was substantially due to the fact that certain corporate subsidiaries are subject to federal, state, local and foreign income taxes (as applicable) and other subsidiaries are subject to New York City unincorporated business taxes.

**14. NET INCOME PER COMMON UNIT**

Basic and diluted net income per common unit for the three and six months ended June 30, 2017 and June 30, 2016 was calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Net Income for Per Common Unit Calculation</b>				
Net Income Attributable to The Blackstone Group L.P., Basic	\$ 342,775	\$ 198,626	\$ 804,600	\$ 358,379
Incremental Net Income from Assumed Exchange of Blackstone Holdings Partnership Units	264,935	158,960	636,756	286,563
Net Income Attributable to The Blackstone Group L.P., Diluted	\$ 607,710	\$ 357,586	\$ 1,441,356	\$ 644,942
<b>Units Outstanding</b>				
Weighted-Average Common Units Outstanding, Basic	664,681,299	646,933,698	662,820,839	645,915,774
Weighted-Average Unvested Deferred Restricted Common Units	998,974	1,309,402	904,079	1,321,087
Weighted-Average Blackstone Holdings Partnership Units	534,326,066	546,235,112	536,031,472	547,138,946
Weighted-Average Common Units Outstanding, Diluted	1,200,006,339	1,194,478,212	1,199,756,390	1,194,375,807
<b>Net Income Per Common Unit, Basic</b>	\$ 0.52	\$ 0.31	\$ 1.21	\$ 0.55
<b>Net Income Per Common Unit, Diluted</b>	\$ 0.51	\$ 0.30	\$ 1.20	\$ 0.54
<b>Distributions Declared Per Common Unit (a)</b>	\$ 0.87	\$ 0.28	\$ 1.34	\$ 0.89



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

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**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 six months ended June 30, 2017 and 2016, no units were repurchased. As of June 30, 2017, the amount remaining available for repurchases under this program was \$335.8 million.

**15. EQUITY-BASED COMPENSATION**

The Partnership has granted equity-based compensation awards to Blackstone's senior managing directors, non-partner professionals, non-professionals and selected external advisers under the Partnership's 2007 Equity

Incentive Plan (the Equity Plan), the majority of which to date were granted in connection with Blackstone's initial public offering (IPO). The Equity Plan allows for the granting of options, unit appreciation rights or other unit-based awards (units, restricted units, restricted common units, deferred restricted common units, phantom restricted common units or other unit-based awards based in whole or in part on the fair value of the Blackstone common units or Blackstone Holdings Partnership Units) which may contain certain service or performance requirements. As of January 1, 2017, the Partnership had the ability to grant 170,379,944 units under the Equity Plan.

For the three and six months ended June 30, 2017, the Partnership recorded compensation expense of \$88.5 million and \$179.7 million, respectively, in relation to its equity-based awards with corresponding tax benefits of \$22.7 million and \$36.8 million, respectively. For the three and six months ended June 30, 2016, the Partnership recorded compensation expense of \$84.3 million and \$164.1 million, respectively, in relation to its equity-based awards with corresponding tax benefits of \$8.4 million and \$16.6 million, respectively. As of June 30, 2017, there was \$849.2 million of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 4.3 years.

Total vested and unvested outstanding units, including Blackstone common units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,198,049,700 as of June 30, 2017. Total outstanding unvested phantom units were 39,023 as of June 30, 2017.

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A summary of the status of the Partnership's unvested equity-based awards as of June 30, 2017 and of changes during the period January 1, 2017 through June 30, 2017 is presented below:

Unvested Units	Blackstone Holdings		The Blackstone Group L.P.			
	Partnership Units	Weighted-Average Grant Date Fair Value	Equity Settled Awards Deferred Restricted Common Units and Options	Weighted-Average Grant Date Fair Value	Cash Settled Awards Phantom Units	Weighted-Average Grant Date Fair Value
Balance, December 31, 2016	34,568,726	\$ 33.58	12,206,016	\$ 24.65	40,460	\$ 28.14
Granted	179,596	27.03	2,324,463	27.70	3,057	27.03
Vested	(2,551,438)	34.58	(2,419,469)	25.89	(1,338)	28.61
Forfeited	(318,879)	25.28	(232,126)	29.46	(3,770)	33.32
Balance, June 30, 2017	31,878,005	\$ 34.09	11,878,884	\$ 25.36	38,409	\$ 32.89

**Units Expected to Vest**

The following unvested units, after expected forfeitures, as of June 30, 2017, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	27,505,210	3.7
Deferred Restricted Blackstone Common Units	10,750,757	1.5
Total Equity-Based Awards	38,255,967	3.1
Phantom Units	30,341	2.9

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

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

	June 30, 2017	December 31, 2016
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### **Due from Affiliates**

Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees		
Principally for Investments in Blackstone Funds	\$ 448,151	\$ 342,943
Amounts Due from Portfolio Companies and Funds	400,267	456,469
Management and Performance Fees Due from Non-Consolidated Funds	576,406	445,280
Payments Made on Behalf of Non-Consolidated Entities	279,538	196,134
Investments Redeemed in Non-Consolidated Funds of Hedge Funds	6,518	1,552
Accrual for Potential Clawback of Previously Distributed Carried Interest	694	
	\$ 1,711,574	\$ 1,442,378

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	June 30, 2017	December 31, 2016
<b>Due to Affiliates</b>		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	\$ 1,169,998	\$ 1,186,145
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	45,343	28,012
Distributions Received on Behalf of Blackstone Entities	30,356	80,034
Payments Made by Non-Consolidated Entities	41,940	19,833
Due to Note Holders of Consolidated CLO Vehicles	7,088	7,748
Accrual for Potential Repayment of Previously Received Performance Fees	2,171	
	\$ 1,296,896	\$ 1,321,772

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

The Founder, senior managing directors, employees and certain other related parties invest on a discretionary basis in the consolidated Blackstone Funds both directly and through consolidated entities. These investments generally are subject to preferential management fee and performance fee arrangements. As of June 30, 2017 and December 31, 2016, such investments aggregated \$802.9 million and \$740.3 million, respectively. Their share of the Net Income Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated \$20.0 million and \$25.5 million for the three months ended June 30, 2017 and 2016, respectively, and \$50.5 million and \$28.6 million for the six months ended June 30, 2017 and 2016, respectively.

**Revenues Earned from Affiliates**

Management and Advisory Fees, Net earned from affiliates totaled \$30.1 million and \$44.1 million for the three months ended June 30, 2017 and 2016, respectively. Management and Advisory Fees, Net earned from affiliates totaled \$64.4 million and \$100.8 million for the six months ended June 30, 2017 and 2016, respectively. Fees relate primarily to transaction and monitoring fees which are negotiated in the ordinary course of fundraising and investment activities.

**Loans to Affiliates**

Loans to affiliates consist of interest bearing advances to certain Blackstone individuals to finance their investments in certain Blackstone Funds. These loans earn interest at Blackstone's cost of borrowing and such interest totaled \$1.1 million and \$0.1 million for the three months ended June 30, 2017 and 2016, respectively, and \$1.3 million and \$0.2 million for the six months ended June 30, 2017 and 2016, 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 June 30, 2017. See Note 17. Commitments and Contingencies Contingencies Contingent Obligations (Clawback) .

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**Aircraft and Other Services**

In the normal course of business, Blackstone personnel make use of aircraft owned as personal assets by Stephen A. Schwarzman; an aircraft owned jointly as a personal asset by Hamilton E. James, Blackstone's President and, Chief Operating Officer, and a Director of Blackstone, and Jonathan D. Gray, Blackstone's Global Head of Real Estate and a Director of Blackstone; and an aircraft owned jointly as a personal asset by Bennett J. Goodman, Co-Founder of GSO Capital and a Director of Blackstone, and another senior managing director (each such aircraft, Personal Aircraft). Mr. Schwarzman paid for his purchases of his Personal Aircraft himself. Each of Mr. James and Mr. Gray paid for his respective interest in their jointly owned Personal Aircraft. Mr. Goodman paid for his interest in his jointly owned Personal Aircraft. Mr. Schwarzman, Mr. James, Mr. Gray and Mr. Goodman respectively bear operating, personnel and maintenance costs associated with the operation of such Personal Aircraft. Payment by Blackstone for the use of the Personal Aircraft by Blackstone employees is made based on market rates.

In addition, on occasion, certain of Blackstone's executive officers and employee directors and their families may make personal use of aircraft owned by Blackstone or 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 or employee director based on market rates and usage. Personal use of Blackstone resources is also reimbursed to Blackstone based on market rates.

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

**Tax Receivable Agreements**

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

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

Assuming no 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 \$382.7 million assuming a 15% discount rate and using Blackstone's most recent projections relating to the estimated timing of the benefit to be

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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.

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

**Other**

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

Additionally, please see Note 17. Commitments and Contingencies - Contingencies - Guarantees for information regarding guarantees provided to a lending institution for certain loans held by employees.

**17. COMMITMENTS AND CONTINGENCIES**

**Commitments**

*Investment Commitments*

Blackstone had \$2.4 billion of investment commitments as of June 30, 2017 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 \$305.4 million as of June 30, 2017 which includes \$15.7 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 \$3.8 million as of June 30, 2017.

The Blackstone Holdings Partnerships provided guarantees to a lending institution for certain loans held by employees either for investment in Blackstone Funds or for members' capital contributions to Blackstone Group International Partners LLP. The amount guaranteed as of June 30, 2017 was \$156.1 million.

*Litigation*

From time to time, Blackstone is named as a defendant in legal actions relating to transactions conducted in the ordinary course of business. Although there can be no assurance of the outcome of such legal actions, in the opinion of management, Blackstone does not have a potential

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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.



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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, including available contemplated extensions, for which a liability for potential clawback obligations has been recorded for financial reporting purposes, are currently anticipated to expire at various points through 2028. Further extensions of such terms may be implemented under given circumstances.

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

The following table presents the clawback obligations by segment:

Segment	June 30, 2017			December 31, 2016		
	Blackstone Holdings	Current and Former Personnel	Total	Blackstone Holdings	Current and Former Personnel	Total
Credit	\$ 1,477	\$ 694	\$ 2,171	\$	\$	\$

For Private Equity, Real Estate, and certain Credit Funds, a portion of the carried interest paid to current and former Blackstone personnel is held in segregated accounts in the event of a cash clawback obligation. These segregated accounts are not included in the Condensed Consolidated Financial Statements of the Partnership, except to the extent a portion of the assets held in the segregated accounts may be allocated to a consolidated Blackstone fund of hedge funds. At June 30, 2017, \$570.2 million was held in segregated accounts for the purpose of meeting any clawback obligations of current and former personnel if such payments are required.

In the Credit segment, payment of carried interest to the Partnership by the majority of the stressed/distressed, mezzanine and event-driven credit strategies funds are substantially deferred under the terms of the partnership agreements. This deferral mitigates the need to hold funds in segregated accounts in the event of a cash clawback obligation.

If, at June 30, 2017, all of the investments held by our carry funds were deemed worthless, a possibility that management views as remote, the amount of Carried Interest subject to potential clawback would be \$5.3 billion, on an after-tax basis where applicable, of which Blackstone Holdings is potentially liable for \$4.9 billion if current and former Blackstone personnel default on their share of the liability, a possibility that management also views as remote.

**18. SEGMENT REPORTING**

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

Blackstone conducts its alternative asset management businesses through four segments:

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Private Equity Blackstone's Private Equity segment primarily comprises its management of flagship corporate private equity funds, sector-focused corporate private equity funds, including energy-focused

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funds, a core private equity fund, an opportunistic investment platform, a secondary private equity fund of funds business, a multi-asset investment program for eligible high net worth investors and a capital markets services business.

**Real Estate** Blackstone's Real Estate segment primarily comprises its management of global, European focused and Asian focused opportunistic real estate funds, high yield real estate debt funds, liquid real estate debt funds, core+ real estate funds, a NYSE-listed REIT and a non-exchange traded REIT.

**Hedge Fund Solutions** Blackstone's Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management (BAAM), which manages a broad range of commingled and customized hedge fund of fund solutions and also includes investment platforms that seed new hedge fund businesses, purchase minority ownership interests in more established hedge funds, invest in special situation opportunities, create alternative solutions in regulated structures and trade directly.

**Credit** Blackstone's Credit segment consists principally of GSO Capital Partners LP (GSO), which is organized into performing credit strategies (which include mezzanine lending funds, business development companies and other performing credit strategies), distressed strategies (which include event-driven credit strategies, stressed/distressed funds and distressed energy strategies) and long only strategies (which consist of CLOs, closed-end funds, commingled funds and separately managed accounts).

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.

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

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

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The following tables present the financial data for Blackstone's four segments for the three months ended June 30, 2017 and 2016:

	Three Months Ended June 30, 2017				Total Segments
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	
<b>Segment Revenues</b>					
Management and Advisory Fees, Net					
Base Management Fees	\$ 176,555	\$ 227,865	\$ 128,698	\$ 138,250	\$ 671,368
Transaction, Advisory and Other Fees, Net	18,947	16,087	1,696	2,162	38,892
Management Fee Offsets	(3,753)	(5,018)		(4,653)	(13,424)
Total Management and Advisory Fees, Net	191,749	238,934	130,394	135,759	696,836
<b>Performance Fees</b>					
Realized					
Carried Interest	197,257	389,004		16,032	602,293
Incentive Fees		5,315	6,995	28,796	41,106
Unrealized					
Carried Interest	600	77,200	143	(12,863)	65,080
Incentive Fees		22,608	22,458	3,461	48,527
Total Performance Fees	197,857	494,127	29,596	35,426	757,006
<b>Investment Income (Loss)</b>					
Realized					
	41,168	57,599	225	1,895	100,887
Unrealized					
	(25,014)	(20,519)	11,578	788	(33,167)
Total Investment Income	16,154	37,080	11,803	2,683	67,720
Interest and Dividend Revenue	12,451	20,998	8,769	11,037	53,255
Other	(16,124)	(22,965)	(10,720)	(12,660)	(62,469)
Total Revenues	402,087	768,174	169,842	172,245	1,512,348
<b>Expenses</b>					
Compensation and Benefits Compensation					
Performance Fee Compensation	90,844	110,266	47,361	56,786	305,257
Realized					
Carried Interest	63,060	124,292		7,937	195,289
Incentive Fees		2,931	4,362	14,188	21,481
Unrealized					
Carried Interest	22,219	59,174	178	(7,071)	74,500
Incentive Fees		9,680	9,242	1,678	20,600
Total Compensation and Benefits	176,123	306,343	61,143	73,518	617,127
Other Operating Expenses	47,665	55,373	26,240	36,406	165,684

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Total Expenses	223,788	361,716	87,383	109,924	782,811
Economic Income	\$ 178,299	\$ 406,458	\$ 82,459	\$ 62,321	\$ 729,537

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	Three Months Ended June 30, 2016				Total
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Segments
<b>Segment Revenues</b>					
Management and Advisory Fees, Net					
Base Management Fees	\$ 131,477	\$ 201,004	\$ 130,123	\$ 131,392	\$ 593,996
Transaction, Advisory and Other Fees, Net	11,089	21,112	(5)	1,424	33,620
Management Fee Offsets	(4,195)	(1,219)		(9,982)	(15,396)
<b>Total Management and Advisory Fees, Net</b>	<b>138,371</b>	<b>220,897</b>	<b>130,118</b>	<b>122,834</b>	<b>612,220</b>
<b>Performance Fees</b>					
Realized					
Carried Interest	57,056	266,382		296	323,734
Incentive Fees		6,099	(251)	23,515	29,363
Unrealized					
Carried Interest	85,047	(84,875)	801	87,295	88,268
Incentive Fees		5,942	1,036	1,029	8,007
<b>Total Performance Fees</b>	<b>142,103</b>	<b>193,548</b>	<b>1,586</b>	<b>112,135</b>	<b>449,372</b>
<b>Investment Income (Loss)</b>					
Realized					
	22,926	19,929	(515)	11,330	53,670
Unrealized					
	(2,766)	(8,902)	9,357	8,412	6,101
<b>Total Investment Income</b>	<b>20,160</b>	<b>11,027</b>	<b>8,842</b>	<b>19,742</b>	<b>59,771</b>
Interest and Dividend Revenue	9,516	13,084	5,205	7,428	35,233
Other	3,395	2,231	1,125	1,795	8,546
<b>Total Revenues</b>	<b>313,545</b>	<b>440,787</b>	<b>146,876</b>	<b>263,934</b>	<b>1,165,142</b>
<b>Expenses</b>					
Compensation and Benefits Compensation					
Performance Fee Compensation	83,140	102,888	44,436	55,691	286,155
Realized					
Carried Interest	30,946	56,441		194	87,581
Incentive Fees		3,300	1,325	10,626	15,251
Unrealized					
Carried Interest	19,450	14,257	238	41,257	75,202
Incentive Fees		2,542	480	(333)	2,689
<b>Total Compensation and Benefits</b>	<b>133,536</b>	<b>179,428</b>	<b>46,479</b>	<b>107,435</b>	<b>466,878</b>
Other Operating Expenses	48,371	52,201	27,218	29,464	157,254
<b>Total Expenses</b>	<b>181,907</b>	<b>231,629</b>	<b>73,697</b>	<b>136,899</b>	<b>624,132</b>
<b>Economic Income</b>	<b>\$ 131,638</b>	<b>\$ 209,158</b>	<b>\$ 73,179</b>	<b>\$ 127,035</b>	<b>\$ 541,010</b>



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

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

The following table reconciles the Total Segments to Blackstone's Income (Loss) Before Provision for Taxes for the three months ended June 30, 2017 and 2016:

	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$ 1,512,348	\$ 37,007(a)	\$ 1,549,355	\$ 1,165,142	\$ 27,284(a)	\$ 1,192,426
Expenses	\$ 782,811	\$ 102,301(b)	\$ 885,112	\$ 624,132	\$ 88,471(b)	\$ 712,603
Other Income	\$	\$ 110,054(c)	\$ 110,054	\$	\$ 30,703(c)	\$ 30,703
Economic Income	\$ 729,537	\$ 44,760(d)	\$ 774,297	\$ 541,010	\$ (30,484)(d)	\$ 510,526

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

	Three Months Ended June 30,	
	2017	2016
Fund Management Fees and Performance Fees Eliminated in Consolidation and Transactional Investment Loss	\$ (36,956)	\$ (27,716)
Fund Expenses Added in Consolidation	30,912	(3,310)
Income Associated with Non-Controlling Interests of Consolidated Entities	113,935	62,680
Transaction-Related Other Income (Loss)	2,163	(951)
<b>Total Consolidation Adjustments and Reconciling Items</b>	<b>\$ 110,054</b>	<b>\$ 30,703</b>

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

	Three Months Ended June 30,	
	2017	2016
Economic Income	\$ 729,537	\$ 541,010
Adjustments		
Amortization of Intangibles	(11,344)	(23,208)



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Transaction-Related Charges	(57,831)	(69,956)
Income Associated with Non-Controlling Interests of Consolidated Entities	113,935	62,680
Total Consolidation Adjustments and Reconciling Items	44,760	(30,484)
Income Before Provision for Taxes	\$ 774,297	\$ 510,526

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

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

The following tables present the financial data for Blackstone's four segments as of and for the six months ended June 30, 2017 and 2016:

	June 30, 2017 and the Six Months Then Ended				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total Segments
<b>Segment Revenues</b>					
Management and Advisory Fees, Net					
Base Management Fees	\$ 354,019	\$ 425,744	\$ 257,166	\$ 277,397	\$ 1,314,326
Transaction, Advisory and Other Fees, Net	36,147	37,366	1,955	3,646	79,114
Management Fee Offsets	(15,943)	(8,568)		(22,512)	(47,023)
Total Management and Advisory Fees, Net	374,223	454,542	259,121	258,531	1,346,417
<b>Performance Fees</b>					
Realized					
Carried Interest	779,938	908,845		24,832	1,713,615
Incentive Fees		8,229	21,679	58,335	88,243
Unrealized					
Carried Interest	(184,233)	54,932	3,940	35,694	(89,667)
Incentive Fees		41,321	62,769	4,453	108,543
Total Performance Fees	595,705	1,013,327	88,388	123,314	1,820,734
<b>Investment Income (Loss)</b>					
Realized					
	122,057	177,178	(407)	4,953	303,781
Unrealized					
	(65,838)	(104,372)	29,871	8,237	(132,102)
Total Investment Income	56,219	72,806	29,464	13,190	171,679
Interest and Dividend Revenue	23,373	39,165	16,323	20,270	99,131
Other	(17,924)	(26,115)	(12,330)	(14,387)	(70,756)
Total Revenues	1,031,596	1,553,725	380,966	400,918	3,367,205
<b>Expenses</b>					
Compensation and Benefits Compensation					
Performance Fee Compensation	174,586	212,968	94,965	111,765	594,284
Realized					
Carried Interest	244,693	304,217		12,570	561,480
Incentive Fees		4,295	11,679	28,259	44,233
Unrealized					
Carried Interest	(17,137)	70,972	1,387	14,891	70,113
Incentive Fees		18,189	23,246	2,304	43,739
Total Compensation and Benefits	402,142	610,641	131,277	169,789	1,313,849
Other Operating Expenses	90,487	107,342	52,040	69,107	318,976

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Total Expenses	492,629	717,983	183,317	238,896	1,632,825
Economic Income	\$ 538,967	\$ 835,742	\$ 197,649	\$ 162,022	\$ 1,734,380
Segment Assets as of June 30, 2017	\$ 5,958,821	\$ 7,795,940	\$ 2,368,871	\$ 3,446,358	\$ 19,569,990

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

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

	Six Months Ended June 30, 2016				Total Segments
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	
<b>Segment Revenues</b>					
Management and Advisory Fees, Net					
Base Management Fees	\$ 262,125	\$ 400,911	\$ 260,281	\$ 257,382	\$ 1,180,699
Transaction, Advisory and Other Fees, Net	20,009	56,906	538	2,766	80,219
Management Fee Offsets	(11,043)	(4,814)		(19,640)	(35,497)
<b>Total Management and Advisory Fees, Net</b>	<b>271,091</b>	<b>453,003</b>	<b>260,819</b>	<b>240,508</b>	<b>1,225,421</b>
<b>Performance Fees</b>					
Realized					
Carried Interest	87,338	467,009		296	554,643
Incentive Fees		10,168	2,433	45,212	57,813
Unrealized					
Carried Interest	158,922	(96,397)	833	72,516	135,874
Incentive Fees		15,707	(1,899)	1,299	15,107
<b>Total Performance Fees</b>	<b>246,260</b>	<b>396,487</b>	<b>1,367</b>	<b>119,323</b>	<b>763,437</b>
<b>Investment Income (Loss)</b>					
Realized					
	7,569	32,904	(5,260)	8,356	43,569
Unrealized					
	12,674	(11,039)	(2,934)	(9,149)	(10,448)
<b>Total Investment Income (Loss)</b>	<b>20,243</b>	<b>21,865</b>	<b>(8,194)</b>	<b>(793)</b>	<b>33,121</b>
Interest and Dividend Revenue	19,365	26,272	10,501	14,176	70,314
Other	1,808	322	(263)	431	2,298
<b>Total Revenues</b>	<b>558,767</b>	<b>897,949</b>	<b>264,230</b>	<b>373,645</b>	<b>2,094,591</b>
<b>Expenses</b>					
Compensation and Benefits Compensation					
Performance Fee Compensation					
Realized					
Carried Interest	46,373	99,517		194	146,084
Incentive Fees		5,433	3,188	20,753	29,374
Unrealized					
Carried Interest	28,746	41,960	238	34,259	105,203
Incentive Fees		6,700	(715)	152	6,137
<b>Total Compensation and Benefits</b>	<b>238,533</b>	<b>357,076</b>	<b>101,316</b>	<b>163,431</b>	<b>860,356</b>
Other Operating Expenses	96,434	100,298	53,364	55,684	305,780
<b>Total Expenses</b>	<b>334,967</b>	<b>457,374</b>	<b>154,680</b>	<b>219,115</b>	<b>1,166,136</b>
<b>Economic Income</b>	<b>\$ 223,800</b>	<b>\$ 440,575</b>	<b>\$ 109,550</b>	<b>\$ 154,530</b>	<b>\$ 928,455</b>



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

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

The following table reconciles the Total Segments to Blackstone's Income (Loss) Before Provision for Taxes and Total Assets as of and for the six months ended June 30, 2017 and 2016:

	June 30, 2017 and the Six Months Then Ended			Six Months Ended June 30, 2016		
	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated	Total Segments	Consolidation Adjustments and Reconciling Items	Blackstone Consolidated
Revenues	\$ 3,367,205	\$ 122,873(a)	\$ 3,490,078	\$ 2,094,591	\$ 30,189(a)	\$ 2,124,780
Expenses	\$ 1,632,825	\$ 181,937(b)	\$ 1,814,762	\$ 1,166,136	\$ 164,177(b)	\$ 1,330,313
Other Income	\$	\$ 176,186(c)	\$ 176,186	\$	\$ 49,845(c)	\$ 49,845
Economic Income	\$ 1,734,380	\$ 117,122(d)	\$ 1,851,502	\$ 928,455	\$ (84,143)(d)	\$ 844,312
Total Assets	\$ 19,569,990	\$ 10,557,941(e)	\$ 30,127,931			

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

	Six Months Ended June 30,	
	2017	2016
Fund Management Fees and Performance Fees Eliminated in Consolidation and Transactional Investment Loss	\$ (122,277)	\$ (30,473)
Fund Expenses Added in Consolidation	38,403	(9,157)
Income Associated with Non-Controlling Interests of Consolidated Entities	254,620	96,365
Transaction-Related Other Income (Loss)	5,440	(6,890)
Total Consolidation Adjustments and Reconciling Items	\$ 176,186	\$ 49,845

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

	Six Months Ended June 30,	
	2017	2016
Economic Income	\$ 1,734,380	\$ 928,455

Adjustments

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Amortization of Intangibles	(22,688)	(46,416)
Transaction-Related Charges	(114,810)	(134,092)
Income Associated with Non-Controlling Interests of Consolidated Entities	254,620	96,365
Total Consolidation Adjustments and Reconciling Items	117,122	(84,143)
Income Before Provision for Taxes	\$ 1,851,502	\$ 844,312

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**THE BLACKSTONE GROUP L.P.**

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

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

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

**19. SUBSEQUENT EVENTS**

There have been no events since June 30, 2017 that require recognition or disclosure in the Condensed Consolidated Financial Statements.



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

(Dollars in Thousands)

	June 30, 2017			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 1,745,547	\$	\$	\$ 1,745,547
Cash Held by Blackstone Funds and Other	176,308	1,349,725		1,526,033
Investments	11,879,613	9,231,252	(561,498)	20,549,367
Accounts Receivable	551,579	557,737		1,109,316
Due from Affiliates	1,734,970	28,254	(51,650)	1,711,574
Intangible Assets, Net	240,677			240,677
Goodwill	1,718,519			1,718,519
Other Assets	230,054	4,121		234,175
Deferred Tax Assets	1,292,723			1,292,723
<b>Total Assets</b>	<b>\$ 19,569,990</b>	<b>\$ 11,171,089</b>	<b>\$ (613,148)</b>	<b>\$ 30,127,931</b>
<b>Liabilities and Partners Capital</b>				
Loans Payable	\$ 3,478,272	\$ 7,710,507	\$	\$ 11,188,779
Due to Affiliates	1,239,548	223,770	(166,422)	1,296,896
Accrued Compensation and Benefits	2,441,469			2,441,469
Securities Sold, Not Yet Purchased	57,298	86,521		143,819
Repurchase Agreements		60,611		60,611
Accounts Payable, Accrued Expenses and Other Liabilities	486,432	1,252,926		1,739,358
<b>Total Liabilities</b>	<b>7,703,019</b>	<b>9,334,335</b>	<b>(166,422)</b>	<b>16,870,932</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>		<b>190,700</b>		<b>190,700</b>
<b>Partners Capital</b>				
Partners Capital	6,557,579	380,567	(379,987)	6,558,159
Accumulated Other Comprehensive Income (Loss)	(46,899)		(580)	(47,479)
Non-Controlling Interests in Consolidated Entities	1,923,843	1,265,487	(66,159)	3,123,171
Non-Controlling Interests in Blackstone Holdings	3,432,448			3,432,448
<b>Total Partners Capital</b>	<b>11,866,971</b>	<b>1,646,054</b>	<b>(446,726)</b>	<b>13,066,299</b>
<b>Total Liabilities and Partners Capital</b>	<b>\$ 19,569,990</b>	<b>\$ 11,171,089</b>	<b>\$ (613,148)</b>	<b>\$ 30,127,931</b>

continued

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

(Dollars in Thousands)

	December 31, 2016			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
<b>Assets</b>				
Cash and Cash Equivalents	\$ 1,837,253	\$	\$	\$ 1,837,253
Cash Held by Blackstone Funds and Other	261,909	743,252		1,005,161
Investments	11,618,729	6,474,168	(397,922)	17,694,975
Accounts Receivable	404,843	367,852		772,695
Reverse Repurchase Agreements	118,495			118,495
Due from Affiliates	1,433,612	27,473	(18,707)	1,442,378
Intangible Assets, Net	262,604			262,604
Goodwill	1,718,519			1,718,519
Other Assets	259,695	5,093		264,788
Deferred Tax Assets	1,286,469			1,286,469
<b>Total Assets</b>	<b>\$ 19,202,128</b>	<b>\$ 7,617,838</b>	<b>\$ (416,629)</b>	<b>\$ 26,403,337</b>
<b>Liabilities and Partners Capital</b>				
Loans Payable	\$ 3,399,922	\$ 5,466,444	\$	\$ 8,866,366
Due to Affiliates	1,253,791	86,688	(18,707)	1,321,772
Accrued Compensation and Benefits	2,327,762			2,327,762
Securities Sold, Not Yet Purchased	127,710	87,688		215,398
Repurchase Agreements	7,034	68,290		75,324
Accounts Payable, Accrued Expenses and Other Liabilities	533,101	548,681		1,081,782
<b>Total Liabilities</b>	<b>7,649,320</b>	<b>6,257,791</b>	<b>(18,707)</b>	<b>13,888,404</b>
<b>Redeemable Non-Controlling Interests in Consolidated Entities</b>		<b>185,390</b>		<b>185,390</b>
<b>Partners Capital</b>				
Partners Capital	6,524,607	398,001	(398,679)	6,523,929
Accumulated Other Comprehensive Income (Loss)	(63,644)		757	(62,887)
Non-Controlling Interests in Consolidated Entities	1,652,308	776,656		2,428,964
Non-Controlling Interests in Blackstone Holdings	3,439,537			3,439,537
<b>Total Partners Capital</b>	<b>11,552,808</b>	<b>1,174,657</b>	<b>(397,922)</b>	<b>12,329,543</b>
<b>Total Liabilities and Partners Capital</b>	<b>\$ 19,202,128</b>	<b>\$ 7,617,838</b>	<b>\$ (416,629)</b>	<b>\$ 26,403,337</b>

(a) The Consolidated Blackstone Funds consisted of the following:  
Blackstone Real Estate Partners VIC ESH L.P.

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Blackstone Real Estate Special Situations Fund L.P.

Blackstone Real Estate Special Situations Offshore Fund Ltd.

Blackstone Strategic Alliance Fund L.P.

Blackstone / GSO Global Dynamic Credit Feeder Fund (Cayman) LP

Blackstone / GSO Global Dynamic Credit Funding Designated Activity Company

Blackstone / GSO Global Dynamic Credit Master Fund

Blackstone / GSO Global Dynamic Credit USD Feeder Fund Ireland

Blackstone / GSO Loan Financing Limited

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BSSF I AIV L.P.

BTD CP Holdings LP

GSO Legacy Associates 2 LLC

GSO Legacy Associates LLC

Private equity side-by-side investment vehicles

Real estate side-by-side investment vehicles

Mezzanine side-by-side investment vehicles

Collateralized loan obligation vehicles

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

*The following discussion and analysis should be read in conjunction with The Blackstone Group L.P.'s condensed consolidated financial statements and the related notes included within this Quarterly Report on Form 10-Q.*

**Our Business**

Blackstone is one of the largest independent managers of private capital in the world. Our business is organized into four segments:

**Private Equity.** We are a world leader in private equity investing, having managed seven general private equity funds, as well as three sector-focused funds, since we established this business in 1987. Our Private Equity segment includes our corporate private equity business, which consists of our flagship corporate private equity funds, Blackstone Capital Partners ( BCP ) funds, our sector-focused corporate private equity funds, including our energy-focused funds, Blackstone Energy Partners ( BEP ) funds and our core private equity fund, Blackstone Core Equity Partners ( BCEP ). In addition, our Private Equity segment includes our opportunistic investment platform that invests globally across asset classes, industries and geographies, Blackstone Tactical Opportunities ( Tactical Opportunities ), our secondary private equity fund of funds business, Strategic Partners Fund Solutions ( Strategic Partners ), a multi-asset investment program for eligible high net worth investors offering exposure to certain of Blackstone's key illiquid investment strategies through a single commitment, Blackstone Total Alternatives Solution ( BTAS ) and our capital markets services business, Blackstone Capital Markets ( BXCM ).

Our corporate private equity business pursues transactions throughout the world across a variety of transaction types, including large buyouts, mid-cap buyouts, buy and build platforms (which involve multiple acquisitions behind a single management team and platform) and growth equity/development projects (which involve significant minority investments in mature companies and greenfield development projects in energy and power). Tactical Opportunities seeks to capitalize on complex and dislocated market situations across asset classes, industries and geographies in a broad range of investments, including private and public securities, and instruments, where the underlying exposure may be to equity, debt, and/or real assets. Strategic Partners focuses on delivering access to a range of opportunities, leveraging its proprietary database to acquire single fund interests or complex portfolios in an efficient and timely manner.

**Real Estate.** Our Real Estate group is one of the largest real estate investment managers in the world. We operate as one globally integrated business, with investments in North America, Europe, Asia and Latin America.

Our Blackstone Real Estate Partners ( BREP ) funds are geographically diversified and target a broad range of opportunistic real estate and real estate related investments. The BREP funds include global funds as well as funds focused specifically on Europe or Asia investments. We seek to acquire high quality, well-located yet undermanaged assets at an attractive basis, address any property or business issues through active asset management and sell the assets once our business plan is accomplished. BREP



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has made significant investments in hotels, office buildings, shopping centers, residential and industrial assets, as well as a variety of real estate operating companies.

Our Blackstone Real Estate Debt Strategies ( BREDS ) vehicles target debt investment opportunities collateralized by commercial real estate in both public and private markets, primarily in the U.S. and Europe. BREDS' scale and investment mandates enable it to provide a variety of lending and investment options including mezzanine loans, senior loans and liquid securities. The BREDS platform includes a number of high yield real estate debt funds, liquid real estate debt funds and BXMT, a NYSE-listed real estate investment trust ( REIT ).

Our core+ real estate business, Blackstone Property Partners ( BPP ) has assembled a global portfolio of high quality core+ investments across the U.S., Europe and Asia. Our BPP vehicles target substantially stabilized assets in prime markets with a focus on office, multifamily, industrial and retail assets. We manage several core+ real estate funds and BREIT, a non-exchange traded REIT, which targets primarily stabilized income-oriented commercial real estate in the U.S.

**Hedge Fund Solutions.** Blackstone's Hedge Fund Solutions segment is comprised principally of Blackstone Alternative Asset Management ( BAAM ). BAAM is the world's largest discretionary allocator to hedge funds, managing a broad range of commingled and customized hedge fund of fund solutions since its inception in 1990. The Hedge Fund Solutions segment also includes investment platforms that seed new hedge fund businesses, purchase minority ownership interests in more established hedge funds, invest in special situation opportunities, create alternative solutions in regulated structures and trade directly.

**Credit.** Our credit business consists principally of GSO Capital Partners LP ( GSO ) which was founded in 2005 and subsequently acquired by Blackstone in 2008. GSO is one of the largest leveraged finance-focused alternative asset managers in the world and is the largest manager of collateralized loan obligations ( CLOs ) globally. The investment portfolios of the funds we manage or sub-advise predominantly consist of loans and securities of non-investment grade companies spread across the capital structure including senior debt, subordinated debt, preferred stock and common equity.

The GSO business is organized into three overarching strategies: performing credit, distressed and long only. Our performing credit strategies include mezzanine lending funds, business development companies that we sub-advise ( BDCs ) and other performing credit strategy funds. Our distressed strategies include event-driven credit strategies, stressed/distressed funds and distressed energy strategies. GSO's long only strategies consist of CLOs, closed-end funds, commingled funds and separately managed accounts.

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

## **Business Environment**

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

The second quarter of 2017 was characterized by continued global economic expansion and strong equity market performance. Most global indices increased, with the S&P 500 up 3% to record levels, the MSCI World

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index up 4%, and the MSCI Europe and Asia indices both up 6%. Emerging market equities generally outperformed developed markets, supported by a strengthening global economy and weaker U.S. dollar, with the MSCI Emerging Markets Index up 6% for the quarter. Stock market volatility remained subdued, with the CBOE Volatility Index trading at its lowest level in over 20 years, ending the second quarter down 10%.

Though trailing equity markets year to date, fixed income posted modest gains for the second quarter of 2017, with the Bloomberg Barclays U.S. Aggregate Index up 1.4%, investment grade corporates up 2.5% and high yield corporates up 2.2%. In June, the U.S. Federal Reserve again raised the targeted range for its benchmark interest rate by 25 basis points to 1.0-1.25% as was widely expected, although 10-year U.S. treasury yields ended the quarter flat at 2.3%. High yield spreads tightened 22 basis points and while issuance volume was down 27% since the end of the first quarter of 2017, year to date issuance volume rose 26% year over year. Global equity capital markets activity for both initial public offerings ( IPO ) and follow-on offerings was up slightly from the first quarter of 2017, with the first half of 2017 up 33% year over year, driven by continued strong market conditions and investor optimism.

However, the political environment and revised expectations on the pace of monetary tightening by the U.S. Federal Reserve drove a weakening of the U.S. dollar, with the U.S. dollar index down 5% for the quarter. The euro rose 7% versus the U.S. dollar, while the pound rose 4% and the Japanese yen fell 1%.

Oil markets displayed renewed volatility in the second quarter of 2017, and West Texas Intermediate Crude declined 9% to \$46 per barrel. Despite OPEC production cuts, prices fell in response to a swelling global supply led by Nigeria and Libya. Concerns regarding persistent oversupply drove energy stocks lower, with the S&P 500 Energy Index down 7% for the quarter. Prices for other commodities, including natural gas, also fell as the Bloomberg Commodity Index declined 3% and the Henry Hub Natural Gas spot price ended the second quarter of 2017 down 5%.

Declining energy prices, historically low inflation and modest economic growth have helped abate concerns that the U.S. economy risks overheating. Additionally, fears over a sharp economic slowdown in China have moderated, and political risk has eased somewhat in Europe, following favorable election results in France, Germany and the Netherlands.

The value of worldwide merger and acquisition ( M&A ) activity announced during the second quarter of 2017 increased 6% compared to the first quarter of 2017, but declined 6% compared to the second quarter of 2016. During the first half of the year, cross-border M&A activity accounted for 40% of overall volume, the highest amount for such period since 2007, fueled by increased levels of outbound M&A from U.S.-based acquirers and inbound M&A for European assets. Compared to the first half of 2016, M&A activity for European targets increased 33% in the first half of 2017, while U.S. M&A activity fell 16%.

Most economists continue to expect global growth to pick up modestly, driven by increased confidence, improving investment and trade activity, and better prospects for emerging markets and Europe. Projections for U.S. growth have declined moderately despite solid second quarter corporate earnings reports, reflecting expectations for less expansionary fiscal policy and slower legislative progress.

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### **Organizational Structure**

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

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

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

#### ***Revenues***

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to Part I. Item 1. Business Incentive Arrangements / Fee Structure in our Annual Report on Form 10-K for the year ended December 31, 2016 and Critical Accounting Policies Revenue Recognition for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

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



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

Management fee offsets are reductions to management fees payable by 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 transaction-based fee arrangements. 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.

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

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

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

Carried Interest is realized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of the preferred return or, in limited instances, after certain thresholds for return of capital are met. Carried Interest is subject to clawback to the extent that the Carried Interest received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Carried Interest, which is a component of Due to Affiliates, represents all amounts previously distributed to

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Blackstone Holdings and non-controlling interest holders that would need to be repaid to the Blackstone carry 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 funds, including certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

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

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

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

### ***Expenses***

**Compensation and Benefits** *Compensation* Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis, except in the case of (a) equity-based awards that do not require future service, which are expensed immediately and (b) certain awards to recipients that meet specified criteria making them eligible for retirement treatment (allowing such recipient to keep a percentage of those awards upon departure from Blackstone after becoming eligible for retirement), for which the expense for the portion of the award that would be retained in the event of retirement is either expensed immediately or amortized to the retirement date. 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.

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

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

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

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

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

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

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

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

### ***Income Taxes***

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

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

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

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

There remains some uncertainty regarding Blackstone's future taxation levels. Over the past several years, members of Congress and the administration of former President Obama have made a number of legislative proposals to change the taxation of carried interest that would have, in general, treated income and gains, including gain on sale, attributable to an investment services partnership interest, or ISPI, as income subject to a new blended tax rate that is higher than the capital gains rate applicable to such income under current law, except to the extent such ISPI would have been considered under the legislation to be a qualified capital interest. Our common units and the interests that we hold in entities that are entitled to receive carried interest would likely have been classified as ISPIs for purposes of this legislation. During his presidential campaign, President Trump expressed his support for legislation ending treatment of carried interest as capital gain. Whether or when the U.S. Congress will pass such legislation or what provisions will be included in any final legislation if enacted is unclear.

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

Both President Trump and the Republican members of the U.S. House of Representatives have publicly stated that one of their top legislative priorities is significant reform of the Internal Revenue Code, including significant changes to taxation of business entities. Proposals by members of Congress have included, among other things: (a) reducing corporate tax rates (the highest dropping from 35% to 20%) and reducing individual tax rates (the highest dropping from 39.6% to 33%), (b) changing to a destination-based tax system, which would tax goods where they are consumed rather than produced, by providing for certain border adjustments which would effectively exempt exports from, and subject imports to, U.S. tax, (c) changing to a territorial tax system by exempting dividends from foreign subsidiaries from U.S. tax, but subjecting unrepatriated earnings of foreign subsidiaries to U.S. tax, paid over the course of eight years (8.75% on cash and cash equivalent and 3.5% otherwise), (d) allowing deductions for interest expense only against interest income, with any nondeductible net interest expense being carried forward indefinitely, (e) permitting current deductions for investment in tangible and intangible property (excluding land), (f) eliminating certain special interest deductions and credits, (g) taxing the active business income of pass-through entities at a maximum rate, such as 25%, (h) repealing the 3.8% net investment income tax and corporate and individual alternative minimum taxes and (i) extending the carryforward of net operating losses. While President Trump has expressed support for a number of these proposals, he has also set forth ideas for tax reform that differ in key ways. In particular, on April 26, 2017, the Trump administration released a brief summary of certain core principles for a tax reform proposal that would (1) lower the top tax rate on business income, including business income earned through partnerships and other pass-through entities, such as Blackstone, to 15%, (2) lower the top tax rate on income of individuals to 35%, (3) repeal the 3.8% net investment income tax and the alternative minimum tax, (4) change to a territorial tax system as described above, including a one-time tax on existing unrepatriated earnings, and (5) eliminate certain unspecified tax breaks for the wealthiest individuals and special interests, but does not specifically refer to the changes described in clauses (b), (d), (e) and (i) above. Both

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the timing and the details of any such tax reform are unclear. The impact of any potential tax reform on us, our portfolio companies and our investors is uncertain and could be adverse. Prospective investors should consult their own tax advisors regarding potential changes in tax laws.

States and other jurisdictions have also considered legislation to increase taxes with respect to carried interest. For example, New York has considered legislation, which could have caused a non-resident of New York who holds our common units to be subject to New York state income tax on carried interest earned by entities in which we hold an indirect interest, thereby requiring the non-resident to file a New York state income tax return reporting such carried interest income. Whether or when similar legislation will be enacted is unclear. Finally, several state and local jurisdictions have evaluated ways to subject partnerships to entity level taxation through the imposition of state or local income, franchise or other forms of taxation or to increase the amount of such taxation.

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

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

Congress, the Organization for Economic Co-operation and Development ( OECD ) and other government agencies in jurisdictions in which we and our affiliates invest or do business have maintained a focus on issues related to the taxation of multinational companies. The OECD, which represents a coalition of member countries, is contemplating changes to numerous long-standing tax principles through its base erosion and profit shifting project, which is focused on a number of issues, including the shifting of profits between affiliated entities in different tax jurisdictions, interest deductibility and eligibility for the benefits of double tax treaties. A number of European jurisdictions have enacted taxes on financial transactions, and the European Commission has proposed legislation to harmonize these taxes under the so-called enhanced cooperation procedure, which provides for adoption of EU-level legislation applicable to some but not all EU Member States. These contemplated changes, if adopted by individual countries, could increase tax uncertainty and/or costs faced by us, our portfolio companies and our investors, change our business model and cause other adverse consequences. The timing or impact of these proposals is unclear at this point. In addition, tax laws, regulations and interpretations are subject to continual changes, which could adversely affect our structures or returns to our investors. For instance, various countries have adopted or proposed tax legislation that may adversely affect portfolio companies and investment structures in countries in which our funds have invested and may limit the benefits of additional investments in those countries.

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In addition, legislation enacted in 2015 significantly changed the rules for U.S. federal income tax audits of partnerships. Such audits will continue to be conducted at the partnership level, but with respect to tax returns for taxable years beginning after December 31, 2017, and unless a partnership qualifies for and affirmatively elects an alternative procedure, any adjustments to the amount of tax due (including interest and penalties) will be payable by the partnership. Under the elective alternative procedure, a partnership would issue information returns to persons who were partners in the audited year, who would then be required to take the adjustments into account in calculating their own tax liability, and the partnership would not be liable for the adjustments. If a partnership elects the alternative procedure for a given adjustment, the amount of taxes for which its partners would be liable would be increased by any applicable penalties and a special interest charge. There can be no assurance that we will be eligible to make such an election or that we will, in fact, make such an election for any given adjustment. If we do not or are not able to make such an election, then (a) our then-current common unitholders, in the aggregate, could indirectly bear income tax liabilities in excess of the aggregate amount of taxes that would have been due had we elected the alternative procedure, and (b) a given common unitholder may indirectly bear taxes attributable to income allocable to other common unitholders or former common unitholders, including taxes (as well as interest and penalties) with respect to periods prior to such holder's ownership of common units. Amounts available for distribution to our common unitholders may be reduced as a result of our obligation to pay any taxes associated with an adjustment. Many issues with respect to, and the overall effect of, this legislation on us are uncertain, and common unitholders should consult their own tax advisors regarding all aspects of this legislation as it affects their particular circumstances.

***Economic Income***

Blackstone uses Economic Income as a key measure of value creation, a benchmark of its performance and in making resource deployment and compensation decisions across its four segments. Economic Income represents segment net income before taxes excluding transaction-related charges. Transaction-related charges arise from Blackstone's IPO and certain long-term retention programs outside of annual deferred compensation and other corporate actions, including acquisitions. Transaction-related charges include certain equity-based compensation charges, the amortization of intangible assets and contingent consideration associated with acquisitions. Economic Income presents revenues and expenses on a basis that deconsolidates the investment funds Blackstone manages. Economic Net Income (ENI) represents Economic Income adjusted to include current period taxes. Taxes represent the total tax provision calculated under accounting principles generally accepted in the United States of America (GAAP) adjusted to include only the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes. Economic Income, our principal segment measure, is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. (See Note 18. Segment Reporting in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements.)

***Fee Related Earnings***

Blackstone uses Fee Related Earnings, which is derived from Economic Income, as a measure to highlight earnings from operations excluding: (a) the income related to performance fees and related performance fee compensation, (b) income earned from Blackstone's investments in the Blackstone Funds, (c) net interest income (loss), (d) equity-based compensation, and (e) Other Revenue. Management uses Fee Related Earnings as a measure to assess whether recurring revenue from our businesses is sufficient to adequately cover all of our operating expenses and generate profits. Fee Related Earnings equals contractual fee revenues, less (a) compensation expenses (which excludes amortization of equity-based awards, Carried Interest and Incentive Fee compensation), and (b) non-interest operating expenses. See Liquidity and Capital Resources Sources and Uses of Liquidity below for our discussion of Fee Related Earnings.

***Distributable Earnings***

Distributable Earnings, which is derived from our segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and

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others who are limited partners of the Blackstone Holdings partnerships. Distributable Earnings, which is a measure not prepared under GAAP (a non-GAAP measure), is intended to show the amount of net realized earnings without the effects of the consolidation of the Blackstone Funds. Distributable Earnings is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. See [Liquidity and Capital Resources Sources and Uses of Liquidity](#) below for our discussion of Distributable Earnings.

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

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

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

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

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

***Operating Metrics***

The alternative asset management business is a complex business that is primarily based on managing third party capital and does not require substantial capital investment to support rapid growth. However, there also can be



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volatility associated with its earnings and cash flows. Since our inception, we have developed and used various key operating metrics to assess and monitor the operating performance of our various alternative asset management businesses in order to monitor the effectiveness of our value creating strategies.

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

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods, plus for certain credit-oriented funds the amounts available to be borrowed under asset based credit facilities,
- (b) the net asset value of (1) our hedge funds, real estate debt carry funds, open ended core+ real estate fund, and our Hedge Fund Solutions carry and drawdown funds (plus, in each case, the capital that we are entitled to call from investors in those funds, including commitments yet to commence their investment periods), and (2) our funds of hedge funds, our Hedge Fund Solutions registered investment companies, and our non-exchange traded REIT,
- (c) the invested capital, fair value or net asset value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs after the reinvestment period,
- (f) the gross or net amount of assets (including leverage where applicable) for our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by BXMT.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds, hedge funds, funds structured like hedge funds and other open ended funds in our Hedge Fund Solutions, Credit and Real Estate segments generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, annually or quarterly), typically with 30 to 95 days notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to certain separately managed accounts in our Hedge Fund Solutions and Credit segments may generally be terminated by an investor on 30 to 90 days notice.

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

- (a) for our Private Equity segment funds and Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, remaining invested capital, fair value, net asset value or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,

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- (c) the remaining invested capital or fair value of assets held in co-investment vehicles managed by us on which we receive fees,
  
- (d) the net asset value of our funds of hedge funds, hedge funds, open ended core+ real estate fund, co-investments managed by us on which we receive fees, certain registered investment companies, our non-exchange traded REIT, and certain of our Hedge Fund Solutions drawdown funds,

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- (e) the invested capital, fair value of assets or the net asset value we manage pursuant to separately managed accounts,
- (f) the net proceeds received from equity offerings and accumulated core earnings of BXMT, subject to certain adjustments,
- (g) the aggregate par amount of collateral assets, including principal cash, of our CLOs, and
- (h) the gross amount of assets (including leverage) or the net assets (plus leverage where applicable) for certain of our credit-focused registered investment companies.

Each of our segments may include certain Fee-Earning Assets Under Management on which we earn performance fees but not management fees.

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

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

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

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

**Table of Contents****Consolidated Results of Operations**

Following is a discussion of our consolidated results of operations for the three and six months ended June 30, 2017 and 2016. For a more detailed discussion of the factors that affected the results of our four business segments (which are presented on a basis that deconsolidates the investment funds we manage) in these periods, see Segment Analysis below.

The following table sets forth information regarding our consolidated results of operations and certain key operating metrics for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended		2017 vs. 2016		Six Months Ended		2017 vs. 2016	
	June 30, 2017	2016	\$	%	June 30, 2017	2016	\$	%
<b>(Dollars in Thousands)</b>								
<b>Revenues</b>								
Management and Advisory Fees, Net	\$ 686,586	\$ 607,823	\$ 78,763	13%	\$ 1,328,728	\$ 1,216,729	\$ 111,999	9%
<b>Performance Fees</b>								
<b>Realized</b>								
Carried Interest	602,160	323,734	278,426	86%	1,713,416	554,643	1,158,773	209%
Incentive Fees	40,805	29,441	11,364	39%	87,965	57,860	30,105	52%
<b>Unrealized</b>								
Carried Interest	65,197	88,292	(23,095)	-26%	(89,486)	135,878	(225,364)	N/M
Incentive Fees	48,235	7,776	40,459	520%	107,644	15,355	92,289	601%
Total Performance Fees	756,397	449,243	307,154	68%	1,819,539	763,736	1,055,803	138%
<b>Investment Income (Loss)</b>								
<b>Realized</b>								
Realized	125,058	65,037	60,021	92%	376,402	53,036	323,366	610%
Unrealized	7,275	40,102	(32,827)	-82%	(32,913)	43,595	(76,508)	N/M
Total Investment Income	132,333	105,139	27,194	26%	343,489	96,631	246,858	255%
<b>Interest and Dividend Revenue</b>								
Other	33,703	22,286	11,417	51%	62,198	45,361	16,837	37%
	(59,664)	7,935	(67,599)	N/M	(63,876)	2,323	(66,199)	N/M
<b>Total Revenues</b>	<b>1,549,355</b>	<b>1,192,426</b>	<b>356,929</b>	<b>30%</b>	<b>3,490,078</b>	<b>2,124,780</b>	<b>1,365,298</b>	<b>64%</b>
<b>Expenses</b>								
<b>Compensation and Benefits</b>								
<b>Compensation</b>								
Compensation	367,203	355,424	11,779	3%	718,792	701,427	17,365	2%
<b>Performance Fee Compensation</b>								
<b>Realized</b>								
Carried Interest	195,289	87,580	107,709	123%	561,480	146,084	415,396	284%
Incentive Fees	21,481	15,250	6,231	41%	44,233	29,374	14,859	51%
<b>Unrealized</b>								
Carried Interest	74,500	75,202	(702)	-1%	70,113	105,203	(35,090)	-33%
Incentive Fees	20,600	2,689	17,911	666%	43,739	6,137	37,602	613%
Total Compensation and Benefits	679,073	536,145	142,928	27%	1,438,357	988,225	450,132	46%
General, Administrative and Other	115,281	130,988	(15,707)	-12%	221,325	254,033	(32,708)	-13%
Interest Expense	41,089	36,878	4,211	11%	81,335	74,234	7,101	10%
Fund Expenses	49,669	8,592	41,077	478%	73,745	13,821	59,924	434%
<b>Total Expenses</b>	<b>885,112</b>	<b>712,603</b>	<b>172,509</b>	<b>24%</b>	<b>1,814,762</b>	<b>1,330,313</b>	<b>484,449</b>	<b>36%</b>
<b>Other Income</b>								
Net Gains from Fund Investment Activities	110,054	30,703	79,351	258%	176,186	49,845	126,341	253%

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<b>Income Before Provision for Taxes</b>	774,297	510,526	263,771	52%	1,851,502	844,312	1,007,190	119%
<b>Provision for Taxes</b>	29,608	47,415	(17,807)	-38%	87,045	56,561	30,484	54%
<b>Net Income</b>	744,689	463,111	281,578	61%	1,764,457	787,751	976,706	124%
<b>Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities</b>	991	(2,049)	3,040	N/M	2,991	(8,450)	11,441	N/M
<b>Net Income Attributable to Non-Controlling Interests in Consolidated Entities</b>	112,944	64,729	48,215	74%	251,629	104,815	146,814	140%
<b>Net Income Attributable to Non-Controlling Interests in Blackstone Holdings</b>	287,979	201,805	86,174	43%	705,237	333,007	372,230	112%
<b>Net Income Attributable to The Blackstone Group L.P.</b>	\$ 342,775	\$ 198,626	\$ 144,149	73%	\$ 804,600	\$ 358,379	\$ 446,221	125%

N/M Not meaningful.

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*Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016*

*Revenues*

Total Revenues were \$1.5 billion for the three months ended June 30, 2017, an increase of \$356.9 million compared to \$1.2 billion for the three months ended June 30, 2016. The increase in revenues was primarily attributable to increases of \$307.2 million in Performance Fees, \$78.8 million in Management and Advisory Fees, Net, and \$27.2 million in Investment Income, partially offset by a decrease of \$67.6 million in Other Revenue.

The increase in Performance Fees was primarily attributable to increases in our Real Estate, Private Equity and Hedge Fund Solutions segments, partially offset by a decrease in our Credit segment. The increase in Performance Fees in our Real Estate segment was primarily due to an increase in the net appreciation of investment holdings within our opportunistic funds, which appreciated 5.4% versus 2.2% in the comparable 2016 quarter. Our core+ real estate funds appreciated 3.0% in the quarter. Our real estate debt drawdown and hedge funds appreciated 3.1% and 2.3%, respectively. The increase in Performance Fees in our Private Equity segment was driven by appreciation in Tactical Opportunities and Strategic Partners of 4.7% and 4.1%, respectively. The increase in Performance Fees in our Hedge Fund Solutions segment was primarily driven by a greater percentage of our Fee-Earning Assets Under Management earning Performance Fees, on comparable returns, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. The decrease in Performance Fees in our Credit segment was primarily due to lower returns in our performing credit and distressed strategies.

The increase in Management and Advisory Fees, Net was primarily due to an increase in our Private Equity segment. The increase in our Private Equity segment was primarily due to assets earning higher base management fees, principally due to the conclusion of a six month fee holiday for BCP VII in 2016.

The increase in Investment Income was primarily due to an increase in our Real Estate segment, partially offset by a decrease in our Credit segment. The increase in our Real Estate segment was primarily due to the net increase in appreciation of Blackstone's investments across the various real estate funds. The decrease in our Credit segment was primarily driven by lower returns on Blackstone's investments in the Credit funds.

The decrease in Other Revenue was primarily the result of a foreign exchange loss on our euro denominated bond.

*Expenses*

Expenses were \$885.1 million for the three months ended June 30, 2017, an increase of \$172.5 million compared to \$712.6 million for the three months ended June 30, 2016. The increase was primarily attributable to increases in Performance Fee Compensation and Fund Expenses. The increase of \$131.1 million in Performance Fee Compensation was due to the increase in Performance Fees Revenue in our Real Estate, Private Equity and Hedge Fund Solutions segments. The increase of \$41.1 million in Fund Expenses was primarily due to an increase of \$36.2 million in our Credit segment. The increase in our Credit segment was primarily the result of newly launched CLOs.

*Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016*

*Revenues*

Total Revenues were \$3.5 billion for the six months ended June 30, 2017, an increase of \$1.4 billion compared to Total Revenues for the six months ended June 30, 2016 of \$2.1 billion. The increase in Total Revenues was attributable to increases of \$1.1 billion in Performance Fees, \$246.9 million in Investment Income, and \$112.0 million in Management and Advisory Fees, Net, partially offset by a decrease in Other Revenue of \$66.2 million.

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The increase in Performance Fees was principally due to increases in our Real Estate, Private Equity and Hedge Fund Solutions segments. The increase in our Real Estate segment was primarily attributable to the net increase in the appreciation from our opportunistic funds. For the six months ended June 30, 2017, the carrying value of investments for our opportunistic funds increased 10.5%. Our core+ real estate funds, real estate debt drawdown funds and real estate hedge funds appreciated 6.1%, 7.5% and 5.5%, respectively. The increase in our Private Equity segment was driven by appreciation in corporate private equity funds and Tactical Opportunities of 9.3% and 8.2%, respectively. The increase in Performance Fees in our Hedge Fund Solutions segment was primarily driven by higher returns in our BPS Composite, 4.0% gross (3.6% net) for the six months ended June 30, 2017 compared to -1.6% gross (-2.0% net) in the comparable 2016 year to date period.

The increase in Investment Income was primarily attributable to increases in our Real Estate, Hedge Fund Solutions and Private Equity segments. The increase in our Real Estate segment was primarily due to the net increase in appreciation of Blackstone's investments across the various real estate funds. The increase in our Hedge Fund Solutions segment was primarily attributable to the year over year net appreciation of investments of which Blackstone owns a share. The increase in our Private Equity segment was due to higher returns compared to the second quarter of 2016.

The increase in Management and Advisory Fees, Net was primarily due to an increase in our Private Equity segment. The increase in our Private Equity segment was primarily due to assets earning higher base management fees, principally due to the conclusion of a six month fee holiday for BCP VII in 2016.

The decrease in Other Revenue was primarily the result of a foreign exchange loss on our euro denominated bond.

*Expenses*

Expenses were \$1.8 billion for the six months ended June 30, 2017, an increase of \$484.4 million compared to \$1.3 billion for the six months ended June 30, 2016. The increase was primarily attributable to increases in Performance Fee Compensation and Fund Expenses. The increase of \$432.8 million in Performance Fee Compensation was due to the increase in Performance Fees Revenue in our Real Estate, Private Equity and Hedge Fund Solutions segments. The increase of \$59.9 million in Fund Expenses was due to an increase of \$54.0 million in our Credit segment. The increase in our Credit segment was primarily the result of newly launched CLOs.

*Other Income*

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

*Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016*

Other Income - Net Gains from Fund Investment Activities was \$110.1 million for the three months ended June 30, 2017, an increase of \$79.4 million compared to \$30.7 million for the three months ended June 30, 2016. The increase was due to increases in our Credit and Real Estate segments of \$51.6 million and \$24.5 million, respectively. The increase in our Credit segment was primarily due to newly launched CLOs. The increase in our Real Estate segment was primarily the result of a year over year net increase in the appreciation of investments across the Real Estate funds.

*Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016*

Other Income - Net Gains from Fund Investment Activities was \$176.2 million for the six months ended June 30, 2017, an increase of \$126.3 million compared to \$49.8 million for the six months ended June 30, 2016. The

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increase was principally driven by increases in our Credit and Real Estate segments of \$61.2 million and \$47.9 million, respectively. The increase in our Credit segment was primarily due to newly launched CLOs. The increase in our Real Estate segment was primarily the result of a year over year net increase in the appreciation of investments across the Real Estate funds.

*Provision for Taxes*

The following table summarizes Blackstone's tax position:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Income Before Provision for Taxes	\$ 774,297	\$ 510,526	\$ 1,851,502	\$ 844,312
Provision for Taxes	\$ 29,608	\$ 47,415	\$ 87,045	\$ 56,561
Effective Income Tax Rate	3.8%	9.3%	4.7%	6.7%

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

	Three Months Ended June 30,		2017 vs. 2016	Six Months Ended June 30,		2017 vs. 2016
	2017	2016		2017	2016	
Statutory U.S. Federal Income Tax Rate	35.0%	35.0%		35.0%	35.0%	
Income Passed Through to Common Unitholders and Non-Controlling Interest Holders (a)	-29.2%	-27.2%	-2.0%	-29.8%	-29.7%	-0.1%
State and Local Income Taxes	0.8%	1.8%	-1.0%	1.0%	1.9%	-0.9%
Other	-2.8%	-0.3%	-2.5%	-1.5%	-0.5%	-1.0%
Effective Income Tax Rate	3.8%	9.3%	-5.5%	4.7%	6.7%	-2.0%

- (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.

*Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016*

Blackstone's Provision for Taxes for the three months ended June 30, 2017 and 2016 was \$29.6 million and \$47.4 million, respectively, resulting in effective tax rates of 3.8% and 9.3%, respectively.

The decrease in Blackstone's effective tax rate for the three months ended June 30, 2017 compared to the three months ended June 30, 2016 resulted primarily from a relative increase in the amount of income not taxable to the Partnership and its subsidiaries, which was therefore passed through to common unitholders and non-controlling interest holders. For the three months ended June 30, 2017, \$644.3 million of Blackstone's Income Before Provision for Taxes of \$774.3 million was not taxable to the Partnership, compared to \$397.1 million of Blackstone's Income Before Provision for Taxes of \$510.5 million for the prior year period.

*Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016*

Blackstone's Provision for Taxes for the six months ended June 30, 2017 and 2016 was \$87.0 million and \$56.6 million, respectively, resulting in effective tax rates of 4.7% and 6.7%, respectively.

The decrease in Blackstone's effective tax rate for the six months ended June 30, 2017 compared to the six months ended June 30, 2016 resulted primarily from state and local income taxes, which were \$26.6 million (\$19.0 million, net of federal benefit) on pre-tax book income of \$1.8 billion for the six months ended June 30, 2017





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compared to \$22.3 million (\$15.9 million, net of federal benefit) on pre-tax book income of \$844.3 million for the six months ended June 30, 2016. Although state and local income taxes increased period to period, the percentage of the state and local income taxes, net of federal benefit to the total pre-tax book income decreased for the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

*Non-Controlling Interests in Consolidated Entities*

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

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

For the three months ended June 30, 2017 and 2016, the Net Income Before Taxes allocated to Blackstone Holdings was 45.0% and 46.2%, respectively. For the six months ended June 30, 2017 and 2016, the net income before taxes allocated to Blackstone Holdings was 45.2% and 46.3%, respectively. The decreases of 1.2% in the three month period and 1.1% in the six month period were primarily due to conversions of Blackstone Holdings Partnership Units to Blackstone common units and the vesting of common units.

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*Operating Metrics*

The following graphs and tables summarize the Fee-Earning Assets Under Management by Segment and Total Assets Under Management by Segment, followed by a rollforward of activity for the three and six months ended June 30, 2017 and 2016. For a description of how Assets Under Management and Fee-Earning Assets Under Management are determined, please see Key Financial Measures and Indicators Operating Metrics Assets Under Management and Fee-Earning Assets Under Management :

Note: Totals may not add due to rounding.

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	Three Months Ended									
	Private Equity	Real Estate	June 30, 2017 Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	June 30, 2016 Hedge Fund Solutions	Credit	Total
Investing Assets										
Management										
Balance, Beginning of Period	\$ 68,231,620	\$ 71,904,741	\$ 68,812,528	\$ 71,266,662	\$ 280,215,551	\$ 50,228,312	\$ 67,298,439	\$ 64,831,253	\$ 62,094,760	\$ 244,452,700
Changes, including:										
- Commitments (a)	2,242,325	3,376,228	1,805,294	4,924,119	12,347,966	23,687,084	884,437	2,030,339	3,992,515	30,594,300
- Flows, including:										
- Contributions (b)	(1,140,762)	(98,811)	(3,330,068)	(903,646)	(5,473,287)	(2,297,473)	(106,615)	(2,972,209)	(1,055,773)	(6,432,000)
- Distributions (c)	(1,400,348)	(2,371,349)	(176,568)	(3,276,948)	(7,225,213)	(2,120,014)	(1,385,873)	(31,042)	(1,582,475)	(5,119,400)
- Net Flows	(298,785)	906,068	(1,701,342)	743,525	(350,534)	19,269,597	(608,051)	(972,912)	1,354,267	19,042,900
- Net Appreciation (depreciation) (d)(g)	97,496	899,434	713,278	359,286	2,069,494	(30,735)	54,162	1,115,658	1,371,963	2,511,000
Balance, End of Period (e)	\$ 68,030,331	\$ 73,710,243	\$ 67,824,464	\$ 72,369,473	\$ 281,934,511	\$ 69,467,174	\$ 66,744,550	\$ 64,973,999	\$ 64,820,990	\$ 266,006,700
Change (Decrease) in Balance (Decrease)	\$ (201,289)	\$ 1,805,502	\$ (988,064)	\$ 1,102,811	\$ 1,718,960	\$ 19,238,862	\$ (553,889)	\$ 142,746	\$ 2,726,230	\$ 21,553,900
	-0%	3%	-1%	2%	1%	38%	-1%	0%	4%	

	Six Months Ended									
	Private Equity	Real Estate	June 30, 2017 Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	June 30, 2016 Hedge Fund Solutions	Credit	Total
Investing Assets										
Management										
Balance, Beginning of Period	\$ 69,113,409	\$ 72,030,054	\$ 66,987,553	\$ 68,961,656	\$ 277,092,672	\$ 51,451,196	\$ 67,345,357	\$ 65,665,439	\$ 61,684,380	\$ 246,146,300
Changes, including:										
- Commitments (a)	3,377,309	5,501,521	4,988,598	10,344,809	24,212,237	24,245,427	2,476,337	4,881,848	6,323,830	37,927,400
- Flows, including:										
- Contributions (b)	(1,169,528)	(195,323)	(5,599,328)	(1,690,767)	(8,654,946)	(2,667,983)	(143,515)	(4,575,005)	(2,162,818)	(9,549,300)
- Distributions (c)	(3,563,368)	(5,151,011)	(623,692)	(6,073,764)	(15,411,835)	(3,407,874)	(3,505,581)	(176,954)	(2,305,924)	(9,396,300)
- Net Flows	(1,355,587)	155,187	(1,234,422)	2,580,278	145,456	18,169,570	(1,172,759)	129,889	1,855,088	18,981,700
- Net Appreciation (depreciation) (d)(h)	272,509	1,525,002	2,071,333	827,539	4,696,383	(153,592)	571,952	(821,329)	1,281,522	878,500
Balance, End of Period (e)	\$ 68,030,331	\$ 73,710,243	\$ 67,824,464	\$ 72,369,473	\$ 281,934,511	\$ 69,467,174	\$ 66,744,550	\$ 64,973,999	\$ 64,820,990	\$ 266,006,700
Change (Decrease) in Balance (Decrease)	\$ (1,083,078)	\$ 1,680,189	\$ 836,911	\$ 3,407,817	\$ 4,841,839	\$ 18,015,978	\$ (600,807)	\$ (691,440)	\$ 3,136,610	\$ 19,860,300
	-2%	2%	1%	5%	2%	35%	-1%	-1%	5%	
Normalized Base Management Fee (f)	1.04%	1.24%	0.76%	0.76%	0.95%	0.76%	1.20%	0.80%	0.81%	0.81%

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	Three Months Ended									
	Private Equity	Real Estate	June 30, 2017 Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	June 30, 2016 Hedge Fund Solutions	Credit	Total
Net Assets Under Management (End of Period), including commitments	\$ 99,711,406	\$ 102,070,930	\$ 73,303,381	\$ 93,111,200	\$ 368,196,917	\$ 95,466,227	\$ 101,107,528	\$ 68,475,416	\$ 78,656,291	\$ 343,705,466
Flows, including contributions	1,753,954	3,199,773	1,968,985	5,148,772	12,071,484	7,358,301	4,442,603	2,025,453	7,334,364	21,160,722
Withdrawals	(313,210)	(867,119)	(3,360,854)	(1,109,690)	(5,650,873)	(587,162)	(146,518)	(2,996,736)	(1,502,658)	(5,233,073)
Net Inflows (Net of Contributions)	(2,795,612)	(4,564,380)	(185,929)	(3,550,374)	(11,096,295)	(3,813,986)	(3,485,523)	(32,330)	(1,765,559)	(9,097,396)
Net Inflows (Net of Contributions and Market Appreciation)	(1,354,868)	(2,231,726)	(1,577,798)	488,708	(4,675,684)	2,957,153	810,562	(1,003,613)	4,066,147	6,830,244
Net Inflows (Net of Contributions and Market Appreciation)	1,663,841	4,195,083	750,861	925,263	7,535,048	1,262,275	1,278,970	1,178,075	2,026,638	5,745,953
Net Assets Under Management (End of Period)	\$ 100,020,379	\$ 104,034,287	\$ 72,476,444	\$ 94,525,171	\$ 371,056,281	\$ 99,685,655	\$ 103,197,060	\$ 68,649,878	\$ 84,749,076	\$ 356,281,666
Change (Increase)	\$ 308,973	\$ 1,963,357	\$ (826,937)	\$ 1,413,971	\$ 2,859,364	\$ 4,219,428	\$ 2,089,532	\$ 174,462	\$ 6,092,785	\$ 12,576,200
Change (Increase)	0%	2%	-1%	2%	1%	4%	2%	0%	8%	

	Six Months Ended									
	Private Equity	Real Estate	June 30, 2017 Hedge Fund Solutions	Credit	Total (Dollars in Thousands)	Private Equity	Real Estate	June 30, 2016 Hedge Fund Solutions	Credit	Total
Net Assets Under Management (End of Period), including commitments	\$ 100,192,950	\$ 101,963,652	\$ 71,119,718	\$ 93,277,145	\$ 366,553,465	\$ 94,280,074	\$ 93,917,824	\$ 69,105,425	\$ 79,081,252	\$ 336,384,578
Flows, including contributions	4,403,172	6,529,257	5,609,665	9,486,440	26,028,534	10,346,951	13,499,823	5,206,071	9,197,967	38,250,813
Withdrawals	(560,239)	(1,077,244)	(5,862,592)	(3,172,729)	(10,672,804)	(848,003)	(414,197)	(4,628,255)	(2,887,797)	(8,778,255)
Net Inflows (Net of Contributions)	(8,962,912)	(11,249,184)	(689,120)	(6,812,909)	(27,714,125)	(5,933,358)	(6,936,229)	(183,098)	(2,650,455)	(15,703,147)
Net Inflows (Net of Contributions and Market Appreciation)	(5,119,979)	(5,797,171)	(942,047)	(499,198)	(12,358,395)	3,565,590	6,149,397	394,718	3,659,715	13,769,422
Net Inflows (Net of Contributions and Market Appreciation)	4,947,408	7,867,806	2,298,773	1,747,224	16,861,211	1,839,991	3,129,839	(850,265)	2,008,109	6,127,674

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Balance, End of Period (e)	\$ 100,020,379	\$ 104,034,287	\$ 72,476,444	\$ 94,525,171	\$ 371,056,281	\$ 99,685,655	\$ 103,197,060	\$ 68,649,878	\$ 84,749,076	\$ 356,281,666
Change (Increase)	\$ (172,571)	\$ 2,070,635	\$ 1,356,726	\$ 1,248,026	\$ 4,502,816	\$ 5,405,581	\$ 9,279,236	\$ (455,547)	\$ 5,667,824	\$ 19,897,090
Change (Increase)	-0%	2%	2%	1%	1%	6%	10%	-1%	7%	

- (a) Inflows represent contributions in our hedge funds and closed-end mutual funds, increases in available capital for our carry funds (capital raises, recallable capital and increased side-by-side commitments) and CLOs and increases in the capital we manage pursuant to separately managed account programs.
- (b) Outflows represent redemptions in our hedge funds and closed-end mutual funds, client withdrawals from our separately managed account programs and decreases in available capital for our carry funds (expired capital, expense drawdowns and decreased side-by-side commitments).
- (c) Realizations represent realizations from the disposition of assets, capital returned to investors from CLOs.
- (d) Market appreciation (depreciation) includes realized and unrealized gains (losses) on portfolio investments and the impact of foreign exchange rate fluctuations.
- (e) Fee-Earning Assets Under Management and Total Assets Under Management as of June 30, 2017 included \$22.5 million and \$43.3 million, respectively, from a joint venture in which we are the minority interest holder.
- (f) Represents the annualized current quarter's Base Management Fee divided by period end Fee-Earning Assets Under Management.

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- (g) For the three months ended June 30, 2017, the impact to Fee-Earning Assets Under Management due to foreign exchange rate fluctuations was \$(0.5) million, \$544.1 million, \$673.7 million and \$1.2 billion for the Private Equity, Real Estate, Credit and Total segments, respectively. For the three months ended June 30, 2016, such impact was \$(0.7) million, \$(188.3) million, \$(171.7) million and \$(360.7) million for the Private Equity, Real Estate, Credit and Total segments, respectively.
- (h) For the six months ended June 30, 2017, the impact to Fee-Earning Assets Under Management due to foreign exchange rate fluctuations was \$1.2 million, \$819.6 million, \$834.5 million and \$1.7 billion for the Private Equity, Real Estate, Credit and Total segments, respectively. For the six months ended June 30, 2016, such impact was \$1.0 million, \$20.4 million, \$203.3 million and \$224.7 million for the Private Equity, Real Estate, Credit and Total segments, respectively.
- (i) For the three months ended June 30, 2017, the impact to Total Assets Under Management due to foreign exchange rate fluctuations was \$363.9 million, \$1.2 billion, \$866.6 million and \$2.4 billion for the Private Equity, Real Estate, Credit and Total segments, respectively. For the three months ended June 30, 2016, such impact was \$(144.7) million, \$(571.7) million, \$(305.5) million and \$(1.0) billion for the Private Equity, Real Estate, Credit and Total segments, respectively.
- (j) For the six months ended June 30, 2017, the impact to Total Assets Under Management due to foreign exchange rate fluctuations was \$606.0 million, \$1.7 billion, \$1.1 billion and \$3.4 billion for the Private Equity, Real Estate, Credit and Total segments, respectively. For the six months ended June 30, 2016, such impact was \$10.9 million, \$(42.2) million, \$252.7 million and \$221.4 million for the Private Equity, Real Estate, Credit and Total segments, respectively.

*Fee-Earning Assets Under Management*

Fee-Earning Assets Under Management were \$281.9 billion at June 30, 2017, an increase of \$1.7 billion, compared to \$280.2 billion at March 31, 2017. The net increase was due to:

Inflows of \$12.3 billion related to:

\$4.9 billion in our Credit segment principally related to \$2.0 billion raised for three new CLO products, \$1.2 billion of inflows across our mezzanine funds, \$895.1 million of inflows across our long only platform and \$437.6 million of inflows across our business development companies ( BDCs ),

\$3.4 billion in our Real Estate segment primarily related to \$1.7 billion from BREDS, \$775.8 million from BREP opportunistic funds, \$417.3 million from BREIT and \$466.3 million from other core+ real estate funds,

\$2.2 billion in our Private Equity segment primarily related to \$770.8 million from core private equity, \$615.5 million from our Tactical Opportunities platform and \$470.1 million from Strategic Partners, and

\$1.8 billion in our Hedge Fund Solutions segment primarily related to \$982.4 million raised for individual investor and specialized solutions, \$462.0 million raised for customized solutions, and \$360.9 million raised for commingled products.

Market appreciation of \$2.1 billion due to:

\$899.4 million in our Real Estate segment due to \$544.1 million of foreign exchange appreciation as well as appreciation of \$236.5 million and \$58.5 million in core+ real estate funds and BXMT, respectively,

\$713.3 million in our Hedge Fund Solutions segment due to solid returns from BAAM s Principal Solutions Composite of 1.3% gross (1.1% net), and

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\$359.3 million in our Credit segment due to \$673.7 million of foreign exchange appreciation, partially offset by market depreciation of \$314.4 million.



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Offsetting these increases were:

Realizations of \$7.2 billion primarily driven by:

\$3.3 billion in our Credit segment primarily due to \$2.5 billion of capital returned to investors in CLO products, \$247.2 million in dividends from BDCs, \$220.7 million of realizations in distressed strategies and \$164.3 million of realizations in our mezzanine funds,

\$2.4 billion in our Real Estate segment primarily attributable to \$1.2 billion from BREP opportunistic funds, \$733.7 million from BREDS, \$347.1 million from BREP co-investment and \$96.3 million from core+ real estate funds, and

\$1.4 billion in our Private Equity segment primarily from \$696.7 million in corporate private equity and \$611.7 million return of capital in Strategic Partners.

Outflows of \$5.5 billion primarily attributable to:

\$3.3 billion in our Hedge Fund Solutions segment, reflecting investors' liquidity needs and certain strategic shifts in their programs, with outflows of \$1.4 billion from commingled products, \$1.2 billion from individual investor and specialized solutions and \$797.1 million from customized solutions,

\$1.1 billion in our Private Equity segment primarily due to reductions of \$467.4 million from Strategic Partners and \$410.0 million from corporate private equity assets that no longer earn fees, and

\$903.6 million in our Credit segment primarily from \$533.1 million in BDCs and \$351.4 million from our long only platform. BAAM had net inflows of \$617.9 million from July 1 through August 1, 2017.

Fee-Earning Assets Under Management were \$281.9 billion at June 30, 2017, an increase of \$4.8 billion, compared to \$277.1 billion at December 31, 2016. The net increase was due to:

Inflows of \$24.2 billion related to:

\$10.3 billion in our Credit segment principally related to capital raised of \$2.6 billion from new CLO launches, \$2.4 billion of inflows across our long only platform, \$2.4 billion of inflows across our mezzanine strategies, \$1.7 billion of inflows across our distressed strategies and \$1.3 billion of inflows across our BDCs,

\$5.5 billion in our Real Estate segment primarily related to \$2.7 billion from BREDS, \$1.4 billion from BREP, \$894.8 million from BREIT and \$588.4 million from other core+ real estate funds,

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\$5.0 billion in our Hedge Fund Solutions segment mainly related to growth in customized solutions of \$2.4 billion, individual investor and specialized solutions of \$1.7 billion and commingled products of \$910.1 million, and

\$3.4 billion in our Private Equity segment primarily due to \$1.4 billion from core private equity, \$834.1 million from Tactical Opportunities and \$560.2 million from Strategic Partners.

Market appreciation of \$4.7 billion due to:

\$2.1 billion in our Hedge Fund Solutions segment primarily due to solid returns from BAAM's Principal Solutions Composite of 4.0% gross (3.6% net),

\$1.5 billion in our Real Estate segment primarily due to \$819.6 million of foreign exchange appreciation as well as appreciation of \$498.6 million and \$116.0 million from core+ real estate funds and BXMT, respectively, and

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\$827.5 million in our Credit segment primarily due to \$834.5 million of foreign exchange appreciation. Offsetting these increases were:

Realizations of \$15.4 billion primarily driven by:

\$6.1 billion in our Credit segment primarily due to \$3.5 billion of capital returned to CLO investors from CLOs that are post their re-investment periods, \$1.4 billion of realizations from distressed strategies, \$536.4 million of realizations from our mezzanine funds and \$492.0 million in dividends paid to investors from our BDCs,

\$5.2 billion in our Real Estate segment primarily attributable to \$2.6 billion from BREP opportunistic funds, \$1.5 billion from BREDS and \$694.1 million from BREP co-investment,

\$3.6 billion in our Private Equity segment primarily due to \$2.3 billion from corporate private equity and \$1.1 billion from Strategic Partners, and

\$623.7 million in our Hedge Fund Solutions segment primarily due to \$603.3 million from individual investor and specialized solutions.

Outflows of \$8.7 billion primarily attributable to:

\$5.6 billion in our Hedge Fund Solutions segment, reflecting investors' liquidity needs and certain strategic shifts in their programs, with outflows of \$2.3 billion from individual investor and specialized solutions, \$1.9 billion from customized solutions and \$1.4 billion from commingled products,

\$1.7 billion in our Credit segment primarily attributable to \$666.5 million from our long only platform, \$584.4 million from BDCs and \$436.3 million from distressed strategies, and

\$1.2 billion in our Private Equity segment primarily due to reductions of \$467.4 million from Strategic Partners and \$410.0 million from corporate private equity assets that no longer earn fees.

*Total Assets Under Management*

Total Assets Under Management were \$371.1 billion at June 30, 2017, an increase of \$2.9 billion, compared to \$368.2 billion at March 31, 2017. The net increase was due to:

Inflows of \$12.1 billion related to:

\$5.1 billion in our Credit segment primarily due to capital raised of \$2.0 billion from three new CLO launches, \$1.5 billion of inflows across our distressed strategies, \$976.5 million of inflows across our long only platform and \$437.6 million of inflows across our BDCs,

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\$3.2 billion in our Real Estate segment primarily due to \$1.3 billion from BREP opportunistic funds, \$1.2 billion from BREDS, \$417.3 million from BREIT and \$284.8 million from other core+ real estate funds,

\$2.0 billion in our Hedge Fund Solutions segment primarily related to capital raised of \$1.0 billion for individual investor and specialized solutions, \$545.6 million for customized solutions and \$403.7 million for commingled products, and

\$1.8 billion in our Private Equity segment primarily due to \$716.8 million from our Tactical Opportunities platform, \$625.9 million from core private equity and \$263.2 million from Strategic Partners.

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Market appreciation of \$7.5 billion due to:

\$4.2 billion in our Real Estate segment due to foreign exchange appreciation of \$1.2 billion and carrying value increases in our opportunistic and core+ real estate funds of 5.4% and 3.0%, respectively, which includes the effect of foreign exchange,

\$1.7 billion in our Private Equity segment primarily due to foreign exchange appreciation of \$363.9 million and carrying value increases in corporate private equity and Tactical Opportunities of 2.8% and 4.7%, respectively,

\$925.3 million in our Credit segment primarily due to foreign exchange appreciation of \$866.6 million, and

\$750.9 million in our Hedge Fund Solutions segment due to reasons noted above in Fee-Earning Assets Under Management.

*Total Assets Under Management market appreciation (depreciation) in our Private Equity and Real Estate segments generally represents the change in fair value of the investments held and typically exceeds the Fee-Earning Assets Under Management market appreciation (depreciation) which generally represents only the invested capital.*

Offsetting these increases were:

Realizations of \$11.1 billion primarily driven by:

\$4.6 billion in our Real Estate segment primarily due to \$3.5 billion across BREP opportunistic funds and \$664.4 million in BREP co-investment,

\$3.6 billion in our Credit segment primarily due to the same reasons noted in Fee-Earning Assets Under Management above, and

\$2.8 billion in our Private Equity segment primarily from \$2.0 billion in corporate private equity and \$557.0 million return of capital in Strategic Partners.

*Total Assets Under Management realizations in our Private Equity and Real Estate segments generally represent the total proceeds and typically exceed the Fee-Earning Assets Under Management realizations which generally represent only the invested capital.*

Outflows of \$5.7 billion primarily attributable to:

\$3.4 billion in our Hedge Fund Solutions segment, reflecting investors' liquidity needs and certain strategic shifts in their programs, with outflows of \$1.3 billion in commingled products, \$1.2 billion in individual investor and specialized solutions and \$797.3 million in customized solutions,

\$1.1 billion in our Credit segment primarily due to \$533.1 million from our BDCs and \$325.9 million from our long only platform, and

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\$867.1 million in our Real Estate segment primarily due to a \$760.4 million release of reserves in BREDS II. Total Assets Under Management were \$371.1 billion at June 30, 2017, an increase of \$4.5 billion, compared to \$366.6 billion at December 31, 2016. The net increase was due to:

Inflows of \$26.0 billion related to:

\$9.5 billion in our Credit segment primarily due to capital raised of \$2.6 billion from CLO launches, \$2.5 billion of inflows across our long only platform, \$1.8 billion of inflows across our distressed strategies and \$1.3 billion of inflows across our BDCs,

\$6.5 billion in our Real Estate segment due to \$2.3 billion from BREP opportunistic funds, \$1.8 billion from BREDS, \$894.8 million from BREIT and \$1.4 billion from other core+ real estate funds,

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

\$4.4 billion in our Private Equity segment primarily related to \$1.7 billion from BCP co-investment, \$1.1 billion from Tactical Opportunities, \$995.8 million from Strategic Partners and \$883.4 million from core private equity.

Market appreciation of \$16.9 billion due to:

\$7.9 billion in our Real Estate segment due to a foreign exchange appreciation of \$1.7 billion and carrying value increases in our opportunistic and core+ real estate funds of 10.5% and 6.1%, respectively, which includes the effect of foreign exchange,

\$4.9 billion in our Private Equity segment primarily due to foreign exchange appreciation of \$606.0 million and strong fund performance, with an increase in carrying value of 9.3% in corporate private equity, 8.9% in Strategic Partners and 8.2% in Tactical Opportunities,

\$2.3 billion in our Hedge Fund Solutions segment due to the reasons noted above in Fee-Earning Assets Under Management, and

\$1.7 billion in our Credit segment, due to foreign exchange appreciation of \$1.1 billion as well as appreciation of \$264.8 million in mezzanine funds, \$220.6 million from our long only platform and \$211.6 million in BDCs.

Offsetting these increases were:

Realizations of \$27.7 billion primarily driven by:

\$11.2 billion in our Real Estate segment primarily due to \$8.5 billion from BREP opportunistic funds, \$1.7 billion from BREP co-investment and \$627.4 million from BREDS,

\$9.0 billion in our Private Equity segment primarily due to continued disposition activity across the segment, mainly \$6.5 billion from corporate private equity, \$1.1 billion from Strategic Partners and \$503.0 million from Tactical Opportunities,

\$6.8 billion in our Credit segment primarily due to \$3.6 billion of capital returned to CLO investors, \$1.8 billion of realizations from our distressed strategies, \$788.3 million of realizations from our mezzanine funds and \$492.0 million in dividends paid to investors from our BDCs, and

\$689.1 million in our Hedge Fund Solutions segment primarily due to \$668.7 million of realizations from individual investor and specialized solutions.

Outflows of \$10.7 billion primarily attributable to:

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\$5.9 billion in our Hedge Fund Solutions segment primarily due to the reasons described under Fee-Earning Assets Under Management above,

\$3.2 billion in our Credit segment primarily due to \$1.6 billion from distressed strategies, \$632.1 million from our long only platform and \$584.4 million from BDCs, and

\$1.1 billion in our Real Estate segment primarily due to \$760.4 million release of reserves in BREDS II.



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*Limited Partner Capital Invested*

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2017	2016	2017 (a)
	(Dollars in Thousands)			
Limited Partner Capital Invested				
Private Equity	\$ 1,538,436	\$ 3,846,841	\$ 3,404,134	\$ 8,583,229
Real Estate	1,524,415	2,371,918	5,271,596	4,962,337
Hedge Fund Solutions	32,804	89,985	348,561	211,842
Credit	699,516	1,490,880	1,286,451	3,752,146
	\$ 3,795,171	\$ 7,799,624	\$ 10,310,742	\$ 17,509,554

- (a) Reflects an adjustment to the amounts of Limited Partner Capital Invested previously reported for the Hedge Fund Solutions segment and total segments for the three months ended March 31, 2017.

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The following presents the committed undrawn capital available for investment ( dry powder ) for the respective periods:

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

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

	June 30,	
	2016	2017
	(Dollars in Thousands)	
Dry Powder Available for Investment		
Private Equity	\$ 43,446,423	\$ 37,504,109
Real Estate	33,664,263	31,678,807
Hedge Fund Solutions	4,104,363	3,838,039
Credit	17,266,904	16,995,073
	\$ 98,481,953	\$ 90,016,028

*Net Accrued Performance Fees*

The following table presents the accrued performance fees, net of performance fee compensation, of the Blackstone Funds as of June 30, 2017 and 2016. Net accrued performance fees presented do not include clawback amounts, if any, which are disclosed in Note 17. Commitments and Contingencies Contingencies Contingent Obligations (Clawback) in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing. The net accrued performance fees as of each reporting date are

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principally unrealized carried interest and incentive fees which, if realized, can be a significant component of Distributable Earnings.

	June 30,	
	2017	2016
	(Dollars in Millions)	
<b>Private Equity</b>		
BCP IV Carried Interest	\$ 86	\$ 143
BCP V Carried Interest	68	373
BCP VI Carried Interest	579	385
BEP I Carried Interest	89	61
BEP II Carried Interest	12	
Tactical Opportunities Carried Interest	117	59
BTAS Carried Interest	27	7
Strategic Partners Carried Interest	46	35
Other Carried Interest	4	1
<b>Total Private Equity (a)</b>	<b>1,028</b>	<b>1,064</b>
<b>Real Estate</b>		
BREP IV Carried Interest	8	9
BREP V Carried Interest	238	390
BREP VI Carried Interest	229	612
BREP VII Carried Interest	544	584
BREP VIII Carried Interest	211	84
BREP Europe III Carried Interest	169	156
BREP Europe IV Carried Interest	367	124
BREP Asia Carried Interest	76	82
BPP Carried Interest	70	44
BPP Incentive Fees	48	21
BREIT Incentive Fees	3	
BREDS Carried Interest	17	14
BREDS Incentive Fees	10	3
Asia Platform Incentive Fees	7	7
<b>Total Real Estate (a)</b>	<b>1,997</b>	<b>2,130</b>
<b>Hedge Fund Solutions</b>		
Incentive Fees	50	6
<b>Total Hedge Fund Solutions</b>	<b>50</b>	<b>6</b>
<b>Credit</b>		
Carried Interest	192	102
Incentive Fees	25	19
<b>Total Credit</b>	<b>217</b>	<b>121</b>
<b>Total Blackstone</b>		
Carried Interest	3,149	3,265
Incentive Fees	143	56
<b>Net Accrued Performance Fees</b>	<b>\$ 3,292</b>	<b>\$ 3,321</b>

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

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*Performance Fee Eligible Assets Under Management*

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

Note: Totals may not add due to rounding. Amounts are as of June 30, 2017.

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

*Investment Record*

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

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The following table presents the investment record of our significant drawdown funds from inception through June 30, 2017:

Fund (Investment Period)	Committed Capital	Available Capital (a)	Unrealized Investments			Realized Investments		Total Investments		Net IRRs (c)	
			Value	MOIC (b)	% Public	Value	MOIC (b)	Value	MOIC (b)	Realized	Total
(Dollars in Thousands, Except Where Noted)											
<b>Private Equity</b>											
BCP I (Oct 1987 / Oct 1993)	\$ 859,081	\$	\$	N/A		\$ 1,741,738	2.6x	\$ 1,741,738	2.6x	19%	19%
BCP II (Oct 1993 / Aug 1997)	1,361,100			N/A		3,256,819	2.5x	3,256,819	2.5x	32%	32%
BCP III (Aug 1997 / Nov 2002)	3,967,422			N/A		9,184,688	2.3x	9,184,688	2.3x	14%	14%
BCOM (Jun 2000 / Jun 2006)	2,137,330	24,575	19,779	1.6x		2,951,018	1.4x	2,970,797	1.4x	6%	6%
BCP IV (Nov 2002 / Dec 2005)	6,773,182	212,516	1,114,368	1.1x	31%	20,289,732	3.1x	21,404,100	2.8x	41%	36%
BCP V (Dec 2005 / Jan 2011)	21,024,923	1,246,134	2,697,056	1.2x	44%	35,301,800	2.0x	37,998,856	1.9x	9%	8%
BCP VI (Jan 2011 / May 2016)	15,189,705	1,844,270	15,373,870	1.5x	23%	6,531,264	2.0x	21,905,134	1.6x	28%	13%
BEP I (Aug 2011 / Feb 2015)	2,437,608	165,197	2,813,735	1.5x	33%	882,893	1.9x	3,696,628	1.5x	38%	13%
BEP II (Feb 2015 / Feb 2021)	4,840,487	2,313,752	1,929,406	1.2x			N/A	1,929,406	1.2x	N/A	22%
BCP VII (May 2016 / May 2022)	18,536,458	14,818,376	2,536,976	1.1x		7,185	1.0x	2,544,161	1.1x	N/M	N/M
Total Corporate Private Equity	\$ 77,127,296	\$ 20,624,820	\$ 26,485,190	1.3x	22%	\$ 80,147,137	2.2x	\$ 106,632,327	1.9x	17%	15%
Tactical Opportunities	\$ 13,958,437	\$ 6,023,018	\$ 8,990,106	1.2x	8%	\$ 2,633,301	1.5x	\$ 11,623,407	1.3x	25%	11%
Tactical Opportunities Co-Investment and Other	3,616,700	1,122,199	2,480,339	1.2x		341,923	1.4x	2,822,262	1.2x	N/A	14%
Strategic Partners I-V and Co-Investment (d)	12,832,966	2,443,900	2,732,918	N/M		14,602,632	N/M	17,335,550	1.5x	N/A	13%
Strategic Partners VI LBO, RE and SMA (d)	7,402,171	2,418,015	3,591,899	N/M		1,442,740	N/M	5,034,639	1.4x	N/A	22%
Strategic Partners VII (d)	7,489,970	5,318,682	1,008,618	N/M		91,547	N/M	1,100,165	1.3x	N/A	N/M
Strategic Partners RA II (d)	249,384	50,889	137,161	N/M			N/M	137,161	1.0x	N/A	N/M
BCEP (e)	4,755,133	4,150,911	604,222	1.0x			N/A	604,222	1.0x	N/A	N/A
Other Funds and Co-Investment (f)	1,502,885	353,556	45,120	0.8x	40%	636,117	0.9x	681,237	0.9x	N/A	N/A
<b>Real Estate</b>											
<b>Dollar</b>											
Pre-BREP	\$ 140,714	\$	\$	N/A		\$ 345,190	2.5x	\$ 345,190	2.5x	33%	33%
BREP I (Sep 1994 / Oct 1996)	380,708			N/A		1,327,708	2.8x	1,327,708	2.8x	40%	40%
BREP II (Oct 1996 / Mar 1999)	1,198,339			N/A		2,531,614	2.1x	2,531,614	2.1x	19%	19%
BREP III (Apr 1999 / Apr 2003)	1,522,708			N/A		3,330,406	2.4x	3,330,406	2.4x	21%	21%
BREP IV (Apr 2003 / Dec 2005)	2,198,694		378,800	0.5x	29%	4,160,477	2.2x	4,539,277	1.7x	31%	12%
BREP V (Dec 2005 / Feb 2007)	5,539,418		2,295,369	2.0x	18%	10,866,833	2.3x	13,162,202	2.3x	12%	11%
BREP VI (Feb 2007 / Aug 2011)	11,060,444	557,693	2,631,405	2.1x	35%	24,422,587	2.5x	27,053,992	2.5x	14%	13%
BREP VII (Aug 2011 / Apr 2015)	13,493,814	2,172,461	14,166,287	1.7x	17%	12,106,365	1.9x	26,272,652	1.8x	26%	18%
BREP VIII (Apr 2015 / Oct 2020)	16,418,814	10,189,921	8,468,959	1.4x	1%	2,219,794	1.2x	10,688,753	1.3x	20%	19%
Total Global BREP	\$ 51,953,653	\$ 12,920,075	\$ 27,940,820	1.6x	14%	\$ 61,310,974	2.2x	\$ 89,251,794	2.0x	19%	16%

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<b>Euro</b>											
BREP Int 1 (Jan 2001 / Sep 2005)	824,172			N/A		1,369,016	2.1x	1,369,016	2.1x	23%	23%
BREP Int 1 II (Sep 2005 / Jun 2008)	1,629,748	244,412	0.7x	39%	2,131,289	2.0x	2,375,701	1.7x	9%	6%	
BREP Europe III (Jun 2008 / Sep 2013)	3,205,140	465,159	2,886,818	1.9x	3,238,060	2.2x	6,124,878	2.1x	22%	16%	
BREP Europe IV (Sep 2013 / Dec 2016)	6,707,621	1,480,234	8,603,484	1.6x	3%	1,401,874	1.6x	10,005,358	1.6x	25%	19%
BREP Europe V (Dec 2016 / Jun 2022)	7,802,759	6,991,347	767,126	1.0x		N/A	767,126	1.0x	N/A	N/M	
<b>Total Euro BREP</b>	<b>20,169,440</b>	<b>8,936,740</b>	<b>12,501,840</b>	<b>1.6x</b>	<b>3%</b>	<b>8,140,239</b>	<b>2.0x</b>	<b>20,642,079</b>	<b>1.7x</b>	<b>16%</b>	<b>14%</b>
BREP Co-Investment (g)	\$ 6,819,065	\$ 146,573	\$ 2,568,442	1.7x	59%	\$ 10,854,235	2.1x	\$ 13,422,677	2.0x	16%	16%
BREP Asia (Jun 2013 / Dec 2017)	5,088,136	2,918,305	2,989,782	1.4x	1%	2,158,819	1.7x	5,148,601	1.5x	22%	17%
<b>Total BREP</b>	<b>\$ 88,557,606</b>	<b>\$ 26,196,073</b>	<b>\$ 48,710,260</b>	<b>1.6x</b>	<b>12%</b>	<b>\$ 85,150,346</b>	<b>2.2x</b>	<b>\$ 133,860,606</b>	<b>1.9x</b>	<b>18%</b>	<b>16%</b>
BPP (h)	\$ 14,365,011	\$ 3,271,785	\$ 14,037,128	1.2x		\$ 107,286	1.9x	\$ 14,144,414	1.2x	36%	12%
BREDS (i)	12,830,654	6,332,716	3,112,829	1.2x		7,058,499	1.3x	10,171,328	1.3x	12%	11%
										continued ...	

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Fund (Investment Period)	Committed Capital	Available Capital (a)	Unrealized Investments		Realized Investments		Total Investments		Net IRRs (c)	
			Value	MOIC (b)	Value	MOIC (b)	Value	MOIC (b)	Realized Total	Realized Total
(Dollars in Thousands, Except Where Noted)										
<b>Hedge Fund Solutions</b>										
BSCH (Dec 2013 / Jun 2020) (j)	\$ 3,300,600	\$ 2,640,212	\$ 676,387	1.0x	\$ 143,817	N/A	\$ 820,204	1.3x	N/A	4%
BSCH Co-Investment	75,500	31,237	42,270	0.9x	4,298	N/A	46,568	1.0x	N/A	1%
Total Hedge Fund Solutions	\$ 3,376,100	\$ 2,671,449	\$ 718,657	1.0x	\$ 148,115	N/A	\$ 866,772	1.2x	N/A	4%
<b>Credit (k)</b>										
<b>Dollar</b>										
Mezzanine I (Jul 2007 / Oct 2011)	\$ 2,000,000	\$ 99,280	\$ 146,709	1.2x	\$ 4,679,765	1.6x	\$ 4,826,474	1.6x	N/A	17%
Mezzanine II (Nov 2011 / Nov 2016)	4,120,000	1,149,661	3,512,723	1.1x	2,656,386	1.5x	6,169,109	1.3x	N/A	13%
Mezzanine III (Sep 2016 / Sep 2021)	6,639,133	4,615,989	1,602,966	1.1x		N/A	1,602,966	1.1x	N/A	N/M
Stressed / Distressed Investing I (Sep 2009 / May 2013)	3,253,143	275,335	814,905	1.1x	5,120,819	1.5x	5,935,724	1.4x	N/A	11%
Stressed / Distressed Investing II (Jun 2013 / Jun 2018)	5,125,000	1,232,781	3,600,590	1.2x	1,338,835	1.3x	4,939,425	1.2x	N/A	15%
Energy Select Opportunities (Nov 2015 / Nov 2018)	2,856,866	1,705,293	934,990	1.1x	172,602	1.5x	1,107,592	1.2x	N/A	20%
<b>Euro</b>										
European Senior Debt Fund (Feb 2015 / Feb 2018)	1,964,689	1,994,714	1,537,353	1.0x	215,224	1.2x	1,752,577	1.0x	N/A	5%
Total Credit	\$ 26,260,552	\$ 11,353,411	\$ 12,362,599	1.1x	\$ 14,206,434	1.5x	\$ 26,569,033	1.3x	N/A	14%

N/M Not meaningful.

N/A Not applicable.

- (a) Available Capital represents total investable capital commitments, including side-by-side, adjusted for certain expenses and expired or callable capital and may include leverage, less invested capital. This amount is not reduced by outstanding commitments to investments.
- (b) Multiple of Invested Capital ( MOIC ) represents carrying value, before management fees, expenses and Carried Interest, divided by invested capital.
- (c) Net Internal Rate of Return ( IRR ) represents the annualized inception to June 30, 2017 IRR on total invested capital based on realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
- (d) Realizations are treated as return of capital until fully recovered and therefore unrealized and realized MOICs are not meaningful.
- (e) BCEP, or Blackstone Core Equity Partners, is a core private equity fund which invests with a more modest risk profile and longer hold period.
- (f) Returns for Other Funds and Co-Investment are not meaningful as these funds have limited transaction activity.
- (g) BREP Co-Investment represents co-investment capital raised for various BREP investments. The Net IRR reflected is calculated by aggregating each co-investment s realized proceeds and unrealized value, as applicable, after management fees, expenses and Carried Interest.
- (h) BPP represents the core+ real estate funds which invest with a more modest risk profile and lower leverage. Excludes BREIT.
- (i) Excludes Capital Trust drawdown funds.
- (j) BSCH, or Blackstone Strategic Capital Holdings, is a permanent capital vehicle focused on acquiring strategic minority positions in alternative asset managers.
- (k) Funds presented represent the flagship credit drawdown funds only. The Total Credit Net IRR is the combined IRR of the seven credit drawdown funds presented.



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**Segment Analysis**

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

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

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

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

	Three Months Ended June 30,		2017 vs. 2016		Six Months Ended June 30,		2017 vs. 2016	
	2017	2016	\$	%	2017	2016	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
<b>Management and Advisory Fees, Net</b>								
Base Management Fees	\$ 176,555	\$ 131,477	\$ 45,078	34%	\$ 354,019	\$ 262,125	\$ 91,894	35%
Transaction, Advisory and Other Fees, Net	18,947	11,089	7,858	71%	36,147	20,009	16,138	81%
Management Fee Offsets	(3,753)	(4,195)	442	-11%	(15,943)	(11,043)	(4,900)	44%
Total Management and Advisory Fees, Net	191,749	138,371	53,378	39%	374,223	271,091	103,132	38%
<b>Performance Fees</b>								
<b>Realized</b>								
Carried Interest	197,257	57,056	140,201	246%	779,938	87,338	692,600	793%
<b>Unrealized</b>								
Carried Interest	600	85,047	(84,447)	-99%	(184,233)	158,922	(343,155)	N/M
Total Performance Fees	197,857	142,103	55,754	39%	595,705	246,260	349,445	142%
<b>Investment Income (Loss)</b>								
<b>Realized</b>								
Carried Interest	41,168	22,926	18,242	80%	122,057	7,569	114,488	N/M
<b>Unrealized</b>								
Carried Interest	(25,014)	(2,766)	(22,248)	804%	(65,838)	12,674	(78,512)	N/M
Total Investment Income	16,154	20,160	(4,006)	-20%	56,219	20,243	35,976	178%
Interest and Dividend Revenue	12,451	9,516	2,935	31%	23,373	19,365	4,008	21%
Other	(16,124)	3,395	(19,519)	N/M	(17,924)	1,808	(19,732)	N/M
Total Revenues	402,087	313,545	88,542	28%	1,031,596	558,767	472,829	85%
<b>Expenses</b>								
<b>Compensation and Benefits</b>								
Compensation	90,844	83,140	7,704	9%	174,586	163,414	11,172	7%
<b>Performance Fee Compensation</b>								
<b>Realized</b>								
Carried Interest	63,060	30,946	32,114	104%	244,693	46,373	198,320	428%
<b>Unrealized</b>								
Carried Interest	22,219	19,450	2,769	14%	(17,137)	28,746	(45,883)	N/M
Total Compensation and Benefits	176,123	133,536	42,587	32%	402,142	238,533	163,609	69%
Other Operating Expenses	47,665	48,371	(706)	-1%	90,487	96,434	(5,947)	-6%
Total Expenses	223,788	181,907	41,881	23%	492,629	334,967	157,662	47%
Economic Income	\$ 178,299	\$ 131,638	\$ 46,661	35%	\$ 538,967	\$ 223,800	\$ 315,167	141%

N/M Not meaningful.

*Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016*

*Revenues*

Revenues were \$402.1 million for the three months ended June 30, 2017, an increase of \$88.5 million compared to \$313.5 million for the three months ended June 30, 2016. The increase in revenues was primarily attributable to increases of \$55.8 million in Performance Fees and \$53.4 million in Total Management and Advisory Fees, Net, partially offset by a decrease of \$19.5 million in Other Revenue.

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Revenues in our Private Equity segment in the second quarter of 2017 were higher compared to the second quarter of 2016, driven primarily by greater appreciation in Tactical Opportunities and an increase in corporate private equity management fees compared to the second quarter of 2016. In the second quarter of 2017, our Private Equity segment deployed \$4.2 billion of capital, committed an additional \$1.1 billion and had realizations of \$2.8 billion. The market environment continues to be generally characterized by high prices and competition for new investments and as a result, the outlook for capital deployment is challenging. Our portfolio companies continue to operate in a benign business environment with stable, slow growth in most major economies and industries, other than energy, where commodity prices are under pressure. In the United States, the economic environment also continues to be characterized by uncertainty surrounding governmental and tax policy. Revenues in the Private Equity segment would likely be negatively impacted if the capital markets experienced a prolonged period of volatility, including as a result of uncertainty regarding governmental and tax policy; oil and gas prices remained depressed for a sustained period; or market and/or macroeconomic conditions were to deteriorate.

Performance Fees, which are determined on a fund by fund basis, were \$197.9 million for the three months ended June 30, 2017, an increase of \$55.8 million compared to \$142.1 million for the three months ended June 30, 2016. The increase was driven by appreciation in Tactical Opportunities and Strategic Partners of 4.7% and 4.1%, respectively.

Total Management and Advisory Fees, Net were \$191.7 million for the three months ended June 30, 2017, an increase of \$53.4 million compared to \$138.4 million for the three months ended June 30, 2016, primarily driven by an increase in Base Management Fees. Base Management Fees were \$176.6 million for the three months ended June 30, 2017, an increase of \$45.1 million compared to the \$131.5 million for the three months ended June 30, 2016, primarily due to assets earning higher base management fees, principally due to the conclusion of a six month fee holiday for BCP VII in 2016.

Other Revenue was \$(16.1) million for the three months ended June 30, 2017, a decrease of \$19.5 million compared to \$3.4 million for the three months ended June 30, 2016, primarily driven by foreign exchange loss on our euro denominated bond.

The annualized Base Management Fee Rate increased from 0.76% at June 30, 2016 to 1.04% at June 30, 2017. The increase was principally due to the conclusion of a six month fee holiday for BCP VII, which commenced its investment period in 2016.

*Expenses*

Expenses were \$223.8 million for the three months ended June 30, 2017, an increase of \$41.9 million compared to \$181.9 million for the three months ended June 30, 2016. The increase was primarily attributable to an increase of \$42.6 million in Total Compensation and Benefits. The increase in Total Compensation and Benefits was primarily due to an increase in Performance Fee Compensation of \$34.9 million. Performance Fee Compensation increased as a result of the increase in Performance Fees Revenue.

*Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016**Revenues*

Revenues were \$1.0 billion for the six months ended June 30, 2017, an increase of \$472.8 million compared to \$558.8 million for the six months ended June 30, 2016. The increase in revenues was primarily attributable to increases of \$349.4 million and \$103.1 million in Performance Fees and Total Management and Advisory Fees, Net, respectively.

Performance Fees, which are determined on a fund by fund basis, were \$595.7 million for the six months ended June 30, 2017, an increase of \$349.4 million, compared to \$246.3 million for the six months ended June 30, 2016. The increase was driven by appreciation in corporate private equity and Tactical Opportunities of 9.3% and 8.2%, respectively.

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Total Management and Advisory Fees, Net were \$374.2 million for the six months ended June 30, 2017, an increase of \$103.1 million compared to \$271.1 million for the six months ended June 30, 2016, primarily driven by an increase in Base Management Fees. Base Management Fees were \$354.0 million for the six months ended June 30, 2017, an increase of \$91.9 million compared to \$262.1 million for the six months ended June 30, 2016, primarily due to assets earning higher base management fees, principally due to the conclusion of a six month fee holiday for BCP VII in 2016.

*Expenses*

Expenses were \$492.6 million for the six months ended June 30, 2017, an increase of \$157.7 million compared to \$335.0 million for the six months ended June 30, 2016. The increase was primarily attributable to an increase of \$163.6 million in Total Compensation and Benefits. The increase in Total Compensation and Benefits was primarily due to an increase in Performance Fee Compensation of \$152.4 million. Performance Fee Compensation increased as a result of the increase in Performance Fees Revenue.

*Fund Returns*

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

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

Fund (a)	Three Months Ended				Six Months Ended				June 30, 2017			
	June 30,		2016 (a)		June 30,		2016 (a)		Inception to Date		Total	
	2017	Net	Gross	Net	2017	Net	Gross	Net	Realized	Net	Gross	Net
BCP IV	1%	1%			-1%	-1%	4%	4%	55%	41%	50%	36%
BCP V	2%	1%	2%	2%	5%	4%	8%	6%	11%	9%	10%	8%
BCP VI	4%	3%	3%	2%	13%	11%	2%	1%	35%	28%	18%	13%
BCP VII	N/M	N/M	N/A	N/A	N/M	N/M	N/A	N/A	N/M	N/M	N/M	N/M
BEP I	-2%	-2%	4%	4%	8%	7%	5%	4%	42%	38%	17%	13%
BEP II (b)	2%		N/M	N/M	13%	8%	N/M	N/M	N/A	N/A	45%	22%
BCOM	-17%	-17%	17%	13%	-14%	-14%	16%	14%	13%	6%	13%	6%
Tactical Opportunities	5%	4%	2%	1%	8%	14%	3%	2%	33%	25%	15%	11%
Strategic Partners	5%	4%	2%	2%	10%	9%	2%		N/A	N/A	17%	14%

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

N/M Not meaningful.

N/A Not applicable.

- (a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and carried interest allocations.
- (b) BEP II's 2016 investment returns are presented as N/M due to the early stage nature and limited operations of the fund's investments. Accordingly, the 2016 returns would only be reflective of the impact of fees and expenses incurred to date.

The corporate private equity funds within the Private Equity segment have five funds with closed investment periods: BCP IV, BCP V, BCP VI, BCOM and BEP I. As of June 30, 2017, BCP IV was above its carried interest



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threshold (i.e., the preferred return payable to its limited partners before the general partner is eligible to receive carried interest) and would still be above its carried interest threshold even if all remaining investments were valued at zero. BCP V is comprised of two fund classes based on the timings of fund closings, the BCP V main fund and BCP V-AC fund. Within these fund classes, the general partner is subject to equalization such that (a) the general partner accrues carried interest when the respective carried interest for either fund class is positive and (b) the general partner realizes carried interest so long as clawback obligations, if any, for either of the respective fund classes are fully satisfied. During the quarter, both fund classes in aggregate were above their respective carried interest thresholds. BCP VI is currently above its carried interest threshold. BCOM is currently above its carried interest threshold and has generated inception to date positive returns. We are entitled to retain previously realized carried interest up to 20% of BCOM's net gains. As a result, Performance Fees are recognized from BCOM on current period gains and losses. BEP I is currently above its carried interest threshold.

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

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

	Three Months Ended June 30,		2017 vs. 2016		Six Months Ended June 30,		2017 vs. 2016	
	2017	2016	\$	%	2017	2016	\$	%
(Dollars in Thousands)								
<b>Segment Revenues</b>								
<b>Management Fees, Net</b>								
Base Management Fees	\$ 227,865	\$ 201,004	\$ 26,861	13%	\$ 425,744	\$ 400,911	\$ 24,833	6%
Transaction and Other Fees, Net	16,087	21,112	(5,025)	-24%	37,366	56,906	(19,540)	-34%
Management Fee Offsets	(5,018)	(1,219)	(3,799)	312%	(8,568)	(4,814)	(3,754)	78%
<b>Total Management Fees, Net</b>	<b>238,934</b>	<b>220,897</b>	<b>18,037</b>	<b>8%</b>	<b>454,542</b>	<b>453,003</b>	<b>1,539</b>	<b>0%</b>
<b>Performance Fees</b>								
<b>Realized</b>								
Carried Interest	389,004	266,382	122,622	46%	908,845	467,009	441,836	95%
Incentive Fees	5,315	6,099	(784)	-13%	8,229	10,168	(1,939)	-19%
<b>Unrealized</b>								
Carried Interest	77,200	(84,875)	162,075	N/M	54,932	(96,397)	151,329	N/M
Incentive Fees	22,608	5,942	16,666	280%	41,321	15,707	25,614	163%
<b>Total Performance Fees</b>	<b>494,127</b>	<b>193,548</b>	<b>300,579</b>	<b>155%</b>	<b>1,013,327</b>	<b>396,487</b>	<b>616,840</b>	<b>156%</b>
<b>Investment Income (Loss)</b>								
<b>Realized</b>								
Carried Interest	57,599	19,929	37,670	189%	177,178	32,904	144,274	438%
Incentive Fees	(20,519)	(8,902)	(11,617)	130%	(104,372)	(11,039)	(93,333)	845%
<b>Unrealized</b>								
Carried Interest	37,080	11,027	26,053	236%	72,806	21,865	50,941	233%
Interest and Dividend Revenue	20,998	13,084	7,914	60%	39,165	26,272	12,893	49%
Other	(22,965)	2,231	(25,196)	N/M	(26,115)	322	(26,437)	N/M
<b>Total Investment Income</b>	<b>768,174</b>	<b>440,787</b>	<b>327,387</b>	<b>74%</b>	<b>1,553,725</b>	<b>897,949</b>	<b>655,776</b>	<b>73%</b>
<b>Expenses</b>								
<b>Compensation and Benefits</b>								
Compensation	110,266	102,888	7,378	7%	212,968	203,466	9,502	5%
<b>Performance Fee Compensation</b>								
<b>Realized</b>								
Carried Interest	124,292	56,441	67,851	120%	304,217	99,517	204,700	206%
Incentive Fees	2,931	3,300	(369)	-11%	4,295	5,433	(1,138)	-21%
<b>Unrealized</b>								
Carried Interest	59,174	14,257	44,917	315%	70,972	41,960	29,012	69%
Incentive Fees	9,680	2,542	7,138	281%	18,189	6,700	11,489	171%
<b>Total Compensation and Benefits</b>	<b>306,343</b>	<b>179,428</b>	<b>126,915</b>	<b>71%</b>	<b>610,641</b>	<b>357,076</b>	<b>253,565</b>	<b>71%</b>
<b>Other Operating Expenses</b>	<b>55,373</b>	<b>52,201</b>	<b>3,172</b>	<b>6%</b>	<b>107,342</b>	<b>100,298</b>	<b>7,044</b>	<b>7%</b>
<b>Total Expenses</b>	<b>361,716</b>	<b>231,629</b>	<b>130,087</b>	<b>56%</b>	<b>717,983</b>	<b>457,374</b>	<b>260,609</b>	<b>57%</b>
<b>Economic Income</b>	<b>\$ 406,458</b>	<b>\$ 209,158</b>	<b>\$ 197,300</b>	<b>94%</b>	<b>\$ 835,742</b>	<b>\$ 440,575</b>	<b>\$ 395,167</b>	<b>90%</b>



N/M Not meaningful.

*Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016*

*Revenues*

Revenues were \$768.2 million for the three months ended June 30, 2017, an increase of \$327.4 million compared to \$440.8 million for the three months ended June 30, 2016. The increase in revenues was primarily

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attributable to increases of \$300.6 million in Performance Fees, \$26.1 million in Investment Income and \$18.0 million in Total Management Fees, Net, partially offset by a decrease of \$25.2 million in Other Revenue.

In the second quarter of 2017, revenues in our Real Estate segment increased primarily due to greater appreciation in public and private investments in our BREP opportunistic funds compared to the second quarter of 2016. In the second quarter of 2017, our Real Estate segment deployed \$2.4 billion, committed an additional \$1.8 billion and had realizations of \$4.6 billion. Overall, operating trends in our Real Estate portfolio remain stable and supply-demand fundamentals remain solid in most markets, although we see decelerating growth in certain geographies and sectors, notably retail. As a result of less distress and rising asset values, the current environment and outlook for opportunistic capital deployment in the U.S. has become increasingly challenging, although opportunities in other geographic markets, most notably Europe, remain strong. In our real estate debt funds, liquid fund performance was stable in the second quarter of 2017. Revenues in our Real Estate segment would likely be negatively impacted if the capital markets experienced a period of prolonged volatility, including as a result of uncertainty regarding governmental and tax policy, or market and/or macroeconomic conditions were to deteriorate.

Performance Fees, which are determined on a fund by fund basis, were \$494.1 million for the three months ended June 30, 2017, an increase of \$300.6 million compared to \$193.5 million for the three months ended June 30, 2016. The increase in Performance Fees was primarily due to an increase in the net appreciation of investment holdings within our opportunistic funds, which appreciated 5.4% versus 2.2% in the comparable 2016 quarter. Our core+ real estate funds appreciated 3.0% in the quarter. Our real estate debt drawdown and hedge funds appreciated 3.1% and 2.3%, respectively.

Investment Income was \$37.1 million for the three months ended June 30, 2017, an increase of \$26.1 million compared to \$11.0 million for the three months ended June 30, 2016, primarily due to the net appreciation of investments in our BREP VI fund.

Total Management Fees, Net were \$238.9 million for the three months ended June 30, 2017, an increase of \$18.0 million compared to \$220.9 million for the three months ended June 30, 2016, driven primarily by an increase in Base Management Fees. Base Management Fees were \$227.9 million for the three months ended June 30, 2017, an increase of \$26.9 million compared to \$201.0 million for the three months ended June 30, 2016, primarily due to the expiration of the BREP Europe V fee holidays.

Other Revenue was \$(23.0) million for the three months ended June 30, 2017, a decrease of \$25.2 million compared to \$2.2 million for the three months ended June 30, 2016, primarily driven by foreign exchange loss on our euro denominated bond.

*Expenses*

Expenses were \$361.7 million for the three months ended June 30, 2017, an increase of \$130.1 million compared to \$231.6 million for the three months ended June 30, 2016. The increase was primarily attributable to an increase in Performance Fee Compensation of \$119.5 million. Performance Fee Compensation increased as a result of the increase in Performance Fees Revenue.

*Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016*

*Revenues*

Revenues were \$1.6 billion for the six months ended June 30, 2017, an increase of \$655.8 million compared to \$897.9 million for the six months ended June 30, 2016. The increase in revenues was primarily attributable to increases of \$616.8 million in Performance Fees and \$50.9 million in Investment Income.

Performance Fees, which are determined on a fund by fund basis, were \$1.0 billion for the six months ended June 30, 2017, an increase of \$616.8 million compared to \$396.5 million for the six months ended June 30, 2016.

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Performance Fees increased due to the net increase in the appreciation of investment holdings within our opportunistic funds. For the six months ended June 30, 2017, the carrying value of investments for our opportunistic funds increased 10.5% versus 3.8% for the comparable 2016 period. Our core+ real estate funds, real estate debt drawdown funds and real estate hedge funds appreciated 6.1%, 7.5% and 5.5%, respectively.

Investment Income was \$72.8 million for the six months ended June 30, 2017, an increase of \$50.9 million compared to \$21.9 million for the six months ended June 30, 2016, primarily due to the net increase in the appreciation of Partnership's principal investments.

*Expenses*

Expenses were \$718.0 million for the six months ended June 30, 2017, an increase of \$260.6 million compared to \$457.4 million for the six months ended June 30, 2016. The increase was primarily attributable to an increase in Performance Fee Compensation of \$244.1 million. Performance Fee Compensation increased as a result of the increase in Performance Fees Revenue.

*Fund Returns*

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

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

Fund (a)	Three Months Ended June 30,				Six Months Ended June 30,				June 30, 2017 Inception to Date			
	2017		2016		2017		2016		Realized		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BREP IV	3%	2%	-1%		1%	1%	-9%	-7%	52%	31%	22%	12%
BREP V	3%	2%	1%	1%	4%	3%	1%	1%	16%	12%	14%	11%
BREP VI	9%	7%	1%		11%	9%	5%	4%	18%	14%	17%	13%
BREP VII	3%	2%	2%	2%	7%	6%	3%	2%	37%	26%	26%	18%
BREP VIII	6%	5%	8%	5%	13%	9%	14%	9%	32%	20%	30%	19%
BREP International II (b)	12%	11%	1%	1%	7%	6%	3%	3%	10%	9%	8%	6%
BREP Europe III (b)	6%	5%	-4%	-4%	14%	11%	-5%	-5%	33%	22%	25%	16%
BREP Europe IV (b)	8%	7%	1%	1%	22%	18%	3%	2%	38%	25%	27%	19%
BREP Europe V (b)	N/M	N/M	N/A	N/A	N/M	N/M	N/A	N/A	N/A	N/A	N/M	N/M
BREP Co-Investment (c)	6%	5%	4%	3%	8%	7%	5%	5%	18%	16%	18%	16%
BREP Asia	8%	6%	7%	5%	15%	11%	13%	10%	30%	22%	26%	17%
BPP	3%	3%	2%	2%	6%	5%	6%	6%	37%	36%	15%	12%
BREDS Drawdown	3%	3%	5%	2%	8%	6%	8%	4%	16%	12%	16%	11%
BREDS Liquid	3%	3%	1%	1%	7%	5%	-3%	-4%	N/A	N/A	12%	8%

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

N/M Not meaningful.

N/A Not applicable.

(a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations.

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(b) Euro-based internal rates of return.

(c) Excludes fully realized co-investments prior to Blackstone's IPO.

The following table presents the carried interest status of our real estate carry funds with expired investment periods which are currently not generating performance fees as of June 30, 2017:

Fully Invested Funds	Amount (Amounts in Millions)	Gain to Cross Carried Interest Threshold (a)	
		% Change in Total Enterprise Value(b)	% Change in Equity Value
BREP International II (Sep 2005 / Jun 2008)	828	107%	380%

(a) The general partner of each fund is allocated carried interest when the annualized returns, net of management fees and expenses, exceed the preferred return as dictated by the fund agreements. The preferred return is calculated for each limited partner individually. The Gain to Cross carried interest Threshold represents the increase in equity at the fund level (excluding our side-by-side investments) that is required for the general partner to begin accruing carried interest, assuming the gain is earned pro rata across the fund's investments and is achieved at the reporting date.

(b) Total Enterprise Value is the respective fund's pro rata ownership of the privately held portfolio companies' Enterprise Value. The Real Estate segment has three funds in their investment period, which were above their respective carried interest thresholds as of June 30, 2017: BREP VIII, BREP Asia and BREDS III.

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

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

	Three Months Ended June 30,		2017 vs. 2016		Six Months Ended June 30,		2017 vs. 2016	
	2017	2016	\$	%	2017	2016	\$	%
<b>(Dollars in Thousands)</b>								
<b>Segment Revenues</b>								
<b>Management Fees, Net</b>								
Base Management Fees	\$ 128,698	\$ 130,123	\$ (1,425)	-1%	\$ 257,166	\$ 260,281	\$ (3,115)	-1%
Transaction and Other Fees, Net	1,696	(5)	1,701	N/M	1,955	538	1,417	263%
<b>Total Management Fees, Net</b>	<b>130,394</b>	<b>130,118</b>	<b>276</b>	<b>0%</b>	<b>259,121</b>	<b>260,819</b>	<b>(1,698)</b>	<b>-1%</b>
<b>Performance Fees</b>								
<b>Realized</b>								
Incentive Fees	6,995	(251)	7,246	N/M	21,679	2,433	19,246	791%
<b>Unrealized</b>								
Carried Interest	143	801	(658)	-82%	3,940	833	3,107	373%
Incentive Fees	22,458	1,036	21,422	N/M	62,769	(1,899)	64,668	N/M
<b>Total Performance Fees</b>	<b>29,596</b>	<b>1,586</b>	<b>28,010</b>	<b>N/M</b>	<b>88,388</b>	<b>1,367</b>	<b>87,021</b>	<b>N/M</b>
<b>Investment Income (Loss)</b>								
<b>Realized</b>								
	225	(515)	740	N/M	(407)	(5,260)	4,853	-92%
<b>Unrealized</b>								
	11,578	9,357	2,221	24%	29,871	(2,934)	32,805	N/M
<b>Total Investment Income (Loss)</b>	<b>11,803</b>	<b>8,842</b>	<b>2,961</b>	<b>33%</b>	<b>29,464</b>	<b>(8,194)</b>	<b>37,658</b>	<b>N/M</b>
Interest and Dividend Revenue	8,769	5,205	3,564	68%	16,323	10,501	5,822	55%
Other	(10,720)	1,125	(11,845)	N/M	(12,330)	(263)	(12,067)	N/M
<b>Total Revenues</b>	<b>169,842</b>	<b>146,876</b>	<b>22,966</b>	<b>16%</b>	<b>380,966</b>	<b>264,230</b>	<b>116,736</b>	<b>44%</b>
<b>Expenses</b>								
<b>Compensation and Benefits</b>								
Compensation	47,361	44,436	2,925	7%	94,965	98,605	(3,640)	-4%
<b>Performance Fee Compensation</b>								
<b>Realized</b>								
Incentive Fees	4,362	1,325	3,037	229%	11,679	3,188	8,491	266%
<b>Unrealized</b>								
Carried Interest	178	238	(60)	-25%	1,387	238	1,149	483%
Incentive Fees	9,242	480	8,762	N/M	23,246	(715)	23,961	N/M
<b>Total Compensation and Benefits</b>	<b>61,143</b>	<b>46,479</b>	<b>14,664</b>	<b>32%</b>	<b>131,277</b>	<b>101,316</b>	<b>29,961</b>	<b>30%</b>
Other Operating Expenses	26,240	27,218	(978)	-4%	52,040	53,364	(1,324)	-2%
<b>Total Expenses</b>	<b>87,383</b>	<b>73,697</b>	<b>13,686</b>	<b>19%</b>	<b>183,317</b>	<b>154,680</b>	<b>28,637</b>	<b>19%</b>
<b>Economic Income</b>	<b>\$ 82,459</b>	<b>\$ 73,179</b>	<b>\$ 9,280</b>	<b>13%</b>	<b>\$ 197,649</b>	<b>\$ 109,550</b>	<b>\$ 88,099</b>	<b>80%</b>

N/M Not meaningful.

*Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016*

*Revenues*

Revenues were \$169.8 million for the three months ended June 30, 2017, an increase of \$23.0 million compared to \$146.9 million for the three months ended June 30, 2016. The increase in revenues was primarily attributable to an increase of \$28.0 million in Performance Fees, partially offset by a decrease of \$11.8 million in Other Revenue.

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Revenues in our Hedge Fund Solutions segment in the second quarter of 2017 increased compared to the second quarter of 2016, primarily as a result of improved performance across multiple strategies in the segment, with the BPS Composite gross return up 1.3% in the quarter (1.1% net). In addition, 84% of Hedge Fund Solutions Fee-Earnings Assets Under Management eligible for Incentive Fees was above the high water mark as of the end of the second quarter of 2017. Hedge Fund Solutions revenues would likely be negatively impacted if global asset prices experienced another period of decline, including as a result of uncertainty regarding governmental and tax policy, or liquidity needs caused investors to withdraw assets.

Performance Fees, which are determined on a fund by fund basis, were \$29.6 million for the three months ended June 30, 2017, an increase of \$28.0 million compared to \$1.6 million for the three months ended June 30, 2016. The increase in Performance Fees in our Hedge Fund Solutions segment was primarily driven by a greater percentage of our Fee-Earning Assets Under Management earning Performance Fees, on comparable returns, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016.

Other Revenue was \$(10.7) million for the three months ended June 30, 2017, a decrease of \$11.8 million compared to \$1.1 million for the three months ended June 30, 2016, primarily driven by foreign exchange loss on our euro denominated bond.

*Expenses*

Expenses were \$87.4 million for the three months ended June 30, 2017, an increase of \$13.7 million compared to \$73.7 million for the three months ended June 30, 2016. The increase in expenses was primarily attributable to an increase of \$11.7 million in Performance Fee Compensation. The increase in Performance Fee Compensation was due to the increase in Performance Fees Revenue.

*Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016*

*Revenues*

Revenues were \$381.0 million for the six months ended June 30, 2017, an increase of \$116.7 million compared to \$264.2 million for the six months ended June 30, 2016. The increase in revenue was primarily attributable to increases of \$87.0 million in Performance Fees and \$37.7 million in Investment Income (Loss).

Performance Fees, which are determined on a fund by fund basis, were \$88.4 million for the six months ended June 30, 2017, an increase of \$87.0 million compared to \$1.4 million for the six months ended June 30, 2016. The increase in Performance Fees in our Hedge Fund Solutions segment was primarily driven by higher returns in our BPS Composite, 4.0% gross (3.6% net) for the six months ended June 30, 2017 compared to -1.6% gross (-2.0% net) in the comparable 2016 year to date period.

Investment Income (Loss) was \$29.5 million for the six months ended June 30, 2017, an increase of \$37.7 million compared to \$(8.2) million for the six months ended June 30, 2016. The increase in Investment Income (Loss) was primarily driven by the year over year net appreciation of investments of which Blackstone owns a share.

*Expenses*

Expenses were \$183.3 million for the six months ended June 30, 2017, an increase of \$28.6 million compared to \$154.7 million for the six months ended June 30, 2016. The increase in expenses was primarily due to an increase in Performance Fee Compensation of \$33.6 million, partially offset by a decrease in Compensation of \$3.6 million. The increase in Performance Fee Compensation was due to the increase in Performance Fees Revenue. The decrease in Compensation was primarily due to the decrease in Management Fees Revenue, on which a portion of compensation is based.

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*Operating Metrics*

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

	Fee-Earning Assets Under Management Eligible for Incentive Fees		Estimated % Above High Water Mark / Benchmark (a)	
	As of June 30,		As of June 30,	
	2016	2017	2016	2017
BAAM-Managed Funds (b)	\$ 35,562,130	\$ 38,778,670	10%	84%

- (a) Estimated % Above High Water Mark/Benchmark represents the percentage of Fee-Earning Assets Under Management Eligible for Incentive Fees that as of the dates presented would earn incentive fees when the applicable BAAM-managed fund has positive investment performance relative to a benchmark, where applicable. Incremental positive performance in the applicable Blackstone Funds may cause additional assets to reach their respective High Water Mark or clear a benchmark return, thereby resulting in an increase in Estimated % Above High Water Mark/Benchmark.
- (b) For the BAAM-managed funds, at June 30, 2017 the incremental appreciation needed for the 16% of Fee-Earning Assets Under Management below their respective High Water Marks/Benchmarks to reach their respective High Water Marks/Benchmarks was \$404.3 million, a decrease of \$806.0 million, compared to \$1.2 billion at June 30, 2016. Of the Fee-Earning Assets Under Management below their respective High Water Marks/Benchmarks as of June 30, 2017, 46% were within 5% of reaching their respective High Water Mark.

*Composite Returns*

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

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

	Three Months Ended June 30,				Six Months Ended June 30,				Average Annual Returns (a)							
	2017		2016		2017		2016		One Year		Three Year		Five Year		Historical	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Composite																
BAAM Principal Solutions Composite (b)	1%	1%	1%	1%	4%	4%	-2%	-2%	10%	9%	4%	4%	7%	6%	7%	6%

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

- (a) Composite returns present a summarized asset-weighted return measure to evaluate the overall performance of the applicable class of Blackstone Funds.
- (b) BAAM's Principal Solutions ( BPS ) Composite covers the period from January 2000 to present, although BAAM's inception date is September 1990. BPS Composite does not include BAAM's individual investor solutions (i.e., liquid alternatives), long-biased commodities, ventures (i.e., seeding and minority interests), strategic opportunities (i.e., co-investments), Senfina (i.e., direct trading) and advisory (non-discretionary) platforms, except for investments by BPS funds directly into those platforms. BAAM-managed funds in liquidation are also excluded. The historical return is from January 1, 2000.





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

	Three Months Ended June 30,		2017 vs. 2016		Six Months Ended June 30,		2017 vs. 2016	
	2017	2016	\$	%	2017	2016	\$	%
<b>(Dollars in Thousands)</b>								
<b>Segment Revenues</b>								
Management Fees, Net								
Base Management Fees	\$ 138,250	\$ 131,392	\$ 6,858	5%	\$ 277,397	\$ 257,382	\$ 20,015	8%
Transaction and Other Fees, Net	2,162	1,424	738	52%	3,646	2,766	880	32%
Management Fee Offsets	(4,653)	(9,982)	5,329	-53%	(22,512)	(19,640)	(2,872)	15%
<b>Total Management Fees, Net</b>	<b>135,759</b>	<b>122,834</b>	<b>12,925</b>	<b>11%</b>	<b>258,531</b>	<b>240,508</b>	<b>18,023</b>	<b>7%</b>
<b>Performance Fees</b>								
Realized								
Carried Interest	16,032	296	15,736	N/M	24,832	296	24,536	N/M
Incentive Fees	28,796	23,515	5,281	22%	58,335	45,212	13,123	29%
Unrealized								
Carried Interest	(12,863)	87,295	(100,158)	N/M	35,694	72,516	(36,822)	-51%
Incentive Fees	3,461	1,029	2,432	236%	4,453	1,299	3,154	243%
<b>Total Performance Fees</b>	<b>35,426</b>	<b>112,135</b>	<b>(76,709)</b>	<b>-68%</b>	<b>123,314</b>	<b>119,323</b>	<b>3,991</b>	<b>3%</b>
<b>Investment Income (Loss)</b>								
Realized								
Realized	1,895	11,330	(9,435)	-83%	4,953	8,356	(3,403)	-41%
Unrealized								
Unrealized	788	8,412	(7,624)	-91%	8,237	(9,149)	17,386	N/M
<b>Total Investment Income (Loss)</b>	<b>2,683</b>	<b>19,742</b>	<b>(17,059)</b>	<b>-86%</b>	<b>13,190</b>	<b>(793)</b>	<b>13,983</b>	<b>N/M</b>
Interest and Dividend Revenue	11,037	7,428	3,609	49%	20,270	14,176	6,094	43%
Other	(12,660)	1,795	(14,455)	N/M	(14,387)	431	(14,818)	N/M
<b>Total Revenues</b>	<b>172,245</b>	<b>263,934</b>	<b>(91,689)</b>	<b>-35%</b>	<b>400,918</b>	<b>373,645</b>	<b>27,273</b>	<b>7%</b>
<b>Expenses</b>								
Compensation and Benefits								
Compensation								
Compensation	56,786	55,691	1,095	2%	111,765	108,073	3,692	3%
Performance Fee Compensation								
Realized								
Carried Interest	7,937	194	7,743	N/M	12,570	194	12,376	N/M
Incentive Fees	14,188	10,626	3,562	34%	28,259	20,753	7,506	36%
Unrealized								
Carried Interest	(7,071)	41,257	(48,328)	N/M	14,891	34,259	(19,368)	-57%
Incentive Fees	1,678	(333)	2,011	N/M	2,304	152	2,152	N/M
<b>Total Compensation and Benefits</b>	<b>73,518</b>	<b>107,435</b>	<b>(33,917)</b>	<b>-32%</b>	<b>169,789</b>	<b>163,431</b>	<b>6,358</b>	<b>4%</b>
Other Operating Expenses								
Other Operating Expenses	36,406	29,464	6,942	24%	69,107	55,684	13,423	24%
<b>Total Expenses</b>	<b>109,924</b>	<b>136,899</b>	<b>(26,975)</b>	<b>-20%</b>	<b>238,896</b>	<b>219,115</b>	<b>19,781</b>	<b>9%</b>
<b>Economic Income</b>	<b>\$ 62,321</b>	<b>\$ 127,035</b>	<b>\$ (64,714)</b>	<b>-51%</b>	<b>\$ 162,022</b>	<b>\$ 154,530</b>	<b>\$ 7,492</b>	<b>5%</b>

N/M Not meaningful.

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*Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016*

*Revenues*

Revenues were \$172.2 million for the three months ended June 30, 2017, a decrease of \$91.7 million compared to \$263.9 million for the three months ended June 30, 2016. This change was primarily attributable to decreases of \$76.7 million in Performance Fees, \$17.1 million in Investment Income (Loss) and \$14.5 million in Other Revenue, partially offset by an increase of \$12.9 million in Total Management Fees, Net.

Revenues in our Credit segment decreased in the second quarter of 2017 compared to the second quarter of 2016, driven primarily by the impact of unrealized marks of certain energy investments in the performing credit and distressed strategies and greater appreciation in the second quarter of 2016 as a result of recovery from market dislocation experienced at the end of 2015 and early 2016. Despite the continuing low interest rate environment and depressed commodity prices, our Credit funds were able to identify attractive investment opportunities in the second quarter of 2017, particularly in Europe and the energy sector. Our Credit segment revenues may, however, be negatively impacted by prolonged periods of market pressure; a sustained period of depressed energy prices; market volatility; or uncertainty regarding governmental and tax policy.

Performance Fees were \$35.4 million for the three months ended June 30, 2017, a decrease of \$76.7 million compared to \$112.1 million for the three months ended June 30, 2016. This change was primarily attributable to lower returns in our performing credit strategies and in energy holdings in our distressed strategies.

Investment Income (Loss) was \$2.7 million for the three months ended June 30, 2017, a decrease of \$17.1 million compared to \$19.7 million for the three months ended June 30, 2016. The decrease in Investment Income (Loss) was primarily driven by lower returns on Blackstone's investments in the Credit funds.

Other Revenue was \$(12.7) million for the three months ended June 30, 2017, a decrease of \$14.5 million compared to \$1.8 million for the three months ended June 30, 2016, primarily driven by foreign exchange loss on our euro denominated bond.

Total Management Fees, Net were \$135.8 million for the three months ended June 30, 2017, an increase of \$12.9 million compared to \$122.8 million for the three months ended June 30, 2016. This change was primarily attributable to our long only and performing credit strategies.

*Expenses*

Expenses were \$109.9 million for the three months ended June 30, 2017, a decrease of \$27.0 million compared to \$136.9 million for the three months ended June 30, 2016. The decrease in expenses was primarily attributable to a decrease of \$35.0 million in Performance Fee Compensation, partially offset by an increase of \$6.9 million in Other Operating Expenses. The decrease in Performance Fee Compensation was due to the decrease in Performance Fees Revenue. The increase in Other Operating Expenses was primarily due to an increase in professional fees, interest and other expenses allocated to the segment.

*Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016*

*Revenues*

Revenues were \$400.9 million for the six months ended June 30, 2017, an increase of \$27.3 million compared to \$373.6 million for the six months ended June 30, 2016. This change was primarily attributable to increases of \$18.0 million in Total Management Fees, Net and \$14.0 million in Investment Income (Loss), partially offset by a decrease of \$14.8 million in Other Revenue.

Total Management Fees, Net were \$258.5 million for the six months ended June 30, 2017, an increase of \$18.0 million compared to \$240.5 million for the six months ended June 30, 2016. The increase was primarily attributable to our long only and performing credit strategies.

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Investment Income (Loss) was \$13.2 million for the six months ended June 30, 2017, an increase of \$14.0 million compared to \$(0.8) million for the six months ended June 30, 2016. The increase in Investment Income was primarily driven by the prior year period's unrealized investment losses in our distressed strategies and long only funds.

Other Revenue was \$(14.4) million for the six months ended June 30, 2017, a decrease of \$14.8 million compared to the six months ended June 30, 2016, primarily driven by foreign exchange loss on our euro denominated bond.

*Expenses*

Expenses were \$238.9 million for the six months ended June 30, 2017, an increase of \$19.8 million compared to \$219.1 million for the six months ended June 30, 2016. The increase in expenses was primarily attributable to increases of \$13.4 million in Other Operating Expenses and \$6.4 million in Total Compensation and Benefits. The increase in Other Operating Expenses was driven by an increase in professional fees, interest and other expenses allocated to the segment and fund related expenses. The increase in Total Compensation and Benefits was due to increases of \$3.7 million in Compensation and \$2.7 million in Performance Fee Compensation. The increase in Compensation was primarily due to an increase in Management Fees Revenue, on which a portion of compensation is based. The increase in Performance Fee Compensation was due to the increase in Performance Fees Revenue.

*Fund Returns*

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

The following table presents combined internal rates of return of the segment's performing credit and distressed strategies funds:

Composite (a)	Three Months Ended June 30,				Six Months Ended June 30,				June 30, 2017 Inception to Date	
	2017		2016		2017		2016		Gross	Net
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Performing Credit Strategies (b)	2%		10%	8%	5%	3%	10%	8%	15%	9%
Distressed Strategies (c)	-1%	-2%	7%	6%	2%		4%	3%	11%	7%

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

- (a) Net returns are based on the change in carrying value (realized and unrealized) after management fees, expenses and performance fee allocations, net of tax advances.
- (b) Performing Credit Strategies include mezzanine lending funds, BDCs and other performing credit strategy funds. Performing Credit Strategies returns represent the IRR of the combined cash flows of the fee-earning funds exceeding \$100 million of fair value at each respective quarter end excluding the Blackstone Funds that were contributed to GSO as part of Blackstone's acquisition of GSO in March 2008. The inception to date returns are from July 16, 2007.
- (c) Distressed Strategies include stressed/distressed funds, event-driven credit strategies and energy strategies. Distressed Strategies returns represent the IRR of the combined cash flows of the fee-earning funds exceeding \$100 million of fair value at each respective quarter end. The inception to date returns are from August 1, 2005.

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As of June 30, 2017, there was \$26.8 billion of Performance Fee eligible assets under management invested in Credit strategies that were above the hurdle necessary to generate Incentive Fees or carried interest. This represented 50% of the total Performance Fee eligible assets at fair value across all Credit strategies.

### **Liquidity and Capital Resources**

#### ***General***

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

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

Total assets were \$30.1 billion as of June 30, 2017, an increase of \$3.7 billion from December 31, 2016.

Total liabilities were \$16.9 billion as of June 30, 2017, an increase of \$3.0 billion from December 31, 2016. The increase in total liabilities was primarily due to an increase in Loans Payable of \$2.3 billion, primarily due to new CLO vehicles.

For the three months ended June 30, 2017, we had Total Fee Related Revenues of \$696.8 million and related expenses of \$385.7 million, generating Fee Related Earnings of \$311.2 million and Distributable Earnings of \$781.4 million. For the six months ended June 30, 2017, we had Total Fee Related Revenues of \$1.3 billion and related expenses of \$744.5 million, generating Fee Related Earnings of \$601.9 million and Distributable Earnings of \$2.0 billion.

#### ***Sources and Uses of Liquidity***

We have multiple sources of liquidity to meet our capital needs, including annual cash flows, accumulated earnings in the businesses, the proceeds from our issuances of senior notes, liquid investments we hold on our balance sheet for our own use and access to our \$1.5 billion committed revolving credit facility. As of June 30, 2017, Blackstone had \$1.7 billion in cash and cash equivalents, \$3.3 billion invested in corporate treasury investment, \$1.8 billion invested in Blackstone Funds and other investments, against \$3.5 billion in borrowings from our bond issuances, and no borrowings outstanding under our revolving credit facility.

In addition to the cash we received from our debt offerings and availability under our committed revolving credit facility, we expect to receive (a) cash generated from operating activities, (b) carried interest and incentive income realizations, and (c) realizations on the carry and hedge fund investments that we make. The amounts received from these three sources in particular may vary substantially from year to year and quarter to quarter

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depending on the frequency and size of realization events or net returns experienced by our investment funds. Our available capital could be adversely affected if there are prolonged periods of few substantial realizations from our investment funds accompanied by substantial capital calls for new investments from those investment funds. Therefore, Blackstone's commitments to our funds are taken into consideration when managing our overall liquidity and cash position.

We expect that our primary liquidity needs will be cash to (a) provide capital to facilitate the growth of our existing businesses which principally includes funding our general partner and co-investment commitments to our funds, (b) provide capital to facilitate our expansion into new businesses that are complementary, (c) pay operating expenses, including cash compensation to our employees and other obligations as they arise, (d) fund modest capital expenditures, (e) repay borrowings and related interest costs, (f) pay income taxes, and (g) make distributions to our

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unitholders and the holders of Blackstone Holdings Partnership Units. Our own capital commitments to our funds, the funds we invest in and our investment strategies as of June 30, 2017 consisted of the following:

Fund	Blackstone and General Partner		Senior Managing Directors and Certain Other Professionals (a)	
	Original Commitment	Remaining Commitment	Original Commitment	Remaining Commitment
(Dollars in Thousands)				
<b>Private Equity</b>				
BCP VII	\$ 500,000	\$ 435,919	\$ 225,000	\$ 196,163
BCP VI	719,718	122,272	250,000	42,472
BCP V	629,356	39,938		
BEP I	50,000	4,853		
BEP II	80,000	53,984	26,667	17,995
BCEP	120,000	105,155	18,992	16,579
Tactical Opportunities	279,193	124,958	75,331	41,653
Strategic Partners	365,890	264,861	58,627	44,971
Other (b)	236,525	27,051		
<b>Real Estate</b>				
BREP VIII	300,000	185,989	100,000	61,996
BREP VII	300,000	47,779	100,000	15,926
BREP VI	750,000	36,809	150,000	12,270
BREP Europe III	100,000	13,231	35,000	4,410
BREP Europe IV	130,000	26,347	43,333	8,782
BREP Europe V	150,000	136,482	43,333	39,428
BREP Asia	50,000	26,771	16,667	8,924
BREDS II	50,000	14,634	16,667	4,878
BREDS III	50,000	40,685	16,667	13,562
Other (b)	151,192	37,449		
<b>Hedge Fund Solutions</b>				
Strategic Alliance	50,000	2,033		
Strategic Alliance II	50,000	1,482		
Strategic Alliance III	22,000	20,391		
Strategic Holdings LP	50,000	40,043		
Other (b)	1,300	522		
<b>Credit</b>				
Capital Opportunities Fund II LP	120,000	40,371	110,044	37,021
GSO Capital Solutions III	27,365	27,364	25,604	25,604
GSO Capital Solutions II	125,000	59,718	120,060	57,358
Blackstone/GSO Capital Solutions	50,000	6,552	27,666	3,625
BMezz II	17,692	3,085		
GSO Credit Alpha Fund LP	52,102	20,852	50,217	20,098
GSO Euro Senior Debt Fund LP	63,000	46,371	56,803	41,810
GSO Energy Select Opportunities Fund	80,000	59,570	74,694	55,619
Capital Opportunities Fund III LP	130,783	108,916	29,854	24,949
Other (b)	86,391	40,141	16,359	5,354
<b>Other</b>				
Treasury	443,956	182,418		
	\$ 6,381,463	\$ 2,404,996	\$ 1,687,585	\$ 801,447



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- (a) For some of the general partner commitments shown in the table above, we require our senior managing directors and certain other professionals to fund a portion of the commitment even though the ultimate obligation to fund the aggregate commitment is ours pursuant to the governing agreements of the respective funds. The amounts of the aggregate applicable general partner original and remaining commitment are shown in the table above. In addition, certain senior managing directors and other professionals are required to fund a de minimis amount of the commitment in the other private equity, real estate and credit-focused carry funds. We expect our commitments to be drawn down over time and to be funded by available cash and cash generated from operations and realizations. Taking into account prevailing market conditions and both the liquidity and cash or liquid investment balances, we believe that the sources of liquidity described above will be more than sufficient to fund our working capital requirements.
- (b) Represents capital commitments to a number of other funds in each respective segment.
- As of June 30, 2017, Blackstone Holdings Finance Co. L.L.C. (the Issuer), an indirect subsidiary of the Partnership, had issued and outstanding the following senior notes (collectively the Notes):

		<b>Aggregate Principal Amount (Dollars/Euros in Thousands)</b>
<b>Senior Notes (a)</b>	<b>Issue Date</b>	
6.625%, Due 8/15/2019	8/20/2009	\$ 600,000
5.875%, Due 3/15/2021	9/15/2010	\$ 400,000
4.750%, Due 2/15/2023	8/17/2012	\$ 400,000
6.250%, Due 8/15/2042	8/17/2012	\$ 250,000
5.000%, Due 6/15/2044	4/7/2014	\$ 500,000
4.450%, Due 7/15/2045	4/27/2015	\$ 350,000
2.000%, Due 5/19/2025	5/19/2015	300,000
1.000%, Due 10/5/2026	10/5/2016	600,000

- (a) The Notes are unsecured and unsubordinated obligations of the Issuer and are fully and unconditionally guaranteed, jointly and severally, by The Blackstone Group L.P. and each of the Blackstone Holdings Partnerships. The Notes contain customary covenants and financial restrictions that, among other things, limit the Issuer and the guarantors' ability, subject to certain exceptions, to incur indebtedness secured by liens on voting stock or profit participating equity interests of their subsidiaries or merge, consolidate or sell, transfer or lease assets. The Notes also contain customary events of default. All or a portion of the Notes may be redeemed at our option, in whole or in part, at any time and from time to time, prior to their stated maturity, at the make-whole redemption price set forth in the Notes. If a change of control repurchase event occurs, the Notes are subject to repurchase at the repurchase price as set forth in the Notes.

Blackstone, through indirect subsidiaries, has a \$1.5 billion unsecured revolving credit facility (the Credit Facility) with Citibank, N.A., as Administrative Agent with a maturity date of August 31, 2021. Borrowings may also be made in U.K. sterling, euros, Swiss francs or Japanese yen, in each case subject to certain sub-limits. The Credit Facility contains customary representations, covenants and events of default. Financial covenants consist of a maximum net leverage ratio and a requirement to keep a minimum amount of fee-earning assets under management, each tested quarterly.

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of our common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the three months ended June 30,

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2017, no units were repurchased. As of June 30, 2017, the amount remaining under this program available for repurchases was \$335.8 million.

***Distributable Earnings, Fee Related Earnings and Economic Net Income***

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

Effective January 1, 2017, Fee Related Earnings was redefined to exclude all Equity-Based Compensation and Other Revenue. Distributable Earnings was redefined to exclude Other Revenue. All prior periods have been recast to reflect this reclassification. Equity-Based Compensation and Other Revenue both continue to be included in Economic Income and Economic Net Income.

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

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

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

- (a) Represents the total segment amounts of the respective captions. See Note 18. Segment Reporting in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.
- (b) Represents Interest Expense, including inter-segment interest related expense.

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- (c) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represents the total GAAP tax provision adjusted to include only the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes and the Payable Under Tax Receivable Agreement.
  - (d) Represents tax-related payables including the Payable Under Tax Receivable Agreement, which is a component of Taxes and Related Payables.
  - (e) Represents equity-based award expense included in Economic Income, which excludes all transaction-related equity-based charges.
- The following table is a reconciliation of Net Income (Loss) Attributable to The Blackstone Group L.P. to Economic Income, of Economic Income to Economic Net Income, of Economic Net Income to Fee Related Earnings, of Fee Related Earnings to Distributable Earnings and of Distributable Earnings to Adjusted Earnings Before Interest, Taxes and Depreciation and Amortization:

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- (a) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes amounts for Transaction-Related Charges which include principally equity-based compensation charges associated with Blackstone's IPO and long-term retention programs outside of annual deferred compensation and other corporate actions.
- (b) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes amounts for the Amortization of Intangibles which are associated with Blackstone's IPO and other corporate actions.
- (c) This adjustment adds back to Income (Loss) Before Provision (Benefit) for Taxes the amount of (Income) Loss Associated with Non-Controlling Interests of Consolidated Entities and includes the amount of Management Fee Revenues associated with consolidated CLO entities.
- (d) Taxes represent the total GAAP tax provision adjusted to include only the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes.
- (e) This adjustment removes from Economic Income the total segment amount of Performance Fees.
- (f) This adjustment removes from Economic Income the total segment amount of Investment Income (Loss).
- (g) This adjustment removes from Economic Income the total segment amount of Other Revenue.
- (h) This adjustment represents Interest Income and Dividend Revenue less Interest Expense.
- (i) This adjustment removes from expenses the compensation and benefit amounts related to Blackstone's profit sharing plans related to Performance Fees, including Incentive Fee Related equity-based award expense.
- (j) Represents Non-Incentive Fee Related equity-based award expense and excludes all transaction-related equity-based charges.
- (k) Represents the adjustment for realized Performance Fees net of corresponding actual amounts due under Blackstone's profit sharing plans related thereto. Equals the sum of Net Realized Incentive Fees and Net Realized Carried Interest.
- (l) Represents the adjustment for Blackstone's Realized Investment Income (Loss).
- (m) Taxes and Related Payables Including Payable Under Tax Receivable Agreement represent the total GAAP tax provision adjusted to include only the current tax provision (benefit) calculated on Income (Loss) Before Provision (Benefit) for Taxes and the Payable Under Tax Receivable Agreement.
- (n) Represents Interest Expense, including inter-segment interest related expenses.

***Distributions***

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

Our intention is to distribute quarterly to common unitholders approximately 85% of The Blackstone Group L.P.'s share of Distributable Earnings, subject to adjustment by amounts determined by Blackstone's general partner to be necessary or appropriate to provide for the conduct of its business, to make appropriate investments in its business and funds, to comply with applicable law, any of its debt instruments or other agreements, or to provide for future cash requirements such as tax-related payments, clawback obligations and distributions to unitholders for any ensuing quarter. The amount to be distributed could also be adjusted upward in any one quarter.

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

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

The following graph shows fiscal quarterly and annual per common unitholder distributions for 2016 and 2017. Distributions are declared and paid in the quarter subsequent to the quarter in which they are earned.

With respect to the second quarter of fiscal year 2017, we have paid to common unitholders a distribution of \$0.54 per common unit, aggregating \$1.41 per common unit in respect of the six months ended June 30, 2017. With respect to fiscal year 2016, we paid common unitholders aggregate distributions of \$1.52 per common unit.

## ***Leverage***

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

Generally our funds in our private equity segment, our opportunistic real estate funds, funds of hedge funds and certain credit-focused funds have not utilized substantial leverage at the fund level other than for (a) short-term borrowings between the date of an investment and the receipt of capital from the investing fund's investors, and



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(b) long-term borrowings for certain investments in aggregate amounts which are generally 1% to 25% of the capital commitments of the respective fund. Our carry funds make direct or indirect investments in companies that utilize leverage in their capital structure. The degree of leverage employed varies among portfolio companies.

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

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

	<b>Reverse Repurchase Agreements</b>	<b>Repurchase Agreements (Dollars in Millions)</b>	<b>Securities Sold, Not Yet Purchased</b>
Balance, June 30, 2017	\$	\$ 60.6	\$ 143.8
Balance, December 31, 2016	\$ 118.5	\$ 75.3	\$ 215.4
Six Months Ended June 30, 2017			
Average Daily Balance	\$ 50.7	\$ 97.4	\$ 186.8
Maximum Daily Balance	\$ 118.5	\$ 152.7	\$ 262.1

**Table of Contents****Contractual Obligations, Commitments and Contingencies**

The following table sets forth information relating to our contractual obligations as of June 30, 2017 on a consolidated basis and on a basis deconsolidating the Blackstone Funds:

Contractual Obligations	July 1, 2017 to				Total
	December 31, 2017	2018-2019	2020-2021	Thereafter	
	(Dollars in Thousands)				
Operating Lease Obligations (a)	\$ 39,545	\$ 140,374	\$ 139,545	\$ 415,820	\$ 735,284
Purchase Obligations	16,066	23,972	5,294		45,332
Blackstone Issued Notes and Revolving Credit Facility (b)		585,000	400,000	2,528,340	3,513,340
Interest on Blackstone Issued Notes and Revolving Credit Facility (c)	75,587	302,334	213,072	1,354,625	1,945,618
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)	345,560			7,449,105	7,794,665
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	81,182	323,090	313,958	1,118,316	1,836,546
Blackstone Funds Capital Commitments to Investee Funds (f)	305,439				305,439
Due to Certain Non-Controlling Interest Holders in Connection with Tax Receivable Agreements (g)		177,857	176,343	841,619	1,195,819
Unrecognized Tax Benefits, Including Interest and Penalties (h)	6,400				6,400
Blackstone Operating Entities Capital Commitments to Blackstone Funds and Other (i)	2,404,996				2,404,996
<b>Consolidated Contractual Obligations</b>	<b>3,274,775</b>	<b>1,552,627</b>	<b>1,248,212</b>	<b>13,707,825</b>	<b>19,783,439</b>
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)	(345,560)			(7,449,105)	(7,794,665)
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	(81,182)	(323,090)	(313,958)	(1,118,316)	(1,836,546)
Blackstone Funds Capital Commitments to Investee Funds (f)	(305,439)				(305,439)
<b>Blackstone Operating Entities Contractual Obligations</b>	<b>\$ 2,542,594</b>	<b>\$ 1,229,537</b>	<b>\$ 934,254</b>	<b>\$ 5,140,404</b>	<b>\$ 9,846,789</b>

- (a) We lease our primary office space and certain office equipment under agreements that expire through 2030. In connection with certain office space lease agreements, we are responsible for escalation payments. The contractual obligation table above includes only guaranteed minimum lease payments for such leases and does not project potential escalation or other lease-related payments. These leases are classified as operating leases for financial statement purposes and as such are not recorded as liabilities on the Condensed Consolidated Statements of Financial Condition. The amounts are presented net of contractual sublease commitments.
- (b) Represents the principal amount due on the senior notes we issued. As of June 30, 2017, we had no outstanding borrowings under our revolver.
- (c) Represents interest to be paid over the maturity of our senior notes and borrowings under our revolving credit facility which has been calculated assuming no pre-payments are made and debt is held until its final maturity date. These amounts exclude commitment fees for unutilized borrowings under our revolver.
- (d) These obligations are those of the Blackstone Funds including the consolidated CLO vehicles.
- (e) Represents interest to be paid over the maturity of the related consolidated Blackstone Funds and CLO vehicles debt obligations which has been calculated assuming no pre-payments will be made and debt will be



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held until its final maturity date. The future interest payments are calculated using variable rates in effect as of June 30, 2017, at spreads to market rates pursuant to the financing agreements, and range from 0.6% to 9.4%. The majority of the borrowings are due on demand and for purposes of this schedule are assumed to mature within one year. Interest on the majority of these borrowings rolls over into the principal balance at each reset date.

- (f) These obligations represent commitments of the consolidated Blackstone Funds to make capital contributions to investee funds and portfolio companies. These amounts are generally due on demand and are therefore presented in the less than one year category.
- (g) Represents obligations by the Partnership's corporate subsidiary to make payments under the Tax Receivable Agreements to certain non-controlling interest holders for the tax savings realized from the taxable purchases of their interests in connection with the reorganization at the time of Blackstone's IPO in 2007 and subsequent purchases. The obligation represents the amount of the payments currently expected to be made, which are dependent on the tax savings actually realized as determined annually without discounting for the timing of the payments. As required by GAAP, the amount of the obligation included in the Condensed Consolidated Financial Statements and shown in Note 16. Related Party Transactions (see Part I. Item 1. Financial Statements ) differs to reflect the net present value of the payments due to certain non-controlling interest holders.
- (h) The total represents gross unrecognized tax benefits of \$3.3 million and interest and penalties of \$3.1 million. In addition, Blackstone is not able to make a reasonably reliable estimate of the timing of payments in individual years in connection with gross unrecognized benefits of \$0.3 million and interest of \$0.4 million; therefore, such amounts are not included in the above contractual obligations table.
- (i) These obligations represent commitments by us to provide general partner capital funding to the Blackstone Funds, limited partner capital funding to other funds and Blackstone principal investment commitments. These amounts are generally due on demand and are therefore presented in the less than one year category; however, a substantial amount of the capital commitments are expected to be called over the next three years. We expect to continue to make these general partner capital commitments as we raise additional amounts for our investment funds over time.

***Guarantees***

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

***Indemnifications***

In many of its service contracts, Blackstone agrees to indemnify the third party service provider under certain circumstances. The terms of the indemnities vary from contract to contract and the amount of indemnification liability, if any, cannot be determined and has not been included in the table above or recorded in our Condensed Consolidated Financial Statements as of June 30, 2017.

***Clawback Obligations***

Carried Interest is subject to clawback to the extent that the Carried Interest received to date with respect to a fund exceeds the amount due to Blackstone based on cumulative results of that fund. The actual clawback liability, however, generally does not become realized until the end of a fund's life except for certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability. The lives of the carry funds, including available contemplated extensions, for which a liability for potential clawback obligations has been recorded for financial reporting purposes, are currently anticipated to expire at various points through 2028. Further extensions of such terms may be implemented under given circumstances.

For financial reporting purposes, when applicable, the general partners record 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

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remaining investments and where the fund's general partner has previously received Carried Interest distributions with respect to such fund's realized investments.

As of June 30, 2017, the total clawback obligations were \$2.2 million, of which \$1.5 million related to Blackstone Holdings and \$0.7 million related to current and former Blackstone personnel. If, at June 30, 2017, all of the investments held by our carry funds were deemed worthless, a possibility that management views as remote, the amount of Carried Interest subject to potential clawback would be \$5.3 billion, on an after-tax basis where applicable, of which Blackstone Holdings is potentially liable for \$4.9 billion if current and former Blackstone personnel default on their share of the liability, a possibility that management also views as remote. (See Note 16. Related Party Transactions and Note 17.

Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.)

**Critical Accounting Policies**

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

**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 has a controlling financial interest. The Partnership has a controlling interest in Blackstone Holdings because 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.

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 or indirectly by the Partnership. 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

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determination of the primary beneficiary. At each reporting date, the Partnership assesses whether it is the primary beneficiary and will consolidate or deconsolidate accordingly.

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

### ***Revenue Recognition***

Revenues primarily consist of management and advisory fees, performance fees, investment income, interest and dividend revenue and other. Please refer to Part I. Item 1. Business Incentive Arrangements / Fee Structure in our Annual Report on Form 10-K for the year ended December 31, 2016 for additional information regarding the manner in which Base Management Fees and Performance Fees are generated.

*Management and Advisory Fees, Net* Management and Advisory Fees, Net are comprised of management fees, including base management fees, transaction and other fees 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. The range of management fee rates and the calculation base from which they are earned, generally, are as follows:

On private equity, real estate, and certain of our hedge fund solutions and credit-focused funds:

0.28% to 2.00% of committed capital or invested capital during the investment period,

0.25% to 1.75% of invested capital or investment fair value subsequent to the investment period for private equity and real estate funds, and

0.75% to 1.50% of invested capital or net asset value subsequent to the investment period for certain of our hedge fund solutions and credit-focused funds.

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

0.50% to 1.50% of net asset value.

On credit-focused separately managed accounts:

0.35% to 1.50% of net asset value.

On real estate separately managed accounts:

0.50% to 2.00% of invested capital, net operating income or net asset value.

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

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0.50% to 1.25% of net asset value.

On CLO vehicles:

0.40% to 0.65% of the aggregate par amount of collateral assets, including principal cash.

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

0.35% to 1.50% of total assets or net asset value.

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The investment adviser of BXMT receives annual management fees based upon 1.50% of BXMT's net proceeds received from equity offerings and accumulated core earnings (which is generally equal to its GAAP net income excluding certain non-cash and other items), subject to certain adjustments. The investment adviser of our non-exchange traded REIT receives a management fee of 1.25% per annum of net asset value, payable monthly.

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 transaction-based fee arrangements. 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.

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

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

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



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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 carry 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 funds, including certain Blackstone real estate funds, multi-asset class investment funds and credit-focused funds, which may have an interim clawback liability.

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

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

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

### ***Expenses***

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

*Compensation and Benefits Compensation* Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing directors and (b) equity-based compensation associated with the grants of equity-based awards to employees and senior managing directors. Compensation cost relating to the issuance of equity-based awards to senior managing directors and employees is measured at fair value at the grant date, taking into consideration expected forfeitures, and expensed over the vesting period on a straight-line basis, except in the case of (a) equity-based awards that do not require future service, which are expensed immediately and (b) certain awards to recipients that meet specified criteria making them eligible for retirement treatment (allowing such recipient to keep a percentage of those awards upon departure from Blackstone after becoming eligible for retirement), for which the expense for the portion of the award that would be retained in the event of retirement is either expensed immediately or amortized to the retirement date. 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.

### ***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

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number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

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

**Level I** Quoted prices are available in active markets for identical financial instruments as of the reporting date. The types 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, including corporate bonds and loans held within CLO vehicles, government and agency securities, less liquid and restricted equity securities, and certain over-the-counter derivatives where the fair value is based on observable inputs. Senior and subordinated notes issued by CLO vehicles are classified within Level II of the fair value hierarchy.

**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, and certain over-the-counter derivatives where the fair value is based on unobservable inputs.

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 and debt securities sold, not yet purchased. Certain equity securities and derivative instruments valued using observable inputs are also classified as Level II.

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

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

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Freestanding Derivatives are valued using contractual cash flows and observable inputs comprising yield curves, foreign currency rates and credit spreads.

Senior and subordinate notes issued by CLO vehicles are classified based on the more observable fair value of CLO assets less (a) the fair value of any beneficial interests held by Blackstone, and (b) the carrying value of any beneficial interests that represent compensation for services.

*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.

*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. For credit-focused investments that are not publicly traded or whose market prices are not readily available, Blackstone may utilize other valuation techniques, including the discounted cash flow method or a market approach. The discounted cash flow method projects the expected cash flows of the debt instrument based on contractual terms, and discounts such cash flows back to the valuation date using a market-based yield. The market-based yield is estimated using yields of publicly traded debt instruments issued by companies operating in similar industries as the subject investment, with similar leverage statistics and time to maturity.

The market approach is generally used to determine the enterprise value of the issuer of a credit investment, and considers valuation multiples of comparable companies or transactions. The resulting enterprise value will dictate whether or not such credit investment has adequate enterprise value coverage. In cases of distressed credit instruments, the market approach may be used to estimate a recovery value in the event of a restructuring.

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

Investments classified within Level III of the fair value hierarchy are valued on a quarterly basis, taking into consideration factors including 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 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 Condensed Consolidated Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains (Losses) from Fund Investment Activities in the Condensed Consolidated Statements of Operations. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date, at current market conditions (i.e., the exit price).

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

For certain instruments, the Partnership has elected the fair value option. Such election is irrevocable and is applied on an investment by investment basis at initial recognition. The Partnership has applied the fair value option for certain loans and receivables 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 Condensed Consolidated Statements of Financial Condition. Debt securities for which the fair value option has been elected are recorded within Investments. The methodology for measuring the fair value of such investments is consistent with the methodology applied to private equity, real estate, credit-focused and funds of hedge funds investments. Changes in the fair value of such instruments are recognized in Investment Income (Loss) in the Condensed Consolidated Statements of Operations. Interest income on interest bearing loans and receivables 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. Historically, the adjustment resulting from the difference between the fair value of assets and liabilities for each of these events was presented as a transition and acquisition adjustment to Appropriated Partners' Capital. Assets of the consolidated CLOs are presented within Investments within the Condensed Consolidated Statements of Financial Condition and Liabilities within Loans Payable for the amounts due to unaffiliated third parties and Due to Affiliates for the amounts held by non-consolidated affiliates. Changes in the fair value of consolidated CLO assets and liabilities and

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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. Historically, amounts attributable to Non-Controlling Interests in Consolidated Entities had a corresponding adjustment to Appropriated Partners' Capital. On the adoption of the new CLO measurement guidance, there is no attribution of amounts to Non-Controlling Interests and no corresponding adjustments to Appropriated Partners' Capital.

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

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

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

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

***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 Condensed Consolidated Statements of Operations. The Partnership does not hold any indefinite-lived intangible assets. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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operating segment is the reporting level for testing the impairment of goodwill. If it is determined that it is more 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.

Senior management has organized the firm into four operating segments. All of the components in each segment have similar economic characteristics and senior management makes key operating decisions based on the performance of each segment. Therefore, we believe that operating segment is the appropriate reporting level for testing the impairment of goodwill.

The carrying value of goodwill was \$1.7 billion as of June 30, 2017 and December 31, 2016. At June 30, 2017 and December 31, 2016, we determined that there was no evidence of goodwill impairment.

## **Off-Balance Sheet Arrangements**

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

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

Note 6. Derivative Financial Instruments ,

Note 9. Variable Interest Entities , and

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

## **Recent Accounting Developments**

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

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

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

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

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



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

**Effect on Fund Management Fees**

Our management fees are based on (a) third parties' capital commitments to a Blackstone Fund, (b) third parties' capital invested in a Blackstone Fund or (c) the net asset value, or NAV, of a Blackstone Fund, as described in our Condensed Consolidated Financial Statements. Management fees will only be directly affected by short-term changes in market conditions to the extent they are based on NAV or represent permanent impairments of value. These management fees will be increased (or reduced) in direct proportion to the effect of changes in the fair value of our investments in the related funds. The proportion of our management fees that are based on NAV is dependent on the number and types of Blackstone Funds in existence and the current stage of each fund's life cycle. For the six months ended June 30, 2017 and June 30, 2016, the percentages of our fund management fees based on the NAV of the applicable funds or separately managed accounts, were as follows:

	Six Months Ended June 30,	
	2017	2016
Fund Management Fees Based on the NAV of the Applicable Funds or Separately Managed Accounts	33%	34%

**Market Risk**

The Blackstone Funds hold investments which are reported at fair value. Based on the fair value as of June 30, 2017 and June 30, 2016, we estimate that a 10% decline in fair value of the investments would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	June 30,					
	2017 Performance Fees, Net of Related		2016 Performance Fees, Net of Related			
	Management Fees (a)	Compensation Expense (b)	Investment Income (b)	Management Fees (a)	Compensation Expense (b)	Investment Income (b)
	(Dollars in Thousands)					
10% Decline in Fair Value of the Investments	\$ 90,486	\$ 1,211,590	\$ 173,568	\$ 88,173	\$ 1,298,199	\$ 254,838

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



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

	June 30, 2017	
	Total Assets Under Management, Excluding Undrawn Capital Commitments and the Amount of Capital Raised for CLOs (Dollars in Thousands)	Percentage Amount Classified as Level III Investments
Private Equity	\$ 50,666,469	71%
Real Estate	\$ 70,135,546	83%
Credit	\$ 55,375,900	54%

The fair value of our investments and securities can vary significantly based on a number of factors that take into consideration the diversity of the Blackstone Funds' investment portfolio and on a number of factors and inputs such as similar transactions, financial metrics, and industry comparatives, among others. (See Part I. Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2016. Also see Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Investments, at Fair Value. ) We believe these fair value amounts should be utilized with caution as our intent and strategy is to hold investments and securities until prevailing market conditions are beneficial for investment sales.

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

**Exchange Rate Risk**

The Blackstone Funds hold investments that are denominated in non-U.S. dollar currencies that may be affected by movements in the rate of exchange between the U.S. dollar and non-U.S. dollar currencies. Additionally, a portion of our management fees are denominated in non-U.S. dollar currencies. We estimate that as of June 30, 2017 and June 30, 2016, a 10% decline in the rate of exchange of all foreign currencies against the U.S. dollar would result in the following declines in Management Fees, Performance Fees, Net of Related Compensation Expense and Investment Income:

	June 30,					
	2017 Performance Fees, Net of Related Compensation Expense (b)		2016 Performance Fees, Net of Related Compensation Expense (b)		Investment Income (b)	
	Management Fees (a)	Investment Income (b)	Management Fees (a)	Investment Income (b)	Management Fees (a)	Investment Income (b)
	(Dollars in Thousands)					
10% Decline in the Rate of Exchange of All Foreign Currencies Against the U.S. Dollar	\$ 10,790	\$ 29,360	\$ 13,559	\$ 269,818	\$ 299,715	\$ 33,740

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

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Blackstone has debt obligations payable that accrue interest at variable rates. Interest rate changes may therefore affect the amount of our interest payments, future earnings and cash flows. Based on our debt obligations payable as of June 30, 2017 and June 30, 2016, we estimate that interest expense relating to variable rates would increase on an annual basis, in the event interest rates were to increase by one percentage point, as follows:

	June 30,	
	2017	2016
	(Dollars in Thousands)	
Annualized Increase in Interest Expense Due to a One Percentage Point Increase in Interest Rates	\$ 28	\$ 42

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

	2017		June 30,		2016	
	Annualized Decrease in Investment Income	Annualized Increase in Interest Income from Floating Rate Assets	Annualized Decrease in Investment Income	Annualized Increase in Interest Income from Floating Rate Assets		
	(Dollars in Thousands)					
One Percentage Point Increase in Interest Rates	\$ 33,166(a)	\$ 23,769	\$ 13,722(a)	\$ 16,498		

(a) As of June 30, 2017 and 2016, this represents 0.7% and 0.4% of our portfolio of liquid assets, respectively.

**Credit Risk**

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

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

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

	June 30,	
	2017	2016
	(Dollars in Thousands)	
Decrease in Annualized Investment Income Due to a One Percentage Point Increase in Credit Spreads (a)	\$ 48,103	\$ 24,320

(a) As of June 30, 2017 and 2016, this represents 1.0% and 0.7% of our portfolio of liquid assets, respectively.

Certain of our entities hold derivative instruments that contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. We minimize our risk exposure by limiting the counterparties with which we enter into contracts to banks and

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investment banks who meet established credit and capital guidelines. We do not expect any counterparty to default on its obligations and therefore do not expect to incur any loss due to counterparty default.

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**ITEM 4. CONTROLS AND PROCEDURES**

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

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

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

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We may from time to time be involved in litigation and claims incidental to the conduct of our business. Our businesses are also subject to extensive regulation, which may result in regulatory proceedings against us. See Part I. Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2016. We are not currently subject to any pending judicial, administrative or arbitration proceedings that we expect to have a material impact on our consolidated financial statements. However, given the inherent unpredictability of these types of proceedings and the potentially large and/or indeterminate amounts that could be sought, it is possible that an adverse outcome in certain matters could have a material effect on Blackstone's financial results in any particular period.

**ITEM 1A. RISK FACTORS**

For a discussion of our potential risks and uncertainties, see the information under the heading Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2016 and in our subsequently filed Quarterly Reports on Form 10-Q, all of which are accessible on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov).

See Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Business Environment in this report for a discussion of the conditions in the financial markets and economic conditions affecting our businesses. This discussion updates, and should be read together with, the risk factor entitled Difficult market conditions can adversely affect our business in many ways, including by reducing the value or performance of the investments made by our investment funds and reducing the ability of our investment funds to raise or deploy capital, each of which could materially reduce our revenue, earnings and cash flow and adversely affect our financial prospects and condition. in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

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

In January 2008, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to \$500 million of Blackstone common units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone common units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. The unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. During the three months ended June 30, 2017, no units were repurchased. As of June 30, 2017, the amount remaining available for repurchases was \$335.8 million under this program. See Part I. Item 1. Financial Statements Notes to Condensed Consolidated Financial Statements Note 14. Net Income Per Common Unit and Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Sources and Uses of Liquidity for further information regarding this unit repurchase program.

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

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**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

Exhibit Number	Exhibit Description
10.1+	<u>Amended and Restated Agreement of Exempted Limited Partnership of Blackstone Real Estate Associates Europe V L.P., dated May 8, 2017 and deemed effective March 1, 2016 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (File No. 001-33551) filed with the SEC on May 9, 2017).</u>
10.2*+	<u>Amended and Restated Limited Liability Company Agreement of Blackstone CEMA L.L.C., dated February 9, 2016.</u>
31.1*	<u>Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).</u>
31.2*	<u>Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).</u>
32.1*	<u>Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).</u>
32.2*	<u>Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).</u>
101.INS*	<u>XBRL Instance Document.</u>
101.SCH*	<u>XBRL Taxonomy Extension Schema Document.</u>
101.CAL*	<u>XBRL Taxonomy Extension Calculation Linkbase Document.</u>
101.DEF*	<u>XBRL Taxonomy Extension Definition Linkbase Document.</u>
101.LAB*	<u>XBRL Taxonomy Extension Label Linkbase Document.</u>
101.PRE*	<u>XBRL Taxonomy Extension Presentation Linkbase Document.</u>

\* Filed herewith.

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

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 8, 2017

**The Blackstone Group L.P.**

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

*/s/ Michael S. Chae*  
**Name: Michael S. Chae**  
**Title: Chief Financial Officer**  
**(Principal Financial Officer and Authorized Signatory)**