Blackstone Group L.P.
Form 10-Q
August 08, 2018
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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, 2018

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)

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	Accelerated filer
Non-accelerated filer	Smaller reporting company
(Do not check if a 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 2, 2018 was 667,149,651.

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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, financial performance and unit repurchases and distribution activities. You can identify these forward-looking statements by the use of words such as outlook, indicator, believes, expects, potential, continues, may, will, should, seeks, approximately, predicts, intends, plans, estimates, version of these words or other comparable 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, 2017 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. 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), Facebook page (www.facebook.com/blackstone), Twitter (www.twitter.com/blackstone), LinkedIn (www.linkedin.com/company/blackstonegroup), Instagram (www.instagram.com/blackstone), SoundCloud (www.soundcloud.com/blackstone-300250613), PodBean (www.blackstone.podbean.com), Spotify (https://open.spotify.com/show/1PqaIgd12KgRN8rlijBhE7) and YouTube (www.youtube.com/user/blackstonegroup) accounts as channels of distribution of company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive e-mail alerts and other information about Blackstone when you enroll your e-mail address by visiting the 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), our infrastructure-focused funds as Blackstone Infrastructure Partners (BIP), our 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 (BXCM). We refer to our real estate opportunistic funds as Blackstone Real Estate

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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 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. BIS refers to Blackstone Insurance Solutions, which partners with insurers to deliver bespoke, capital-efficient investments tailored to each insurer s needs and risk profile.

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 (1) 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, or (2) 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, certain co-investments managed by us, 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, excluding our BIS separately managed accounts, may generally be terminated by an investor on 30 to 90 days notice.

Fee-Earning Assets Under Management refers to the assets we manage on which we derive management fees and/or performance revenues. 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, certain co-investments managed by us, certain registered investment companies, our non-exchange traded REIT, and certain of our Hedge Fund Solutions drawdown funds,

(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 revenues 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.

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

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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)

	June 30, 2018	December 31, 2017
Assets		
Cash and Cash Equivalents	$ 1,710,251	$ 1,992,497
Cash Held by Blackstone Funds and Other	288,675	1,929,531
Investments (including assets pledged of $217,832 and $169,746 at June 30, 2018 and December 31, 2017, respectively)	22,008,182	24,434,049
Accounts Receivable	917,717	875,018
Due from Affiliates	2,015,949	2,028,137
Intangible Assets, Net	380,844	409,828
Goodwill	1,778,192	1,778,192
Other Assets	252,936	242,697
Deferred Tax Assets	722,551	725,970
Total Assets	$ 30,075,297	$ 34,415,919
Liabilities and Partners Capital		
Loans Payable	$ 10,195,403	$ 14,815,436
Due to Affiliates	967,250	937,158
Accrued Compensation and Benefits	2,987,977	2,623,492
Securities Sold, Not Yet Purchased	155,780	154,380
Repurchase Agreements	182,489	118,840
Accounts Payable, Accrued Expenses and Other Liabilities	950,802	2,043,522
Total Liabilities	15,439,701	20,692,828
Commitments and Contingencies		
Redeemable Non-Controlling Interests in Consolidated Entities	158,799	210,944
Partners Capital		
The Blackstone Group L.P. Partners Capital		
Partners Capital (common units: 673,544,082 issued and outstanding as of June 30, 2018; 659,526,093 issued and outstanding as of December 31, 2017)	7,105,225	6,668,511
Accumulated Other Comprehensive Loss	(57,876)	(34,018)
Total The Blackstone Group L.P. Partners Capital	7,047,349	6,634,493
Non-Controlling Interests in Consolidated Entities	3,492,621	3,253,148
Non-Controlling Interests in Blackstone Holdings	3,936,827	3,624,506
Total Partners Capital	14,476,797	13,512,147

Total Liabilities and Partners Capital	$ 30,075,297	$ 34,415,919

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See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Financial Condition (Unaudited)

(Dollars in Thousands)

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

	June 30, 2018	December 31, 2017
Assets		
Cash Held by Blackstone Funds	$ 286,045	$ 1,580,296
Investments	8,601,714	12,948,653
Accounts Receivable	340,307	470,156
Due from Affiliates	24,360	46,112
Other Assets	3,141	5,189
Total Assets	$ 9,255,567	$ 15,050,406
Liabilities		
Loans Payable	$ 6,707,045	$ 11,300,621
Due to Affiliates	100,306	86,393
Securities Sold, Not Yet Purchased	111,162	89,907
Repurchase Agreements	182,489	118,840
Accounts Payable, Accrued Expenses and Other Liabilities	396,224	1,562,534
Total Liabilities	$ 7,497,226	$ 13,158,295

See notes to condensed consolidated financial statements.

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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,	
	2018	2017	2018	2017
Revenues				
Management and Advisory Fees, Net	$ 721,384	$ 690,857	$ 1,450,233	$ 1,336,341
Incentive Fees	19,378	40,303	31,944	86,814
Investment Income (Loss)				
Performance Allocations				
Realized	503,376	602,662	773,016	1,714,567
Unrealized	440,351	95,532	1,068,440	(29,089)
Principal Investments				
Realized	129,197	125,058	171,342	376,402
Unrealized	103,468	7,275	215,242	(32,913)
Total Investment Income	1,176,392	830,527	2,228,040	2,028,967
Interest and Dividend Revenue	40,073	33,703	75,458	62,198
Other	675,343	(59,664)	616,026	(63,876)
Total Revenues	2,632,570	1,535,726	4,401,701	3,450,444
Expenses				
Compensation and Benefits				
Compensation	427,479	367,203	816,882	718,792
Incentive Fee Compensation	9,743	21,032	16,405	43,497
Performance Allocations Compensation				
Realized	186,398	195,738	298,460	562,216
Unrealized	189,991	86,910	444,426	94,443
Total Compensation and Benefits	813,611	670,883	1,576,173	1,418,948
General, Administrative and Other	145,828	119,552	272,541	228,938
Interest Expense	39,320	41,089	77,991	81,335
Fund Expenses	17,622	49,669	72,607	73,745
Total Expenses	1,016,381	881,193	1,999,312	1,802,966
Other Income				
Net Gains from Fund Investment Activities	73,519	110,054	184,118	176,186
Income Before Provision for Taxes	1,689,708	764,587	2,586,507	1,823,664
Provision for Taxes	138,731	29,608	193,226	87,045
Net Income	1,550,977	734,979	2,393,281	1,736,619
Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	905	991	(370)	2,991

Net Income Attributable to Non-Controlling Interests in Consolidated Entities	129,078	112,944	284,577	251,629
Net Income Attributable to Non-Controlling Interests in Blackstone Holdings	678,952	283,637	999,160	692,683
Net Income Attributable to The Blackstone Group L.P.	$ 742,042	$ 337,407	$ 1,109,914	$ 789,316
Net Income Per Common Unit				
Common Units, Basic	$ 1.09	$ 0.51	$ 1.64	$ 1.19
Common Units, Diluted	$ 1.09	$ 0.50	$ 1.63	$ 1.18
Weighted-Average Common Units Outstanding				
Common Units, Basic	681,794,492	664,681,299	678,156,936	662,820,839
Common Units, Diluted	682,010,610	1,200,006,339	1,210,727,948	1,199,756,390
Distributions Declared Per Common Unit	$ 0.35	$ 0.87	$ 1.20	$ 1.34

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net Income	$ 1,550,977	$ 734,979	$ 2,393,281	$ 1,736,619
Other Comprehensive Income (Loss), Net of Tax Currency Translation Adjustment	(30,674)	35,089	(26,248)	46,593
Comprehensive Income	1,520,303	770,068	2,367,033	1,783,212
Less:				
Comprehensive Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	905	991	(370)	2,991
Comprehensive Income Attributable to Non-Controlling Interests in Consolidated Entities	129,077	140,311	282,187	282,814
Comprehensive Income Attributable to Non-Controlling Interests in Blackstone Holdings	678,952	283,637	999,160	692,683
Comprehensive Income Attributable to The Blackstone Group L.P.	$ 711,369	$ 345,129	$ 1,086,056	$ 804,724

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Changes in Partners Capital (Unaudited)

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P.							
	Common Units	Partners Capital	Accumulated Other Compre-hensive Income (Loss)	Total	Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Blackstone Holdings	Total Partners Capital	Redeemable Non-Controlling Interests in Consolidated Entities
Balance at December 31, 2017	659,526,093	$ 6,668,511	$ (34,018)	$ 6,634,493	$ 3,253,148	$ 3,624,506	$ 13,512,147	$ 210,944
Transfer Out Due to Deconsolidation of Fund Entities					(197,091)		(197,091)	
Net Income (Loss)		1,109,914		1,109,914	284,577	999,160	2,393,651	(370)
Currency Translation Adjustment			(23,858)	(23,858)	(2,390)		(26,248)	
Capital Contributions					424,132		424,132	1,100
Capital Distributions		(806,770)		(806,770)	(291,963)	(682,564)	(1,781,297)	(52,875)
Transfer of Non-Controlling Interests in Consolidated Entities					22,208		22,208	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		10,922		10,922			10,922	
Equity-Based Compensation		100,519		100,519		79,900	180,419	
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	3,032,372	(14,496)		(14,496)		(835)	(15,331)	
Repurchase of Common Units and Blackstone Holdings Partnership Units	(2,200,000)	(71,685)		(71,685)			(71,685)	
Change in The Blackstone Group L.P. s Ownership Interest		835		835		(835)		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	12,434,878	82,505		82,505		(82,505)		
Issuance of Common Units	750,739	24,970		24,970			24,970	
Balance at June 30, 2018	673,544,082	$ 7,105,225	$ (57,876)	$ 7,047,349	$ 3,492,621	$ 3,936,827	$ 14,476,797	$ 158,799

continued

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Changes in Partners Capital (Unaudited)

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P.							
	Common Units	Partners Capital	Accumulated Other Compre-hensive Income (Loss)	Total	Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Blackstone Holdings	Total Partners Capital	Redeemable Non-Controlling Interests in Consolidated Entities
Balance at December 31, 2016	643,459,542	$ 6,521,531	$ (62,887)	$ 6,458,644	$ 2,428,964	$ 3,434,483	$ 12,322,091	$ 185,390
Net Income		789,316		789,316	251,629	692,683	1,733,628	2,991
Currency Translation Adjustment			15,408	15,408	31,185		46,593	
Consolidation of a Fund Entity					387,006		387,006	
Capital Contributions		(147)		(147)	375,308		375,161	21,353
Capital Distributions		(882,742)		(882,742)	(348,513)	(754,398)	(1,985,653)	(19,034)
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	(12,429)		(12,429)		(790)	(13,219)	
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)		
Balance at June 30, 2017	653,801,394	$ 6,540,478	$ (47,479)	$ 6,492,999	$ 3,123,171	$ 3,414,840	$ 13,031,010	$ 190,700

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Six Months Ended June 30,	
	2018	**2017**
Operating Activities		
Net Income	$ 2,393,281	$ 1,736,619
Adjustments to Reconcile Net Income to Net Cash Used in Operating Activities		
Blackstone Funds Related		
Net Realized Gains on Investments	(995,992)	(2,284,430)
Changes in Unrealized (Gains) Losses on Investments	(290,232)	41,952
Non-Cash Performance Allocations	(1,068,440)	29,089
Non-Cash Performance Allocations and Incentive Fee Compensation	757,064	700,156
Equity-Based Compensation Expense	208,994	179,729
Amortization of Intangibles	28,984	21,927
Other Non-Cash Amounts Included in Net Income	172,435	132,973
Cash Flows Due to Changes in Operating Assets and Liabilities		
Cash Acquired with Consolidation of Fund Entity	31,422	13,822
Cash Relinquished with Deconsolidation of Fund Entities	(899,959)	(33,566)
Accounts Receivable	(8,030)	191,454
Reverse Repurchase Agreements		118,495
Due from Affiliates	(330,468)	(131,421)
Other Assets	(29,640)	9,772
Accrued Compensation and Benefits	(417,051)	(621,807)
Securities Sold, Not Yet Purchased	5,005	(73,633)
Accounts Payable, Accrued Expenses and Other Liabilities	(476,348)	(700,274)
Repurchase Agreements	63,649	(14,713)
Due to Affiliates	31,306	(26,290)
Investments Purchased	(9,706,998)	(7,991,469)
Cash Proceeds from Sale of Investments	7,870,341	8,279,495
Net Cash Used in Operating Activities	(2,660,677)	(422,120)
Investing Activities		
Purchase of Furniture, Equipment and Leasehold Improvements	(8,898)	(13,663)
Net Cash Used in Investing Activities	(8,898)	(13,663)

continued

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Financing Activities		
Distributions to Non-Controlling Interest Holders in Consolidated Entities	$ (338,849)	$ (330,209)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	421,801	392,983
Payments Under Tax Receivable Agreement		(59,667)
Net Settlement of Vested Common Units and Repurchase of Common and Blackstone Holdings Partnership Units	(87,016)	(13,220)
Proceeds from Loans Payable	3,218,399	2,550,559
Repayment and Repurchase of Loans Payable	(1,004,660)	(127,464)
Distributions to Unitholders	(1,489,334)	(1,637,287)
Net Cash Provided by Financing Activities	720,341	775,695
Effect of Exchange Rate Changes on Cash and Cash Equivalents, Cash Held by Blackstone Funds and Other, and Restricted Cash	11,671	72,188
Cash and Cash Equivalents, Cash Held by Blackstone Funds and Other, and Restricted Cash		
Net Increase (Decrease)	(1,937,563)	412,100
Beginning of Period	3,936,489	2,860,955
End of Period	$ 1,998,926	$ 3,273,055
Supplemental Disclosure of Cash Flows Information		
Payments for Interest	$ 84,040	$ 77,111
Payments for Income Taxes	$ 109,944	$ 46,919
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Non-Cash Contributions from Non-Controlling Interest Holders	$	$ 1,327
Non-Cash Distributions to Non-Controlling Interest Holders	$ (5,924)	$ (37,339)
Net Assets Related to the Consolidation of a Fund Entity	$	$ 387,006
Transfer of Interests to Non-Controlling Interest Holders	$ 22,208	$ (2,408)
Change in The Blackstone Group L.P. s Ownership Interest	$ 835	$ (13,821)
Net Settlement of Vested Common Units	$ 100,861	$ 62,631
Conversion of Blackstone Holdings Units to Common Units	$ 82,505	$ 43,520
Acquisition of Ownership Interests from Non-Controlling Interest Holders		
Deferred Tax Asset	$ (74,130)	$ (48,017)

Due to Affiliates	$	63,208	$	40,731
Partners Capital	$	10,922	$	7,286
Issuance of Common Units	$	24,970	$	

continued

See notes to condensed consolidated financial statements.

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THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

The following table provides a reconciliation of Cash and Cash Equivalents, Cash Held by Blackstone Funds and Other, and Restricted Cash reported within the Condensed Consolidated Statements of Financial Condition:

	June 30, 2018	December 31, 2017
Cash and Cash Equivalents	$ 1,710,251	$ 1,992,497
Cash Held by Blackstone Funds and Other	288,675	1,929,531
Restricted Cash included in Other Assets		14,461
	$ 1,998,926	$ 3,936,489

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 by Blackstone s senior managing directors and controlled by one of Blackstone s founders, Stephen A. Schwarzman (the Founder). 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, 2017 filed with the Securities and Exchange Commission.

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

All intercompany balances and transactions have been eliminated in consolidation.

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

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

Consolidation

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner has a controlling financial interest. The Partnership has a controlling financial 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 control held 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 continuously reconsiders that conclusion. In determining whether the Partnership is the primary beneficiary, Blackstone evaluates its control rights as well as 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 .

Revenue Recognition

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

Management and advisory fees and incentive fees are accounted for as contracts with customers. Under the guidance for contracts with customers, 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. See Note 18, Segment Reporting for a disaggregated presentation of revenues from contracts with customers.

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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)

Investment Income represents the unrealized and realized gains and losses on the Partnership s Performance Allocations and Principal Investments. Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by the Partnership. Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

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. These customer contracts require the Partnership to provide investment management services, which represents a performance obligation that the Partnership satisfies over time. Management fees are a form of variable consideration because the fees the Partnership is entitled to vary based on fluctuations in the basis for the management fee. The amount recorded as revenue is generally determined at the end of the period because these management fees are payable on a regular basis (typically quarterly) and are not subject to clawback once paid.

Transaction, advisory and other fees (including monitoring fees) are principally fees charged to the limited partners of funds indirectly through the 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 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. These fees and associated management fee reductions are a component of the transaction price for the Partnership s performance obligation to provide investment management services to the limited partners of funds and are recognized as changes to the transaction price in the period in which they are charged and the services are performed.

Management fee offsets are reductions to management fees payable by the limited partners of the Blackstone Funds, which are based on the amount such limited partners reimburse the Blackstone Funds or the Partnership primarily for placement fees. Providing investment management services requires the Partnership to arrange for services on behalf of its customers. In those situations where the Partnership is acting as an agent on behalf of the limited partners of funds, it presents the cost of services as net against management fee revenue. In all other situations, the Partnership is primarily responsible for fulfilling the services and is therefore acting as a principal for those arrangements. As a result, the cost of those services is presented gross as Compensation or General, Administrative and Other expense, as appropriate, with any reimbursement from the limited partners of the funds recorded as Management and Advisory Fees, Net.

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.

Incentive Fees Contractual fees earned based on the performance of Blackstone Funds (Incentive Fees) are a form of variable consideration in their contracts with customers to provide investment management services. Incentive Fees are earned 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 fund s governing agreements. Incentive Fees will not be recognized as revenue until (a) it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur, or (b) the uncertainty associated with the variable

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)

consideration is subsequently resolved. Incentive Fees are typically recognized as revenue when realized at the end of the measurement period. Once realized, such fees are not subject to clawback or reversal. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone Funds as of the reporting date are recorded within Due from Affiliates in the Condensed Consolidated Statements of Financial Condition.

Investment Income (Loss) Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership s Performance Allocations and Principal Investments.

In certain fund structures across private equity, real estate, hedge fund solutions and credit-focused funds (carry funds), Blackstone, through its subsidiaries, invests alongside its limited partners in a partnership and is entitled to its pro-rata share of the results of the fund (a pro-rata allocation). In addition to a pro-rata allocation, and assuming certain investment returns are achieved, Blackstone is entitled to a disproportionate allocation of the income otherwise allocable to the limited partners, commonly referred to as carried interest (Performance Allocations).

Performance Allocations are made 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 balance of accrued Performance Allocations (Accrued Performance Allocations) 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 Accrued Performance Allocations to reflect either (a) positive performance resulting in an increase in the Accrued Performance Allocation 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 the Accrued Performance Allocation to the general partner. In each scenario, it is necessary to calculate the Accrued Performance Allocation on cumulative results compared to the Accrued Performance Allocation recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Performance Allocations once previously Accrued Performance Allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Performance Allocations over the life of a fund. Accrued Performance Allocations as of the reporting date are reflected in Investments in the Condensed Consolidated Statements of Financial Condition.

Performance Allocations are 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. Performance Allocations are subject to clawback to the extent that the Performance Allocation received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Performance Allocations, 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.

Principal Investments include the unrealized and realized gains and losses on the Partnership s principal investments, including its investments in Blackstone Funds that are not consolidated and receive pro-rata allocations, its equity method investments, and other principal investments. Income (Loss) on Principal Investments

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Notes to Condensed Consolidated Financial Statements Continued

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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 Income (Loss) on Principal Investments results from changes in the fair value of the underlying investment as well as the reversal of unrealized gain (loss) at the time an investment is realized.

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

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

Fair Value of Financial Instruments

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

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

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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

Level II Valuation Techniques

Financial instruments classified within Level II of the fair value hierarchy comprise debt instruments, including 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.

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.

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Notes to Condensed Consolidated Financial Statements Continued

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

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.

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

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Notes to Condensed Consolidated Financial Statements Continued

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

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. 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.

The Partnership has elected the fair value option for the assets of consolidated CLO vehicles. As permitted under GAAP, the Partnership measures the liabilities of consolidated CLO vehicles as (a) the sum of the fair value of the consolidated CLO assets and the carrying value of any non-financial assets held temporarily, less (b) the sum of the fair value of any beneficial interests retained by the Partnership (other than those that represent compensation for services) and the Partnership s carrying value of any beneficial interests that represent compensation for services. As a result of this measurement alternative, there is no attribution of amounts to Non-Controlling Interests for consolidated CLO vehicles. 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 are presented within Net Gains from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses.

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

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)

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 except in cases where the fair value option has been elected. The Partnership has significant influence over all Blackstone Funds in which it invests but does not consolidate. Therefore, its investments in such Blackstone Funds, which include both a proportionate and disproportionate allocation of the profits and losses (as is the case with carry funds that include a Performance Allocation), are accounted for under the equity method. Under the equity method of accounting, the Partnership s share of earnings (losses) from equity method investments is included in Investment Income (Loss) in the Condensed Consolidated Statements of Operations.

In cases where the Partnership s equity method investments provide for a disproportionate allocation of the profits and losses (as is the case with carry funds that include a Performance Allocation), the Partnership s share of earnings (losses) from equity method investments is determined using a balance sheet approach referred to as the hypothetical liquidation at book value (HLBV) method. Under the HLBV method, at the end of each reporting period the Partnership calculates the Accrued Performance Allocations 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 Accrued Performance Allocations to reflect either (a) positive performance resulting in an increase in the Accrued Performance Allocation 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 the Accrued Performance Allocation to the general partner. In each scenario, it is necessary to calculate the Accrued Performance Allocation on cumulative results compared to the Accrued Performance Allocation recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Performance Allocations once previously Accrued Performance Allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Performance Allocations over the life of a fund. The carrying amounts of equity method investments are reflected in Investments in the Condensed Consolidated Statements of Financial Condition.

Compensation and Benefits

Compensation and Benefits *Compensation* Compensation and Benefits consists of (a) employee compensation, comprising salary and bonus, and benefits paid and payable to employees and senior managing

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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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 Incentive Fee Compensation Incentive Fee Compensation consists of compensation paid based on Incentive Fees.

Compensation and Benefits Performance Allocations Compensation Performance Allocation Compensation consists of compensation paid based on Performance Allocations (which may be distributed in cash or in-kind). Such compensation expense is subject to both positive and negative adjustments. Unlike Performance Allocations, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. These amounts may also include allocations of investment income from Blackstone s principal investments, to senior managing directors and employees participating in certain profit sharing initiatives.

Repurchase Agreements

Securities sold under agreements to repurchase (repurchase agreements), comprised primarily of U.S. and non-U.S. government and agency securities are asset-backed securities and corporate debt and 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 agreements approximates fair value.

The Partnership manages credit exposure arising from 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 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 repurchase agreements are discussed in Note 10. Repurchase Agreements .

Blackstone does not offset assets and liabilities relating to 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

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market prices and delivering it to the counterparty from which it borrowed the security. The Partnership is exposed to loss in the event that the price at which a security may have to be purchased to cover a short sale exceeds the price at which the borrowed security was sold short.

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

Derivative Instruments

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

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arrangements, even when an enforceable master netting agreement is in place that provides the Partnership, in the event of counterparty default, the right to liquidate collateral and the right to offset a counterparty s rights and obligations.

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

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

Affiliates

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

Distributions

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

Recent Accounting Developments

In May 2014, the Financial Accounting Standards Board (FASB) issued amended guidance on revenue from contracts with customers. The new guidance was effective for Blackstone beginning January 1, 2018 and was adopted on a full retrospective basis. 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.

Blackstone has concluded that its Management and Advisory Fees and Incentive Fees are within the scope of the amended revenue recognition guidance. The adoption of the amended guidance did not have a material impact on the recognition of Management and Advisory Fees. For Incentive Fees, the amended guidance changes the presentation and delays the recognition of revenues compared to the prior accounting treatment. These amounts were previously recognized within Realized and Unrealized Performance Fees Incentive Fees in the Condensed Consolidated Statements of Operations. Under the amended guidance, these amounts will be recognized separately within Incentive Fees. Blackstone recorded a net reduction to Partners Capital of $2.4 million and $1.9 million as of December 31, 2016 and December 31, 2017, respectively, as a result of adopting the amended guidance. For the three months ended June 30, 2017, the impact on Total Revenues, Net Income Attributable to The Blackstone Group L.P., Net Income Per Common Unit Basic, and Net Income Per Common Unit Diluted was a reduction of $13.6 million, $5.4 million, $0.01 per common unit, and $0.01 per common unit, respectively. For the six months ended June 30, 2017, the impact on Total Revenues, Net Income Attributable to The Blackstone Group L.P., Net Income Per Common Unit Basic, and Net Income Per Common Unit Diluted was a reduction of $39.6 million, $15.3 million, $0.02 per common unit, and $0.02 per common unit, respectively. Also, the reimbursement of certain costs incurred in the process of providing investment management services, primarily travel costs, that were previously presented net in the Condensed Consolidated Statements of Operations are presented gross under the amended guidance. For the three and six months ended June 30, 2017, these costs were

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$4.3 million and $7.6 million, respectively, and are presented in General, Administrative and Other Expenses with the related reimbursement presented in Management and Advisory Fees, Net in the Condensed Consolidated Statements of Operations.

Blackstone has concluded that investments made alongside its limited partners in a partnership which entitle Blackstone to a pro-rata allocation and a disproportionate Performance Allocation represent equity method investments that are not in the scope of the amended revenue recognition guidance. Therefore, effective January 1, 2018, Blackstone amended the recognition and measurement of Performance Allocations. This accounting change will not change the timing or amount of revenue recognized related to Performance Allocation arrangements. These amounts were previously recognized within Realized and Unrealized Performance Fees Carried Interest and Incentive Fees in the Condensed Consolidated Statements of Operations. Under the equity method of accounting Blackstone recognizes Performance Allocations within Investment Income along with the allocations proportionate to Blackstone s ownership interests in the Blackstone Funds. Blackstone applied a retrospective application consistent with the requirements for presentation of a change in accounting principle.

In January 2016, the FASB issued amended guidance on the classification and measurement of financial instruments. The new guidance was effective for Blackstone beginning on January 1, 2018 and was adopted on a modified retrospective basis. However, changes to the accounting for equity securities without a readily determinable fair value will be applied prospectively as permitted under the guidance. This amended guidance did not have an impact on Blackstone s financial statements as of and for the three and six months ended June 30, 2018.

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. 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 Condensed Consolidated Statement of Financial Condition. It is not expected to have a material impact on the Condensed Consolidated Statements of Operations or the Condensed Consolidated Statements of Cash Flows.

In November 2016, the FASB issued amended guidance on classification and presentation of restricted cash on the statement of cash flows. The new guidance was effective for Blackstone beginning on January 1, 2018 and was adopted on a retrospective basis. Under the new guidance, reporting entities are required to explain the changes in the combined total of restricted and unrestricted balances in the statement of cash flows. Therefore, amounts generally described as restricted cash or restricted cash equivalents (hereinafter referred to as restricted cash) should be combined with unrestricted cash and cash equivalents when reconciling the beginning and end of period

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balances on the statement of cash flows. Reporting entities are also required to disclose how the statement of cash flows reconciles to the balance sheet in any situation in which the balance sheet includes more than one line item of cash, cash equivalents, and restricted cash. For the six months ended June 30, 2017 the new guidance resulted in a decrease in Net Cash Used in Operating Activities of $463.5 million, a decrease in Net Cash Provided by Investing Activities of $18.0 million, and an increase in Effect of Exchange Rate Changes on Cash and Cash Equivalents, Cash Held by Blackstone Funds, and Restricted Cash of $58.3 million. Additionally, the new guidance increased the December 31, 2016 Beginning of Period and June 30, 2017 End of Period balances by $1.0 billion and $1.5 billion, respectively, in the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2017.

3. INTANGIBLE ASSETS

Intangible Assets, Net consists of the following:

	June 30, 2018	December 31, 2017
Finite-Lived Intangible Assets / Contractual Rights	$ 1,594,876	$ 1,594,876
Accumulated Amortization	(1,214,032)	(1,185,048)
Intangible Assets, Net	$ 380,844	$ 409,828

Amortization expense associated with Blackstone s intangible assets was $14.5 million and $29.0 million for the three and six month periods ended June 30, 2018, respectively, and $11.0 million and $21.9 million for the three and six month periods ended June 30, 2017, respectively.

Amortization of Intangible Assets held at June 30, 2018 is expected to be $57.9 million, $57.9 million, $57.9 million, $57.9 million, and $50.2 million for each of the years ending December 31, 2018, 2019, 2020, 2021 and 2022, respectively. Blackstone s intangible assets as of June 30, 2018 are expected to amortize over a weighted-average period of 8.8 years.

4. INVESTMENTS

Investments consist of the following:

	June 30, 2018	December 31, 2017
Investments of Consolidated Blackstone Funds	$ 8,608,565	$ 12,954,121
Equity Method Investments		
Partnership Investments	3,589,234	3,263,131
Accrued Performance Allocations	6,354,179	5,328,280
Corporate Treasury Investments	3,088,001	2,566,043
Other Investments	368,203	322,474
	$ 22,008,182	$ 24,434,049

Blackstone s share of Investments of Consolidated Blackstone Funds totaled $373.5 million and $488.4 million at June 30, 2018 and December 31, 2017, respectively.

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Investments of Consolidated Blackstone Funds

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Realized Gains	$ 52,236	$ 51,777	$ 34,378	$ 107,685
Net Change in Unrealized Gains (Losses)	(22,278)	19,483	74,963	(9,039)
Realized and Net Change in Unrealized Gains from Consolidated Blackstone Funds	29,958	71,260	109,341	98,646
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	43,561	38,794	74,777	77,540
Other Income Net Gains from Fund Investment Activities	$ 73,519	$ 110,054	$ 184,118	$ 176,186

Equity Method Investments

Blackstone s equity method investments include Partnership Investments, which represent the pro rata investments, and any associated Accrued Performance Allocations, in private equity funds, real estate funds, funds of hedge funds and credit-focused funds. Partnership Investments also includes the 40% non-controlling interest in Pátria Investments Limited and Pátria Investimentos Ltda. (collectively, Pátria).

Blackstone evaluates each of its equity method investments, excluding Accrued Performance Allocations, 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, 2018 and 2017, 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.

Partnership Investments

Blackstone recognized net gains related to its Partnership Investments accounted for under the equity method of $165.6 million and $124.1 million for the three months ended June 30, 2018 and 2017, respectively. The Partnership recognized net gains related to its equity method investments of $328.1 million and $292.6 million for the six months ended June 30, 2018 and 2017, respectively.

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Accrued Performance Allocations

Accrued Performance Allocations to the Partnership in respect of performance of certain Blackstone Funds were as follows:

	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
Accrued Performance Allocations, December 31, 2017	$ 1,916,971	$ 2,859,307	$ 13,802	$ 538,200	$ 5,328,280
Performance Allocations as a Result of Changes in Fund Fair Values	1,110,884	606,245	17,384	144,893	1,879,406
Foreign Exchange Loss		(37,950)			(37,950)
Fund Distributions	(217,712)	(484,316)	(7,081)	(106,448)	(815,557)
Accrued Performance Allocations, June 30, 2018	$ 2,810,143	$ 2,943,286	$ 24,105	$ 576,645	$ 6,354,179

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,	
	2018	2017	2018	2017
Realized Gains (Losses)	$ 4,774	$ 2,252	$ 7,113	$ (3,429)
Net Change in Unrealized Gains (Losses)	(6,702)	12,815	(14,896)	43,295
	$(1,928)	$15,067	$(7,783)	$39,866

Other Investments

Other Investments consist primarily of proprietary investment securities held by Blackstone. Other investments includes equity investments without readily determinable fair values which have a carrying value of $24.5 million as of June 30, 2018. During the three months ended June 30, 2018, an investment which previously did not have a readily determinable fair value completed an initial public offering and is now carried at fair value with realized and unrealized gains or losses recorded within Investment Income on the Condensed Consolidated Statement of Operations. This event resulted in an unrealized gain of $50.0 million during the three and six months ended June 30, 2018. The following table presents Blackstone s Realized and Net Change in Unrealized Gains in Other Investments:

	Three Months Ended June 30,	Six Months Ended June 30,

	2018	2017	2018	2017
Realized Gains	$ 16,207	$ 2,865	$ 16,319	$ 2,870
Net Change in Unrealized Gains	49,643	4,803	45,411	10,291
	$ 65,850	$ 7,668	$ 61,730	$ 13,161

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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, 2018 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	$ 209,697	$ 131	(a)	(a)
Credit Driven	114,592	268	(b)	(b)
Equity	38,839		(c)	(c)
Commodities	1,806		(d)	(d)
	$ 364,934	$ 399		

(a) Diversified Instruments include investments in funds that invest across multiple strategies. Investments representing 3% 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 97% 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 41% 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 59% 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. As of the reporting date, the investee fund manager had elected to side-pocket 8% of Blackstone s investments in the category.

(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

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

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forward contracts to hedge a portion of the net investment in Blackstone s non-U.S. dollar denominated foreign operations.

Blackstone uses foreign currency forward contracts to hedge portions of Blackstone s net investments in foreign operations. The gains and losses due to change in fair value attributable to changes in spot exchange rates on foreign currency derivatives designated as net investment hedges were recognized in Other Comprehensive Income, Net of Tax Currency Translation Adjustment. For the three months ended June 30, 2018 there was no resulting gain or loss. For the six months ended June 30, 2018 the resulting loss was $1.4 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, 2018				December 31, 2017			
	Assets		Liabilities		Assets		Liabilities	
	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
Net Investment Hedges								
Foreign Currency Contracts	$	$	$	$	$	$	$ 50,857	$ 453
Freestanding Derivatives								
Blackstone								
Interest Rate Contracts	944,822	22,123	922,672	48,711	225,550	2,042	1,530,751	27,275
Foreign Currency Contracts	198,028	782	98,298	570	279,050	2,097	296,252	2,975
Credit Default Swaps	5,001	125	20,532	2,168	2,073	304	2,073	304
Investments of Consolidated Blackstone Funds								
Foreign Currency Contracts	114,194	5,295	11,099	1,087	493,181	24,087	264,693	5,628
Credit Default Swaps	32,306	1,565	50,056	4,839	45,670	3,731	45,582	5,163
Total Return Swaps	25,325	488			25,645	526		
	1,319,676	30,378	1,102,657	57,375	1,071,169	32,787	2,139,351	41,345
	$ 1,319,676	$ 30,378	$ 1,102,657	$ 57,375	$ 1,071,169	$ 32,787	$ 2,190,208	$ 41,798

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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,	
	2018	2017	2018	2017
Net Investment Hedges Foreign Currency Contracts				
Hedge Ineffectiveness	$	$ (13)	$ (8)	$ (35)
Freestanding Derivatives				
Realized Gains (Losses)				
Interest Rate Contracts	$ 449	$ (3,007)	$ 2,070	$ (3,947)
Foreign Currency Contracts	12,321	(6,663)	8,238	(3,312)
Credit Default Swaps	(107)	268	(508)	(1,658)
Total Return Swaps	173		174	
	$ 12,836	$ (9,402)	$ 9,974	$ (8,917)
Net Change in Unrealized Gains (Losses)				
Interest Rate Contracts	$ 37,261	$ (426)	$ (39)	$ (643)
Foreign Currency Contracts	1,456	14,642	(2,272)	12,682
Credit Default Swaps	615	1,214	488	3,161
Total Return Swaps	(5)		52	
	$ 39,327	$ 15,430	$ (1,771)	$ 15,200

As of June 30, 2018 and December 31, 2017, the Partnership had not designated any derivatives as cash flow hedges.

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7. FAIR VALUE OPTION

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

	June 30, 2018	December 31, 2017
Assets		
Loans and Receivables	$ 346,603	$ 239,659
Equity and Preferred Securities	502,095	475,485
Debt Securities	522,033	418,061
Assets of Consolidated CLO Vehicles		
Corporate Loans	7,082,085	10,825,759
Corporate Bonds		690,125
Other		458
	$ 8,452,816	$ 12,649,547
Liabilities		
Liabilities of Consolidated CLO Vehicles		
Senior Secured Notes		
Loans Payable	$ 6,528,326	$ 10,594,656
Due to Affiliates	3,269	996
Subordinated Notes		
Loans Payable	175,900	703,164
Due to Affiliates	63,279	40,390
	$ 6,770,774	$ 11,339,206

The following tables presents 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,			
	2018		2017	
	Realized Gains	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
Assets				
Equity and Preferred Securities	$	$ (2,095)	$ 1	$ 7,116
Debt Securities	15	(2,878)		
Assets of Consolidated CLO Vehicles				
Corporate Loans	1,074	(25,896)	(543)	25,084
Corporate Bonds			2,580	(927)
Other			65	129

	$ 1,089	$ (30,869)	$ 2,103	$ 31,402	
Liabilities					
Liabilities of Consolidated CLO Vehicles					
Subordinated Notes	$	$ 16,846	$	$ 24,800	

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	Six Months Ended June 30,			
	2018		2017	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains	Net Change in Unrealized Gains (Losses)
Assets				
Loans and Receivables	$	$	$	$ 7,418
Equity and Preferred Securities		(1,867)	1	20,225
Debt Securities	827	(2,297)		
Assets of Consolidated CLO Vehicles				
Corporate Loans	(4,399)	(7,046)	1,329	13,695
Corporate Bonds	(24,056)	9,693	8,214	(6,801)
Other		6	65	129
	$ (27,628)	$ (1,511)	$ 9,609	$ 34,666
Liabilities				
Liabilities of Consolidated CLO Vehicles				
Subordinated Notes	$	$ 60,460	$	$ 32,712

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

	June 30, 2018			December 31, 2017		
		For Financial Assets Past Due (a)			For Financial Assets Past Due (a)	
	Excess (Deficiency) of Fair Value Over Principal	Fair Value	Excess of Fair Value Over Principal	Excess (Deficiency) of Fair Value Over Principal	Fair Value	(Deficiency) of Fair Value Over Principal
Loans and Receivables	$ 933	$	$	$ 1,207	$	$
Debt Securities	(2,131)			(372)		
Assets of Consolidated CLO Vehicles						
Corporate Loans	(10,752)			(13,495)	57,778	(19,633)
Corporate Bonds				(21,455)		
	$ (11,950)	$	$	$ (34,115)	$ 57,778	$ (19,633)

(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, 2018 and December 31, 2017, no Loans and Receivables for which the fair value option was elected were past due or in non-accrual status. As of June 30, 2018 and December 31, 2017, no Corporate Bonds included within the Assets of Consolidated CLO Vehicles for which the fair value option was elected were past due or in non-accrual status.

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8. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

	June 30, 2018				
	Level I	Level II	Level III	NAV	Total
Assets					
Cash and Cash Equivalents Money Market Funds	$ 538,418	$	$	$	$ 538,418
Investments					
Investments of Consolidated Blackstone Funds (a)					
Investment Funds				86,463	86,463
Equity Securities	51,212	51,051	159,109		261,372
Partnership and LLC Interests		1,527	313,992		315,519
Debt Instruments		771,977	83,801		855,778
Freestanding Derivatives					
Foreign Currency Contracts		5,295			5,295
Credit Default Swaps		1,565			1,565
Total Return Swaps		488			488
Assets of Consolidated CLO Vehicles Corporate Loans		6,552,263	529,822		7,082,085
Total Investments of Consolidated Blackstone Funds	51,212	7,384,166	1,086,724	86,463	8,608,565
Corporate Treasury Investments					
Equity Securities	309,131				309,131
Debt Instruments		2,491,430	28,221		2,519,651
Other				259,219	259,219
Total Corporate Treasury Investments	309,131	2,491,430	28,221	259,219	3,088,001
Other Investments	248,494	13,955	86,502	19,252	368,203
Total Investments	608,837	9,889,551	1,201,447	364,934	12,064,769
Accounts Receivable Loans and Receivables			346,603		346,603
Other Assets					
Freestanding Derivatives					
Interest Rate Contracts	935	21,188			22,123
Foreign Currency Contracts		782			782
Credit Default Swaps		125			125
Total Other Assets	935	22,095			23,030
	$ 1,148,190	$ 9,911,646	$ 1,548,050	$ 364,934	$ 12,972,820

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Notes to Condensed Consolidated Financial Statements Continued

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

	June 30, 2018			
	Level I	Level II	Level III	Total
Liabilities				
Loans Payable Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes (b)	$	$ 6,528,326	$	$ 6,528,326
Subordinated Notes (b)		175,900		175,900
Total Loans Payable		6,704,226		6,704,226
Due to Affiliates Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes (b)		3,269		3,269
Subordinated Notes (b)		63,279		63,279
Total Due to Affiliates		66,548		66,548
Securities Sold, Not Yet Purchased		155,780		155,780
Accounts Payable, Accrued Expenses and Other Liabilities				
Liabilities of Consolidated Blackstone Funds Freestanding Derivatives (a)				
Foreign Currency Contracts		1,087		1,087
Credit Default Swaps		4,839		4,839
Total Liabilities of Consolidated Blackstone Funds		5,926		5,926
Freestanding Derivatives				
Interest Rate Contracts	551	48,160		48,711
Foreign Currency Contracts		570		570
Credit Default Swaps		2,168		2,168
Total Freestanding Derivatives	551	50,898		51,449
Total Accounts Payable, Accrued Expenses and Other Liabilities	551	56,824		57,375
	$ 551	$ 6,983,378	$	$ 6,983,929

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Notes to Condensed Consolidated Financial Statements Continued

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

	December 31, 2017				
	Level I	Level II	Level III	NAV	Total
Assets					
Cash and Cash Equivalents Money Market Funds	$ 853,680	$	$	$	$ 853,680
Investments					
Investments of Consolidated Blackstone Funds (a)					
Investment Funds				130,339	130,339
Equity Securities	67,443	44,026	131,867		243,336
Partnership and LLC Interests		2,549	331,448		333,997
Debt Instruments		643,608	58,155		701,763
Freestanding Derivatives					
Foreign Currency Contracts		101			101
Credit Default Swaps		3,731			3,731
Total Return Swaps		526			526
Assets of Consolidated CLO Vehicles					
Corporate Loans		10,318,316	507,443		10,825,759
Corporate Bonds		690,125			690,125
Freestanding Derivatives Foreign Currency Contracts		23,986			23,986
Other			458		458
Total Investments of Consolidated Blackstone Funds	67,443	11,726,968	1,029,371	130,339	12,954,121
Corporate Treasury Investments					
Equity Securities	282,866				282,866
Debt Instruments		1,943,654	24,249		1,967,903
Other				315,274	315,274
Total Corporate Treasury Investments	282,866	1,943,654	24,249	315,274	2,566,043
Other Investments	193,072	14,162	95,393	19,847	322,474
Total Investments	543,381	13,684,784	1,149,013	465,460	15,842,638
Accounts Receivable Loans and Receivables			239,659		239,659
Other Assets					
Freestanding Derivatives					
Interest Rate Contracts	575	1,467			2,042
Foreign Currency Contracts		2,097			2,097
Credit Default Swaps		304			304
Total Other Assets	575	3,868			4,443
	$ 1,397,636	$ 13,688,652	$ 1,388,672	$ 465,460	$ 16,940,420

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Notes to Condensed Consolidated Financial Statements Continued

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

	December 31, 2017			
	Level I	Level II	Level III	Total
Liabilities				
Loans Payable Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes (b)	$	$ 10,594,656	$	$ 10,594,656
Subordinated Notes (b)		703,164		703,164
Total Loans Payable		11,297,820		11,297,820
Due to Affiliates Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes (b)		996		996
Subordinated Notes (b)		40,390		40,390
Total Due to Affiliates		41,386		41,386
Securities Sold, Not Yet Purchased		154,380		154,380
Accounts Payable, Accrued Expenses and Other Liabilities				
Liabilities of Consolidated Blackstone Funds Freestanding Derivatives (a)				
Foreign Currency Contracts		5,628		5,628
Credit Default Swaps		5,163		5,163
Total Liabilities of Consolidated Blackstone Funds		10,791		10,791
Freestanding Derivatives				
Interest Rate Contracts	415	26,860		27,275
Foreign Currency Contracts		2,975		2,975
Credit Default Swaps		304		304
Total Freestanding Derivatives	415	30,139		30,554
Net Investment Hedges Foreign Currency Contracts		453		453
Total Accounts Payable, Accrued Expenses and Other Liabilities	415	41,383		41,798
	$ 415	$ 11,534,969	$	$ 11,535,384

(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.

The following table summarizes the fair value transfers between Level I and Level II for positions that existed as of June 30, 2018 and 2017, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Transfers from Level I into Level II (a)	$	$ 762	$	$ 762
Transfers from Level II into Level I (b)	$	$	$ 447	$

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Notes to Condensed Consolidated Financial Statements Continued

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

(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.

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, 2018:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted-Average (a)
Financial Assets					
Investments of Consolidated Blackstone Funds					
Equity Securities	$ 118,659	Discounted Cash Flows	Discount Rate	7.1% - 25.7%	12.6%
			Revenue CAGR	-11.9% - 37.3%	7.1%
			Book Value Multiple	1.1x - 9.5x	8.3x
			Exit Capitalization Rate	5.0% - 11.4%	8.1%
			Exit Multiple - EBITDA	2.8x - 16.0x	10.2x
			Exit Multiple - NOI	8.8x - 12.8x	11.0x
			Exit Multiple - P/E	10.0x - 17.0x	14.2x
	1,477	Market Comparable Companies	Book Value Multiple	0.7x - 0.9x	0.8x
			Exit Multiple - EBITDA	8.0x	N/A
	28,049	Other	N/A	N/A	N/A
	10,870	Transaction Price	N/A	N/A	N/A
	54	Third Party Pricing	N/A	N/A	N/A
Partnership and LLC Interests	267,616	Discounted Cash Flows	Discount Rate	4.6% - 26.5%	9.9%
			Revenue CAGR	-2.1% - 45.5%	7.6%
			Book Value Multiple	8.5x - 9.3x	9.2x
			Exit Capitalization Rate	1.5% - 25.0%	5.9%
			Exit Multiple - EBITDA	0.1x - 28.6x	10.5x
			Exit Multiple - NOI	12.5x	N/A
	578	Market Comparable Companies	Book Value Multiple	1.0x	N/A
	27,668	Other	N/A	N/A	N/A
	543	Third Party Pricing	N/A	N/A	N/A
	17,587	Transaction Price	N/A	N/A	N/A
Debt Instruments	7,384	Discounted Cash Flows	Discount Rate	6.3% - 16.7%	9.5%
			Revenue CAGR	23.6%	N/A
			Exit Capitalization Rate	3.9%	N/A
	63,737	Third Party Pricing	N/A	N/A	N/A
	12,680	Transaction Price	N/A	N/A	N/A
Assets of Consolidated CLO Vehicles	37	Discounted Cash Flows	Discount Rate	8.0%	N/A
	529,785	Third Party Pricing	N/A	N/A	N/A
Total Investments of Consolidated Blackstone Funds	1,086,724				

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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	$ 11,070	Discounted Cash Flows	Discount Rate	0.7% - 6.0%	4.1%
			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%	68.0%
			Reinvestment Rate	LIBOR + 350bps - LIBOR + 400bps	LIBOR + 391 bps
	17,151	Third Party Pricing	N/A	N/A	N/A
Loans and Receivables	217,709	Discounted Cash Flows	Discount Rate	5.8% - 10.2%	9.0%
	128,894	Transaction Price	N/A	N/A	N/A
Other Investments	61,105	Discounted Cash Flows	Discount Rate	0.7% - 8.9%	1.9%
			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
	25,397	Transaction Price	N/A	N/A	N/A
	$ 1,548,050				

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Notes to Condensed Consolidated Financial Statements Continued

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

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of December 31, 2017:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted-Average (a)
Financial Assets					
Investments of Consolidated Blackstone Funds					
Equity Securities	$ 91,753	Discounted Cash Flows	Discount Rate	7.1% - 31.4%	12.6%
			Revenue CAGR	1.0% - 49.4%	7.1%
			Exit Capitalization Rate	5.0% - 11.4%	8.5%
			Exit Multiple - EBITDA	4.0x - 16.0x	9.9x
			Exit Multiple - NOI	8.8x - 12.5x	10.5x
			Exit Multiple - P/E	9.5x - 17.0x	11.0x
	862	Market Comparable Companies	Book Value Multiple	0.8x - 0.9x	0.9x
			Exit Multiple - EBITDA	8.0x	N/A
	17,536	Other	N/A	N/A	N/A
	21,716	Transaction Price	N/A	N/A	N/A
Partnership and LLC Interests	293,744	Discounted Cash Flows	Discount Rate	4.6% - 26.5%	9.8%
			Revenue CAGR	-22.2% - 71.5%	8.4%
			Exit Capitalization Rate	3.1% - 10.0%	5.7%
			Exit Multiple - EBITDA	0.1x - 15.0x	8.6x
			Exit Multiple - NOI	12.5x	N/A
	530	Market Comparable Companies	Book Value Multiple	1.0x	N/A
	22,346	Other	N/A	N/A	N/A
	758	Third Party Pricing	N/A	N/A	N/A
	14,070	Transaction Price	N/A	N/A	N/A
Debt Instruments	6,122	Discounted Cash Flows	Discount Rate	6.6% - 18.4%	9.6%
			Revenue CAGR	7.7%	N/A
			Exit Capitalization Rate	8.3%	N/A
			Exit Multiple - NOI	12.0x	N/A
	50,136	Third Party Pricing	N/A	N/A	N/A
	1,897	Transaction Price	N/A	N/A	N/A
Assets of Consolidated CLO Vehicles	8,277	Market Comparable Companies	EBITDA Multiple	7.0x	N/A
	499,624	Third Party Pricing	N/A	N/A	N/A
Total Investments of Consolidated Blackstone Funds	1,029,371				
Corporate Treasury Investments	8,886	Discounted Cash Flows	Discount Rate	5.1% - 6.3%	5.4%
			Default Rate	2.0%	N/A
			Pre-payment Rate	20%	N/A
			Recovery Lag	12 Months	N/A
			Recovery Rate	30.0% - 70.0%	68.1%
			Reinvestment Rate	LIBOR + 400 bps	N/A
	15,363	Third Party Pricing	N/A	N/A	N/A
Loans and Receivables	239,659	Discounted Cash Flows	Discount Rate	7.1% - 10.3%	8.8%
Other Investments	65,821	Discounted Cash Flows	Discount Rate	0.7% - 13.0%	2.2%
			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 - LIBOR + 413 bps	LIBOR + 401 bps
29,572	Transaction Price	N/A	N/A	N/A
$ 1,388,672				

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Notes to Condensed Consolidated Financial Statements Continued

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

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.
NOI	Net operating income.
P/E	Price-earnings ratio.
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.

Since December 31, 2017, 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

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

Investment Income (Loss) or Net Gains from Fund Investment Activities in the Condensed Consolidated Statements of Operations.

	Level III Financial Assets at Fair Value Three Months Ended June 30,							
	2018				2017			
	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	$ 963,151	$ 163,135	$ 117,349	$ 1,243,635	$ 685,966	$ 112,056	$ 138,433	$ 936,455
Transfer In Due to Consolidation and Acquisition					35,040			35,040
Transfer Out Due to Deconsolidation					(44,095)			(44,095)
Transfer In to Level III (b)	152,666			152,666	68,127		6,473	74,600
Transfer Out of Level III (b)	(117,217)		(7,649)	(124,866)	(105,165)		(11,930)	(117,095)
Purchases	203,223	294,258	15,327	512,808	112,405	268,222	9,155	389,782
Sales	(127,718)	(110,508)	(23,304)	(261,530)	(46,140)	(75,342)	(34,014)	(155,496)
Settlements		(5,634)	(1)	(5,635)		(1,392)	(993)	(2,385)
Changes in Gains Included in Earnings and Other Comprehensive Income	12,619	5,352	13,001	30,972	9,606	2,735	8,565	20,906
Balance, End of Period	$ 1,086,724	$ 346,603	$ 114,723	$ 1,548,050	$ 715,744	$ 306,279	$ 115,689	$ 1,137,712
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	$ 146	$ 5,353	$ (49)	$ 5,450	$ (2,163)	$ 2,735	$ 123	$ 695

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Notes to Condensed Consolidated Financial Statements Continued

(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,							
	2018				2017			
	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	$ 1,029,371	$ 239,659	$ 119,642	$ 1,388,672	$ 685,873	$ 211,359	$ 130,588	$ 1,027,820
Transfer In Due to Consolidation and Acquisition	50,043			50,043	34,651			34,651
Transfer Out Due to Deconsolidation	(217,182)			(217,182)	(38,629)			(38,629)
Transfer In to Level III (b)	180,401			180,401	63,125		16,396	79,521
Transfer Out of Level III (b)	(141,104)		(15,717)	(156,821)	(140,571)		(18,010)	(158,581)
Purchases	408,823	370,921	19,812	799,556	219,248	337,705	21,603	578,556
Sales	(260,865)	(263,703)	(23,479)	(548,047)	(145,890)	(251,502)	(44,045)	(441,437)
Settlements		(9,317)	(4)	(9,321)		(3,894)	(1,093)	(4,987)
Changes in Gains Included in Earnings and Other Comprehensive Income	37,237	9,043	14,469	60,749	37,937	12,611	10,250	60,798
Balance, End of Period	$ 1,086,724	$ 346,603	$ 114,723	$ 1,548,050	$ 715,744	$ 306,279	$ 115,689	$ 1,137,712
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	$ 19,265	$ 9,044	$ (289)	$ 28,020	$ 1,031	$ 12,610	$ 462	$ 14,103

(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, 2018 and 2017.

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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Notes to Condensed Consolidated Financial Statements Continued

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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.

During the six months ended June 30, 2018, the Partnership s ownership interest in certain CLO and other vehicles originated outside of the U.S. was diluted such that the Partnership determined that it was no longer the primary beneficiary of these VIEs and deconsolidated these vehicles. As of the date of deconsolidation, the Partnership s Total Assets, Total Liabilities and Non-Controlling Interests in Consolidated Entities were reduced by $8.9 billion, $8.7 billion and $196.1 million, respectively. The Partnership will continue to receive management fees and Performance Allocations from these vehicles following the dilution of its ownership interest.

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 Performance Allocations. The assets and liabilities recognized in the Partnership s Condensed Consolidated Statements of Financial Condition related to the Partnership s interest in these non-consolidated VIEs and the Partnership s maximum exposure to loss relating to non-consolidated VIEs were as follows:

	June 30, 2018	December 31, 2017
Investments	$ 969,868	$ 805,501
Accounts Receivable		15,760
Due from Affiliates	252,603	81,465
Total VIE Assets	1,222,471	902,726
Due to Affiliates	4,110	179
Potential Clawback Obligation	55,832	98,331
Maximum Exposure to Loss	$ 1,282,413	$ 1,001,236

10. REPURCHASE AGREEMENTS

At June 30, 2018, the Partnership pledged securities with a carrying value of $217.8 million and cash to collateralize its repurchase agreements. Such securities can be repledged, delivered or otherwise used by the counterparty.

At December 31, 2017, the Partnership pledged securities with a carrying value of $169.7 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, 2018				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater than 90 days	Total
Repurchase Agreements					
Asset-Backed Securities	$	$ 48,796	$ 109,116	$ 24,577	$ 182,489
Gross Amount of Recognized Liabilities for Repurchase Agreements in Note 11. Offsetting of Assets and Liabilities					$ 182,489
Amounts Related to Agreements Not Included in Offsetting Disclosure in Note 11. Offsetting of Assets and Liabilities					$

	December 31, 2017				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater than 90 days	Total
Repurchase Agreements					
Asset-Backed Securities	$	$ 22,756	$ 96,084	$	$ 118,840
Gross Amount of Recognized Liabilities for Repurchase Agreements in Note 11. Offsetting of Assets and Liabilities					$ 118,840
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, 2018:

	Gross and Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		
		Financial Instruments (a)	Cash Collateral Received	Net Amount
Assets				
Freestanding Derivatives	$ 25,934	$ 23,822	$	$ 2,112

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	Gross and Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		
		Financial Instruments (a)	Cash Collateral Pledged	Net Amount
Liabilities				
Freestanding Derivatives	$ 57,375	$ 43,943	$ 6,811	$ 6,621
Repurchase Agreements	182,489	182,489		
	$ 239,864	$ 226,432	$ 6,811	$ 6,621

(a) Amounts presented are inclusive of both legally enforceable master netting agreements, and financial instruments received or pledged as collateral. Financial instruments received or pledged as collateral offset derivative counterparty risk exposure, but do not reduce net balance sheet exposure.

The following tables present the offsetting of assets and liabilities as of December 31, 2017:

	Gross and Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		
		Financial Instruments	Cash Collateral Received	Net Amount
Assets				
Freestanding Derivatives	$ 8,801	$ 3,279	$	$ 5,522

	Gross and Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		
		Financial Instruments	Cash Collateral Pledged	Net Amount
Liabilities				
Net Investment Hedges	$ 453	$	$	$ 453
Freestanding Derivatives	36,234	3,279	32,405	550
Repurchase Agreements	118,840	118,840		
	$ 155,527	$ 122,119	$ 32,405	$ 1,003

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:

	June 30, 2018	December 31, 2017
Furniture, Equipment and Leasehold Improvements, Net	$ 122,318	$ 126,566
Prepaid Expenses	90,687	78,723
Other Assets	16,901	32,965
Freestanding Derivatives	23,030	4,443
	$ 252,936	$ 242,697

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.

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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, 2018, the aggregate cash balance on deposit relating to the cash pooling arrangement was $1.5 billion, which was offset with an accompanying overdraft of $1.5 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 as indicated by the Interest Payment Dates.

	June 30, 2018		December 31, 2017	
Senior Notes	**Carrying Value**	**Fair Value (a)**	**Carrying Value**	**Fair Value (a)**
5.875%, Due 3/15/2021	$ 398,727	$ 425,360	$ 398,514	$ 438,320
4.750%, Due 2/15/2023	394,645	418,840	394,137	434,200
2.000%, Due 5/19/2025	346,136	369,728	355,425	385,433
1.000%, Due 10/5/2026	691,478	677,906	709,871	711,440
3.150%, Due 10/2/2027	296,557	284,700	296,399	295,320
6.250%, Due 8/15/2042	238,119	294,700	238,019	328,200
5.000%, Due 6/15/2044	488,640	526,000	488,536	574,100
4.450%, Due 7/15/2045	343,981	337,260	343,925	372,575
4.000%, Due 10/2/2047	290,075	266,400	289,989	296,940
	$ 3,488,358	$ 3,600,894	$ 3,514,815	$ 3,836,528

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

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, 2018			December 31, 2017		
	Borrowing Outstanding	**Weighted-Average Interest Rate**	**Weighted-Average Remaining Maturity in**	**Borrowing Outstanding**	**Weighted-Average Interest Rate**	**Weighted-Average Remaining Maturity in**

			Years			Years
Senior Secured Notes	$ 6,533,425	3.83%	3.2	$ 10,689,240	2.35%	4.1
Subordinated Notes	331,735	(a)	N/A	894,367	(a)	N/A
	$ 6,865,160			$ 11,583,607		

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

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Senior Secured Notes and Subordinated Notes comprise the following amounts:

	June 30, 2018			December 31, 2017		
		Amounts Due to Non-Consolidated Affiliates			Amounts Due to Non-Consolidated Affiliates	
	Fair Value	Borrowing Outstanding	Fair Value	Fair Value	Borrowing Outstanding	Fair Value
Senior Secured Notes	$ 6,531,595	$ 3,250	$ 3,269	$ 10,595,652	$ 1,000	$ 996
Subordinated Notes	239,179	111,659	63,279	743,554	53,400	40,390
	$ 6,770,774	$ 114,909	$ 66,548	$ 11,339,206	$ 54,400	$ 41,386

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, 2018 and December 31, 2017, the fair value of the consolidated CLO assets was $7.5 billion and $13.4 billion, respectively. This collateral consisted of Cash, Corporate Loans, Corporate Bonds and other securities.

Scheduled principal payments for borrowings as of June 30, 2018 were as follows:

	Operating Borrowings	Blackstone Fund Facilities/CLO Vehicles	Total Borrowings
2018	$	$ 2,819	$ 2,819
2019			
2020			
2021	400,000		400,000
2022			
Thereafter	3,151,560	6,865,160	10,016,720
	$ 3,551,560	$ 6,867,979	$ 10,419,539

13. INCOME TAXES

Blackstone s effective tax rate was 8.2% and 3.9% for the three months ended June 30, 2018 and 2017, respectively, and 7.5% and 4.8% for the six months ended June 30, 2018 and 2017, respectively. Blackstone s income tax provision was $138.7 million and $29.6 million for the three months ended June 30, 2018 and 2017, respectively, and $193.2 million and $87.0 million for the six months ended June 30, 2018 and 2017, 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, 2018 and 2017 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.

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14. NET INCOME PER COMMON UNIT

Basic and diluted net income per common unit for the three and six months ended June 30, 2018 and June 30, 2017 was calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net Income for Per Common Unit Calculation				
Net Income Attributable to The Blackstone Group L.P., Basic	$ 742,042	$ 337,407	$ 1,109,914	$ 789,316
Incremental Net Income from Assumed Exchange of Blackstone Holdings Partnership Units		260,488	858,727	624,716
Net Income Attributable to The Blackstone Group L.P., Diluted	$ 742,042	$ 597,895	$ 1,968,641	$ 1,414,032
Units Outstanding				
Weighted-Average Common Units Outstanding, Basic	681,794,492	664,681,299	678,156,936	662,820,839
Weighted-Average Unvested Deferred Restricted Common Units	216,118	998,974	207,526	904,079
Weighted-Average Blackstone Holdings Partnership Units		534,326,066	532,363,486	536,031,472
Weighted-Average Common Units Outstanding, Diluted	682,010,610	1,200,006,339	1,210,727,948	1,199,756,390
Net Income Per Common Unit, Basic	$ 1.09	$ 0.51	$ 1.64	$ 1.19
Net Income Per Common Unit, Diluted	$ 1.09	$ 0.50	$ 1.63	$ 1.18
Distributions Declared Per Common Unit (a)	$ 0.35	$ 0.87	$ 1.20	$ 1.34

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

The Weighted-Average Common Units Outstanding, Basic includes vested deferred restricted common units that have been earned for which issuance of the related common units is deferred until future periods.

The Partnership applies the treasury stock method to determine the dilutive weighted-average common units outstanding. The Partnership applies the if-converted method to the Blackstone Holdings Partnership Units to determine the dilutive weighted-average common units represented by the Blackstone Holdings Partnership Units.

In computing the dilutive effect that the exchange of Blackstone Holdings Partnership Units would have on net income per common unit, the Partnership considered that net income available to holders of common units would increase due to the elimination of non-controlling interests in Blackstone Holdings, inclusive of any tax impact. Because the hypothetical conversion may result in a different tax rate, the Blackstone Holdings Partnership Units are considered anti-dilutive in certain periods and dilutive in other periods.

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The following table summarizes the anti-dilutive securities for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Weighted-Average Blackstone Holdings Partnership Units	528,872,187			

Unit Repurchase Program

On April 16, 2018, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase by Blackstone of up to $1.0 billion of Blackstone common units and Blackstone Holdings Partnership Units. Under the 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 units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. The unit repurchase program may be changed, suspended or discontinued at any time and does not have a specified expiration date.

During the three and six months ended June 30, 2017, no units were repurchased. During the three and six months ended June 30, 2018, Blackstone repurchased 2.2 million Blackstone common units at a total cost of $71.7 million. As of June 30, 2018, the amount remaining available for repurchases under this program was $928.3 million.

15. EQUITY-BASED COMPENSATION

The Partnership has granted equity-based compensation awards to Blackstone s senior managing directors, non-partner professionals, non-professionals and selected external advisers under the Partnership s 2007 Equity Incentive Plan (the Equity Plan). 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, 2018, the Partnership had the ability to grant 172,155,134 units under the Equity Plan.

For the three and six months ended June 30, 2018, the Partnership recorded compensation expense of $116.8 million and $209.0 million, respectively, in relation to its equity-based awards with corresponding tax benefits of $20.1 million and $34.5 million, respectively. 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. As of June 30, 2018, there was $793.8 million of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 4.0 years.

Total vested and unvested outstanding units, including Blackstone common units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,203,395,001 as of June 30, 2018. Total outstanding phantom units were 44,850 as of June 30, 2018.

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A summary of the status of the Partnership s unvested equity-based awards as of June 30, 2018 and of changes during the period January 1, 2018 through June 30, 2018 is presented below:

	Blackstone Holdings		The Blackstone Group L.P.			
			Equity Settled Awards		Cash Settled Awards	
Unvested Units	Partnership Units	Weighted-Average Grant Date Fair Value	Deferred Restricted Common Units and Options	Weighted-Average Grant Date Fair Value	Phantom Units	Weighted-Average Grant Date Fair Value
Balance, December 31, 2017	30,023,189	$ 35.26	9,019,974	$ 30.03	44,196	$ 31.85
Granted	2,224,551	32.01	3,343,695	32.48	117	33.43
Vested	(2,161,371)	36.27	(3,309,089)	30.48	(151)	32.99
Forfeited	(56,362)	32.89	(213,508)	30.34		
Balance, June 30, 2018	30,030,007	$ 34.95	8,841,072	$ 30.76	44,162	$ 32.24

Units Expected to Vest

The following unvested units, after expected forfeitures, as of June 30, 2018, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	26,551,896	3.5
Deferred Restricted Blackstone Common Units	7,761,280	2.1
Total Equity-Based Awards	34,313,176	3.2
Phantom Units	37,120	2.4

16. RELATED PARTY TRANSACTIONS
Affiliate Receivables and Payables

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

	June 30, 2018	December 31, 2017

Due from Affiliates		
Advances Made on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees Principally for Investments in Blackstone Funds	$ 413,095	$ 410,877
Amounts Due from Portfolio Companies and Funds	514,064	587,955
Management Fees and Performance Allocations Due from Non-Consolidated Funds	547,235	594,484
Payments Made on Behalf of Non-Consolidated Entities	526,087	355,766
Investments Redeemed in Non-Consolidated Funds	14,355	77,943
Accrual for Potential Clawback of Previously Distributed Performance Allocations	1,113	1,112
	$ 2,015,949	$ 2,028,137

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	June 30, 2018	December 31, 2017
Due to Affiliates		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	$ 779,758	$ 715,734
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	63,349	87,829
Distributions Received on Behalf of Blackstone Entities	4,373	38,789
Payments Made by Non-Consolidated Entities	51,050	51,249
Due to Note Holders of Consolidated CLO Vehicles	66,548	41,386
Accrual for Potential Repayment of Previously Received Performance Allocations	2,172	2,171
	$ 967,250	$ 937,158

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 allocation or incentive fee arrangements. As of June 30, 2018 and December 31, 2017, such investments aggregated $843.8 million and $813.2 million, respectively. Their share of the Net Income Attributable to Redeemable Non-Controlling and Non-Controlling Interests in Consolidated Entities aggregated $37.0 million and $20.0 million for the three months ended June 30, 2018 and 2017, respectively, and $65.8 million and $50.5 million for the six months ended June 30, 2018 and 2017, respectively.

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 $1.2 million and $1.1 million for the three months ended June 30, 2018 and 2017, respectively, and $2.5 million and $1.3 million for the six months ended June 30, 2018 and 2017, respectively.

Contingent Repayment Guarantee

Blackstone and its personnel who have received Performance Allocation 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 Performance Allocation 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 Allocations 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, 2018. See Note 17. Commitments and Contingencies Contingencies Contingent Obligations (Clawback) .

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 Executive Vice Chairman, and a Director of Blackstone, and another senior managing director; an aircraft owned as

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a personal asset by Jonathan D. Gray, Blackstone s President and Chief Operating Officer 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. Mr. James paid for his interest in his jointly owned Personal Aircraft. Mr. Goodman paid for his interest in his jointly owned Personal Aircraft. Mr. Gray paid for his purchase of his Personal Aircraft himself. Mr. Schwarzman, Mr. James, Mr. Goodman and Mr. Gray 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 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 $779.8 million over the next 15 years. The after-tax net present value of these estimated payments totals $282.8 million assuming a 15% discount rate and using Blackstone s most recent projections relating to the estimated timing of the benefit to be received. Future 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.

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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, 2018 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 $545.2 million as of June 30, 2018 which includes $155.4 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 $15.9 million as of June 30, 2018.

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, 2018 was $185.7 million.

Litigation

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

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Contingent Obligations (Clawback)

Performance Allocations are subject to clawback to the extent that the Performance Allocations 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 Performance Allocation distributions with respect to such fund s realized investments.

The following table presents the clawback obligations by segment:

	June 30, 2018			December 31, 2017		
Segment	Blackstone Holdings	Current and Former Personnel	Total	Blackstone Holdings	Current and Former Personnel	Total
Credit	$ 1,059	$ 1,113	$ 2,172	$ 1,059	$ 1,112	$ 2,171

For Private Equity, Real Estate, and certain Credit Funds, a portion of the Performance Allocations 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, 2018, $696.5 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 Performance Allocations to the Partnership by the majority of the stressed/distressed, mezzanine and credit alpha strategies funds is 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, 2018, all of the investments held by our carry funds were deemed worthless, a possibility that management views as remote, the amount of Performance Allocations subject to potential clawback would be $6.5 billion, on an after-tax basis where applicable, of which Blackstone Holdings is potentially liable for $6.0 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:

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, middle market direct lending funds and other performing credit strategies), distressed strategies (which include credit alpha strategies, stressed/distressed funds and energy strategies), long only strategies (which consist of CLOs, closed end funds, commingled funds and separately managed accounts), Harvest (which invests in publicly traded master limited partnerships holding primarily midstream energy assets in the U.S.), and Blackstone Insurance Solutions (which partners with insurers to deliver customizable and diversified portfolios of Blackstone products across asset classes, as well as the option for full management of insurance companies investment portfolios).

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 performance and in making resource deployment and compensation decisions across its four segments. Economic Income presents revenues and expenses on a basis that deconsolidates the investment funds Blackstone manages, and excludes the amortization of intangibles and other activity referred to as Transaction-Related Charges . Transaction-Related Charges arise from corporate actions including acquisitions, divestitures and Blackstone s initial public offering. They consist primarily of equity-based compensation charges, gains and losses on contingent consideration arrangements, changes in the balance of the tax receivable agreement resulting from a change in tax law or similar event, transaction costs and any gains or losses associated with these corporate actions. For segment reporting purposes, Performance Allocations and Incentive Fees are presented together and referred to collectively as Performance Revenues or Performance Compensation.

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.

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

The following tables presents the financial data for Blackstone s four segments for the three months ended June 30, 2018 and 2017:

	Three Months Ended June 30, 2018				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total Segments
Revenues					
Management and Advisory Fees, Net					
Base Management Fees	$ 195,521	$ 249,680	$ 129,553	$ 118,161	$ 692,915
Transaction, Advisory and Other Fees, Net	12,780	23,859	812	3,461	40,912
Management Fee Offsets	(4,351)	(3,785)		(2,697)	(10,833)
Total Management and Advisory Fees, Net	203,950	269,754	130,365	118,925	722,994
Performance Revenues					
Realized Incentive Fees		11,394	6,887	1,223	19,504
Realized Performance Allocations	138,171	351,630	383	13,371	503,555
Unrealized Performance Allocations	498,274	(160,578)	9,930	92,798	440,424
Total Performance Revenues	636,445	202,446	17,200	107,392	963,483
Principal Investment Income (Loss)					
Realized	32,600	50,199	7,766	4,082	94,647
Unrealized	84,247	(28,044)	(4,841)	764	52,126
Total Principal Investment Income	116,847	22,155	2,925	4,846	146,773
Interest and Dividend Revenue	11,549	14,494	5,152	10,532	41,727
Other	26,667	30,457	17,619	19,673	94,416
Total Revenues	995,458	539,306	173,261	261,368	1,969,393
Expenses					
Compensation	103,798	109,599	48,086	55,907	317,390
Performance Compensation					
Realized Incentive Fees		5,820	4,155	(232)	9,743
Realized Performance Allocations	68,513	109,233	937	7,715	186,398
Unrealized Performance Allocations	193,747	(51,370)	2,772	44,842	189,991
Total Compensation and Benefits	366,058	173,282	55,950	108,232	703,522
Interest Expense	12,773	11,389	5,900	8,823	38,885
Other Operating Expenses	36,047	36,026	18,494	31,899	122,466
Total Expenses	414,878	220,697	80,344	148,954	864,873

Economic Income	$ 580,580	$ 318,609	$ 92,917	$ 112,414	$ 1,104,520

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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)

	Three Months Ended June 30, 2017				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total Segments
Revenues					
Management and Advisory Fees, Net					
Base Management Fees	$ 177,684	$ 227,865	$ 128,698	$ 137,121	$ 671,368
Transaction, Advisory and Other Fees, Net	17,289	16,087	1,696	3,820	38,892
Management Fee Offsets	(3,753)	(5,018)		(4,653)	(13,424)
Total Management and Advisory Fees, Net	191,220	238,934	130,394	136,288	696,836
Performance Revenues					
Realized Incentive Fees		4,878	6,548	28,877	40,303
Realized Performance Allocations	198,168	389,441	447	15,040	603,096
Unrealized Performance Allocations	9	89,688	14,849	(8,839)	95,707
Total Performance Revenues	198,177	484,007	21,844	35,078	739,106
Principal Investment Income (Loss)					
Realized	41,168	57,599	225	1,895	100,887
Unrealized	(25,892)	(20,519)	11,578	1,666	(33,167)
Total Principal Investment Income	15,276	37,080	11,803	3,561	67,720
Interest and Dividend Revenue	7,922	14,493	4,674	6,614	33,703
Other	(16,124)	(22,965)	(10,720)	(12,660)	(62,469)
Total Revenues	396,471	751,549	157,995	168,881	1,474,896
Expenses					
Compensation	90,676	110,266	47,361	56,954	305,257
Performance Compensation					
Realized Incentive Fees		2,711	4,097	14,224	21,032
Realized Performance Allocations	63,060	124,512	265	7,901	195,738
Unrealized Performance Allocations	22,219	64,254	5,968	(5,531)	86,910
Total Compensation and Benefits	175,955	301,743	57,691	73,548	608,937
Interest Expense	10,728	14,787	6,688	8,091	40,294
Other Operating Expenses	28,592	33,379	16,318	27,549	105,838
Total Expenses	215,275	349,909	80,697	109,188	755,069
Economic Income	$ 181,196	$ 401,640	$ 77,298	$ 59,693	$ 719,827

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

The following table reconciles the Total Segments to Blackstone s Income Before Provision for Taxes for the three months ended June 30, 2018 and 2017:

	Three Months Ended June 30, 2018			
	Revenues	Expenses	Other Income	Economic Income / Income Before Provision for Taxes (a)
Total Segments	$ 1,969,393	$ 864,873	$	$ 1,104,520
Adjustments				
Impact of Consolidation (b)	82,752	26,288	73,519	129,983
Amortization of Intangibles (c)	(387)	14,486		(14,873)
Intersegment Eliminations	(1,293)	(1,293)		
Transaction-Related Charges (d)	582,105	112,027		470,078
Total Adjustments	663,177	151,508	73,519	585,188
Blackstone Consolidated	$ 2,632,570	$ 1,016,381	$ 73,519	$ 1,689,708

	Three Months Ended June 30, 2017			
	Revenues	Expenses	Other Income	Economic Income / Income Before Provision for Taxes (a)
Total Segments	$ 1,474,896	$ 755,069	$	$ 719,827
Adjustments				
Impact of Consolidation (b)	57,503	53,622	110,054	113,935
Amortization of Intangibles (c)	(387)	10,957		(11,344)
Intersegment Eliminations	(1,628)	(1,628)		
Transaction-Related Charges (d)	5,342	63,173		(57,831)
Total Adjustments	60,830	126,124	110,054	44,760
Blackstone Consolidated	$ 1,535,726	$ 881,193	$ 110,054	$ 764,587

(a) Represents Total Segments Economic Income reconciled to Blackstone Consolidated Income Before Provision for Taxes.

(b) The Impact of Consolidation adjustment represents the effect of consolidating Blackstone Funds, the elimination of Blackstone s interest in these funds, the increase to revenue representing the reimbursement of certain expenses by Blackstone Funds, which are presented gross under GAAP but netted against Other Operating Expenses in the segment presentation, and the removal of amounts associated with the ownership of Blackstone consolidated operating partnerships held by non-controlling interests.

(c) Amortization of intangibles consists of the amortization of transaction-related intangibles including intangibles associated with Blackstone s investment in Patria, which is accounted for under the equity method.

(d) Transaction-Related Charges arise from corporate actions including acquisitions, divestitures, and Blackstone s initial public offering. They consist primarily of equity-based compensation charges, gains and losses on contingent consideration arrangements, changes in the balance of the tax receivable agreement resulting from a change in tax law or similar event, transaction costs and any gains or losses associated with these corporate

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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)

actions. During the three months ended June 30, 2018, Transaction-Related Charges include $580.9 million of Other Revenues received upon the conclusion of Blackstone s investment sub-advisory relationship with FS Investments funds.

The following tables present the financial data for Blackstone s four segments as of and for the six months ended June 30, 2018 and 2017:

	June 30, 2018 and the Six Months Then Ended				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total Segments
Revenues					
Management and Advisory Fees, Net					
Base Management Fees	$ 378,482	$ 476,206	$ 258,781	$ 286,602	$ 1,400,071
Transaction, Advisory and Other Fees, Net	23,874	46,947	1,157	6,000	77,978
Management Fee Offsets	(7,544)	(5,453)		(6,014)	(19,011)
Total Management and Advisory Fees, Net	394,812	517,700	259,938	286,588	1,459,038
Performance Revenues					
Realized Incentive Fees		15,769	15,058	1,243	32,070
Realized Performance Allocations	215,294	502,939	2,389	52,575	773,197
Unrealized Performance Allocations	895,590	65,864	14,991	92,318	1,068,763
Total Performance Revenues	1,110,884	584,572	32,438	146,136	1,874,030
Principal Investment Income (Loss)					
Realized	38,938	64,889	8,406	11,107	123,340
Unrealized	101,615	(25,357)	(4,401)	(5,753)	66,104
Total Principal Investment Income	140,553	39,532	4,005	5,354	189,444
Interest and Dividend Revenue	20,092	29,622	9,964	18,434	78,112
Other	10,259	8,960	7,331	6,972	33,522
Total Revenues	1,676,600	1,180,386	313,676	463,484	3,634,146
Expenses					
Compensation	203,527	222,423	98,386	129,381	653,717
Performance Compensation					
Realized Incentive Fees		8,030	8,189	186	16,405
Realized Performance Allocations	101,558	163,416	3,352	30,134	298,460
Unrealized Performance Allocations	372,549	27,800	4,958	39,119	444,426
Total Compensation and Benefits	677,634	421,669	114,885	198,820	1,413,008
Interest Expense	22,906	25,538	12,171	16,508	77,123
Other Operating Expenses	67,198	65,443	37,279	59,638	229,558
Total Expenses	767,738	512,650	164,335	274,966	1,719,689

Economic Income	$ 908,862	$ 667,736	$ 149,341	$ 188,518	$ 1,914,457
Segment Assets	$ 7,574,520	$ 7,536,885	$ 2,275,685	$ 4,099,397	$ 21,486,487

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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)

	Six Months Ended June 30, 2017				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total Segments
Revenues					
Management and Advisory Fees, Net					
Base Management Fees	$ 354,390	$ 425,744	$ 257,166	$ 277,026	$ 1,314,326
Transaction, Advisory and Other Fees, Net	33,465	37,366	1,955	6,328	79,114
Management Fee Offsets	(15,943)	(8,568)		(22,512)	(47,023)
Total Management and Advisory Fees, Net	371,912	454,542	259,121	260,842	1,346,417
Performance Revenues					
Realized Incentive Fees		7,760	20,635	58,419	86,814
Realized Performance Allocations	780,849	909,314	1,044	23,837	1,715,044
Unrealized Performance Allocations	(184,469)	81,642	33,664	40,792	(28,371)
Total Performance Revenues	596,380	998,716	55,343	123,048	1,773,487
Principal Investment Income (Loss)					
Realized	122,462	177,178	(407)	4,548	303,781
Unrealized	(66,414)	(104,372)	29,871	8,813	(132,102)
Total Principal Investment Income	56,048	72,806	29,464	13,361	171,679
Interest and Dividend Revenue	14,583	26,587	8,671	12,358	62,199
Other	(17,924)	(26,115)	(12,330)	(14,387)	(70,756)
Total Revenues	1,020,999	1,526,536	340,269	395,222	3,283,026
Expenses					
Compensation	174,279	212,968	94,965	112,072	594,284
Performance Compensation					
Realized Incentive Fees		4,044	11,111	28,342	43,497
Realized Performance Allocations	244,693	304,468	568	12,487	562,216
Unrealized Performance Allocations	(17,137)	82,046	12,390	17,144	94,443
Total Compensation and Benefits	401,835	603,526	119,034	170,045	1,294,440
Interest Expense	21,155	29,422	13,231	15,936	79,744
Other Operating Expenses	56,353	64,243	32,697	49,007	202,300
Total Expenses	479,343	697,191	164,962	234,988	1,576,484
Economic Income	$ 541,656	$ 829,345	$ 175,307	$ 160,234	$ 1,706,542

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THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

The following table reconciles the Total Segments to Blackstone s Income Before Provision for Taxes and Total Assets as of and for the six months ended June 30, 2018 and 2017:

	June 30, 2018 and the Six Months Then Ended				
	Revenues	Expenses	Other Income	Economic Income / Income Before Provision for Taxes (a)	Total Assets
Total Segments	$ 3,634,146	$ 1,719,689	$	$ 1,914,457	$ 21,486,487
Adjustments					
Impact of Consolidation (b)	186,276	86,187	184,118	284,207	8,588,810
Amortization of Intangibles (c)	(774)	28,972		(29,746)	
Intersegment Eliminations	(2,634)	(2,634)			
Transaction-Related Charges (d)	584,687	167,098		417,589	
Total Adjustments	767,555	279,623	184,118	672,050	8,588,810
Blackstone Consolidated	$ 4,401,701	$ 1,999,312	$ 184,118	$ 2,586,507	$ 30,075,297

	Six Months Ended June 30, 2017			
	Revenues	Expenses	Other Income	Economic Income / Income Before Provision for Taxes (a)
Total Segments	$ 3,283,026	$ 1,576,484	$	$ 1,706,542
Adjustments				
Impact of Consolidation (b)	159,142	80,708	176,186	254,620
Amortization of Intangibles (c)	(774)	21,914		(22,688)
Intersegment Eliminations	(3,067)	(3,067)		
Transaction-Related Charges (d)	12,117	126,927		(114,810)
Total Adjustments	167,418	226,482	176,186	117,122
Blackstone Consolidated	$ 3,450,444	$ 1,802,966	$ 176,186	$ 1,823,664

(a) Represents Total Segments Economic Income reconciled to Blackstone Consolidated Income Before Provision for Taxes.

(b) The Impact of Consolidation adjustment represents the effect of consolidating Blackstone Funds, the elimination of Blackstone s interest in these funds, the increase to revenue representing the reimbursement of certain expenses by Blackstone Funds, which are presented gross under GAAP but netted against Other Operating Expenses in the segment presentation, and the removal of amounts associated with the ownership of Blackstone consolidated operating partnerships held by non-controlling interests.

(c) Amortization of intangibles consists of the amortization of transaction-related intangibles including intangibles associated with Blackstone s investment in Patria, which is accounted for under the equity method.

(d) Transaction-Related Charges arise from corporate actions including acquisitions, divestitures, and Blackstone s initial public offering. They consist primarily of equity-based compensation charges, gains and losses on contingent consideration arrangements, changes in the balance of the tax receivable agreement resulting from a change in tax law or similar event, transaction costs and any gains or losses associated with these corporate

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)

actions. During the six months ended June 30, 2018, Transaction-Related Charges include $580.9 million of Other Revenues received upon the conclusion of Blackstone s investment sub-advisory relationship with FS Investments funds.

19. SUBSEQUENT EVENTS

There have been no events since June 30, 2018 that require recognition or disclosure in the Condensed Consolidated Financial Statements.

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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, 2018			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
Assets				
Cash and Cash Equivalents	$ 1,710,251	$	$	$ 1,710,251
Cash Held by Blackstone Funds and Other		288,675		288,675
Investments	14,053,517	8,605,998	(651,333)	22,008,182
Accounts Receivable	577,074	340,643		917,717
Due from Affiliates	2,014,267	25,534	(23,852)	2,015,949
Intangible Assets, Net	380,844			380,844
Goodwill	1,778,192			1,778,192
Other Assets	249,791	3,145		252,936
Deferred Tax Assets	722,551			722,551
Total Assets	$ 21,486,487	$ 9,263,995	$ (675,185)	$ 30,075,297
Liabilities and Partners Capital				
Loans Payable	$ 3,488,358	$ 6,707,045	$	$ 10,195,403
Due to Affiliates	868,286	489,596	(390,632)	967,250
Accrued Compensation and Benefits	2,987,977			2,987,977
Securities Sold, Not Yet Purchased	44,618	111,162		155,780
Repurchase Agreements		182,489		182,489
Accounts Payable, Accrued Expenses and Other Liabilities	554,194	396,608		950,802
Total Liabilities	7,943,433	7,886,900	(390,632)	15,439,701
Redeemable Non-Controlling Interests in Consolidated Entities	22,503	136,296		158,799
Partners Capital				
Partners Capital	7,105,225	284,553	(284,553)	7,105,225
Accumulated Other Comprehensive Loss	(57,876)			(57,876)
Non-Controlling Interests in Consolidated Entities	2,536,375	956,246		3,492,621
Non-Controlling Interests in Blackstone Holdings	3,936,827			3,936,827
Total Partners Capital	13,520,551	1,240,799	(284,553)	14,476,797
Total Liabilities and Partners Capital	$ 21,486,487	$ 9,263,995	$ (675,185)	$ 30,075,297

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THE BLACKSTONE GROUP L.P.

Unaudited Consolidating Statements of Financial Condition

(Dollars in Thousands)

	December 31, 2017			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
Assets				
Cash and Cash Equivalents	$ 1,992,497	$	$	$ 1,992,497
Cash Held by Blackstone Funds and Other	345,668	1,583,863		1,929,531
Investments	12,087,525	13,093,670	(747,146)	24,434,049
Accounts Receivable	404,071	470,947		875,018
Due from Affiliates	2,009,866	47,325	(29,054)	2,028,137
Intangible Assets, Net	409,828			409,828
Goodwill	1,778,192			1,778,192
Other Assets	234,603	8,094		242,697
Deferred Tax Assets	725,970			725,970
Total Assets	$ 19,988,220	$ 15,203,899	$ (776,200)	$ 34,415,919
Liabilities and Partners Capital				
Loans Payable	$ 3,514,815	$ 11,300,621	$	$ 14,815,436
Due to Affiliates	852,123	339,138	(254,103)	937,158
Accrued Compensation and Benefits	2,623,492			2,623,492
Securities Sold, Not Yet Purchased	64,473	89,907		154,380
Repurchase Agreements		118,840		118,840
Accounts Payable, Accrued Expenses and Other Liabilities	477,615	1,565,907		2,043,522
Total Liabilities	7,532,518	13,414,413	(254,103)	20,692,828
Redeemable Non-Controlling Interests in Consolidated Entities	22,000	188,944		210,944
Partners Capital				
Partners Capital	6,669,327	378,030	(378,846)	6,668,511
Accumulated Other Comprehensive Income (Loss)	(34,836)		818	(34,018)
Non-Controlling Interests in Consolidated Entities	2,174,705	1,222,512	(144,069)	3,253,148
Non-Controlling Interests in Blackstone Holdings	3,624,506			3,624,506
Total Partners Capital	12,433,702	1,600,542	(522,097)	13,512,147
Total Liabilities and Partners Capital	$ 19,988,220	$ 15,203,899	$ (776,200)	$ 34,415,919

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

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

Blackstone Real Estate Special Situations Fund L.P.

Blackstone Real Estate Special Situations Offshore Fund Ltd.

Blackstone Strategic Alliance Fund L.P.

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BTD CP Holdings LP

Collateralized loan obligation vehicles

GSO Legacy Associates 2 LLC*

GSO Legacy Associates LLC*

Mezzanine side-by-side investment vehicles

Private equity side-by-side investment vehicles

Real estate side-by-side investment vehicles

* Consolidated as of December 31, 2017 only.

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

The following discussion and analysis should be read in conjunction with The Blackstone Group L.P. s condensed consolidated financial statements and the related notes included 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 private equity funds (Blackstone Capital Partners (BCP) funds), our sector-focused private equity funds, including our energy-focused funds (Blackstone Energy Partners (BEP) funds), and our Asia-focused fund (Blackstone Capital Partners Asia (BCP Asia) fund). In addition, our Private Equity segment includes our core private equity fund, Blackstone Core Equity Partners (BCEP), 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), our infrastructure-focused funds, Blackstone Infrastructure Partners (BIP), 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 invests globally across asset classes, industries and geographies, seeking to identify and execute on attractive, differentiated investment opportunities, leveraging the intellectual capital across our various businesses while continuously optimizing its approach in the face of ever changing market conditions. 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. BIP focuses on investments in core and core+ infrastructure in the energy, transportation, communications and water and waste sectors.

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 Real Estate investment team seeks to establish a differentiated view and capitalizes on our scale and proprietary information advantages to invest with conviction and

generate attractive risk-adjusted returns for our investors over the long term.

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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 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 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. We manage several core+ real estate funds, which target substantially stabilized assets in prime markets with a focus on office, multifamily, industrial and retail assets.

BREIT, a non-exchange traded REIT, is focused on investing primarily in stabilized income-oriented commercial real estate in the U.S. and to a lesser extent, investing in real estate-related securities.

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).

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 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 segment 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, middle market direct lending funds, and other performing credit strategy funds. Our distressed strategies include credit alpha strategies, stressed/distressed funds and energy strategies. GSO s long only strategies consist of CLOs, closed end funds, commingled funds and separately managed accounts.

In addition, our credit business includes our publicly traded master limited partnership (MLP) and investment platform, which are managed by Harvest. Harvest, which was founded in 2005 and subsequently acquired by Blackstone in 2017, primarily invests capital raised from institutional investors in separately managed accounts and pooled vehicles, investing in publicly traded MLPs holding primarily midstream energy assets in the U.S.

Our insurer-focused platform, BIS, delivers to insurers bespoke, capital-efficient investments and diversified portfolios of Blackstone products across asset classes tailored to their needs and risk profile.

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 we are entitled to a pro-rata share of the results of the fund (a

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pro-rata allocation). In addition to a pro-rata allocation, and assuming certain investment returns are achieved, we are entitled to a disproportionate allocation of the income otherwise allocable to the limited partners, commonly referred to as carried interest (Performance Allocations). In certain structures, we receive a contractual incentive fee from an investment fund in the event that specified cumulative investment returns are achieved (an Incentive Fee , and together with Performance Allocations, Performance Revenues). The composition of our revenues will vary based on market conditions and the cyclicality 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 2018 saw continued market volatility, driven by concerns over trade protectionism, rising interest rates and uneven global growth. While the CBOE Volatility Index declined 19% in the second quarter after peaking in February, the index is up 46% since the beginning of 2018. Strong U.S. economic growth and corporate earnings led the S&P 500 higher, up 3% in the second quarter, but a stronger U.S. dollar (with the U.S. dollar index up 5% in the second quarter) weighed on global market indices. While the MSCI World Index rose 1%, the MSCI World ex. U.S. index fell 2%, and the MSCI Europe and Asia indices declined 3% and 5%, respectively. Emerging market equities underperformed, with the MSCI Emerging Markets Index down 9% in the quarter.

While the global economy continues to reflect positive momentum, the growth cycle has become less synchronized with signs of slowing in Europe, Japan and China. In the U.S., the Bureau of Economic Analysis initial report on second quarter 2018 GDP indicated growth of 4.1%, the strongest quarter of growth since 2014, but with most economists expecting growth to slow in the second half of 2018. Monetary policy continues to tighten, and the U.S. Federal Reserve raised interest rates in June for the seventh time since December 2015, with the current target range set to 1.75-2.0%. Ten-year U.S. Treasury yields rose to 3.11% during the quarter before ending the quarter at 2.85%, furthering investor concerns over the potential negative impact to values of fixed income and longer duration assets. The Bloomberg Barclays U.S. Aggregate Bond Index was down 0.2%, U.S. investment grade corporates were down 1.0% and high yield corporates advanced 1.0% for the quarter. High yield spreads were largely flat for the quarter and issuance fell 24% year over year.

Global equity issuance for both initial public offerings and follow-on offerings remained strong, with the first half of the year marking the second consecutive first half to surpass $400 billion in volume. Global merger and acquisition volume for the first half of the year reached a record $2.5 trillion, up 61% year over year due to a significant increase in deals greater than $5 billion, which reached a record $1 trillion. Despite healthy deal activity during the first half of 2018, ongoing concerns over market volatility and trade and antitrust policy may adversely impact future global transaction activity.

Energy rallied sharply in the quarter, with the S&P 500 Energy Index up 13%. The Henry Hub Natural Gas spot price rose 7% and the price of crude oil increased, with West Texas Intermediate Crude up 14% to $74 per barrel. Oil and gas prices, however, remain well below historical averages. Spot prices for other commodities were mixed, with the Bloomberg Commodity Index flat during the quarter.

In the near term, most economists expect continued healthy economic growth and the continued normalization of monetary policy in the U.S. and to a lesser extent, Europe, although global trade tensions and rising geopolitical instability present ongoing concerns.

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Notable Transactions

On April 9, 2018, Blackstone concluded its investment sub-advisory relationship with FS Investments funds (the FS Funds), as previously announced. At March 31, 2018, the FS Funds represented $20.0 billion of Total Assets Under Management. Over time, we believe we will replace and ultimately overtake the prior level of revenue and earnings associated with our sub-advisory relationship with FS Investments. As part of the transaction, Blackstone received proceeds from FS Investments of $580.9 million which is recorded as Other Revenues within the Condensed Consolidated Statement of Operations for the three months ended June 30, 2018. This amount is characterized as a Transaction-Related Charge and therefore is not included in Economic Income, Fee Related Earnings, or Distributable Earnings for the three months ended June 30, 2018. Blackstone intends to distribute a portion of the after-tax proceeds to unitholders resulting in an anticipated incremental $0.30 per common unit and per Blackstone Holdings Partnership unit over the second, third and fourth quarters of 2018, of which $0.10 per common unit was distributed on August 6, 2018.

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 key financial measures and indicators since we believe they 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, incentive 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, 2017 and Critical Accounting Policies Revenue Recognition for additional information regarding the manner in which Base Management Fees and Incentive Fees are generated.

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Management and advisory fees and incentive fees are accounted for as contracts with customers. Under the guidance for contracts with customers, 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. See Note 18. Segment Reporting in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements for a disaggregated presentation of revenues from contracts with customers.

Investment Income represents the unrealized and realized gains and losses on the Partnership s Performance Allocations and Principal Investments. Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by us. Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

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. These customer contracts require the Partnership to provide investment management services, which represents a performance obligation that the Partnership satisfies over time. Management fees are a form of variable consideration because the fees the Partnership is entitled to vary based on fluctuations in the basis for the management fee. The amount recorded as revenue is generally determined at the end of the period because these management fees are payable on a regular basis (typically quarterly) and are not subject to clawback once paid.

Transaction, advisory and other fees (including monitoring fees) are principally fees charged to the limited partners of funds indirectly through the 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 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. These fees and associated management fee reductions are a component of the transaction price for our performance obligation to provide investment management services to the limited partners of funds and are recognized as changes to the transaction price in the period in which they are charged and the services are performed.

Management fee offsets are reductions to management fees payable by the limited partners of the Blackstone Funds, which are based on the amount such limited partners reimburse the Blackstone Funds or the Partnership primarily for placement fees. Providing investment management services requires the Partnership to arrange for services on behalf of its customers. In those situations where we are acting as an agent on behalf of the limited partners of funds, it presents the cost of services as net against management fee revenue. In all other situations, the Partnership is primarily responsible for fulfilling the services and is therefore acting as a principal for those arrangements. As a result, the cost of those services is presented gross as Compensation or General, Administrative and Other expense, as appropriate, with any reimbursement from the limited partners of the funds recorded as Management and Advisory Fees, Net.

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.

Incentive Fees Contractual fees earned based on the performance of Blackstone Funds (Incentive Fees) are a form of variable consideration in their contracts with customers to provide investment management services.

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Incentive Fees are earned 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 fund s governing agreements. Incentive Fees will not be recognized as revenue until (a) it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur, or (b) the uncertainty associated with the variable consideration is subsequently resolved. Incentive Fees are typically recognized as revenue when realized at the end of the measurement period. Once realized, such fees are not subject to clawback or reversal. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone Funds as of the reporting date are recorded within Due from Affiliates in the Condensed Consolidated Statements of Financial Condition.

Investment Income (Loss) Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership s Performance Allocations and Principal Investments.

In certain fund structures across private equity, real estate, hedge fund solutions and credit-focused funds (carry funds), Blackstone, through its subsidiaries, invests alongside its limited partners in a partnership and is entitled to its pro-rata share of the results of the fund (a pro-rata allocation). In addition to a pro-rata allocation, and assuming certain investment returns are achieved, Blackstone is entitled to a disproportionate allocation of the income otherwise allocable to the limited partners, commonly referred to as carried interest (Performance Allocations).

Performance Allocations are made 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 balance of accrued Performance Allocations (Accrued Performance Allocations) 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 Accrued Performance Allocations to reflect either (a) positive performance resulting in an increase in the Accrued Performance Allocation 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 the Accrued Performance Allocation to the general partner. In each scenario, it is necessary to calculate the Accrued Performance Allocation on cumulative results compared to the Accrued Performance Allocation recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Performance Allocations once previously Accrued Performance Allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Performance Allocations over the life of a fund. Accrued Performance Allocations as of the reporting date are reflected in Investments in the Condensed Consolidated Statements of Financial Condition.

Performance Allocations are 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. Performance Allocations are subject to clawback to the extent that the Performance Allocation received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Performance Allocations, 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.

Principal Investments include the unrealized and realized gains and losses on the Partnership s principal investments, including its investments in Blackstone Funds that are not consolidated and receive pro-rata allocations, its equity method investments, and other principal investments. Income (Loss) on Principal Investments 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 Income (Loss) on Principal Investments 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 Incentive Fee Compensation Incentive Fee Compensation consists of compensation paid based on Incentive Fees.

Compensation and Benefits Performance Allocations Compensation Performance Allocation Compensation consists of compensation paid based on Performance Allocations (which may be distributed in cash or in-kind). Such compensation expense is subject to both positive and negative adjustments. Unlike Performance Allocations, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. These amounts may also include allocations of investment income from Blackstone s principal investments, to senior managing directors and employees participating in certain profit sharing initiatives.

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 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.

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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.

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.

Certain past legislative proposals by members of the U.S. Congress would treat carried interest as not meeting the qualifying income requirements under the publicly traded partnership rules (after a transition period in the case of existing publicly traded partnerships). If similar legislation were enacted and applied to us, we would not qualify as a partnership for U.S. federal income tax purposes unless we held carried interest through corporations. If we were taxed as a corporation or held carried interest through taxable subsidiary corporations, our effective tax rate could increase significantly.

States and other jurisdictions have also considered legislation to increase taxes with respect to carried interest. For example, New Jersey recently enacted legislation which eliminates an exclusion from New Jersey source income (for non-residents) for carried interest and income from providing investment management services, which is not expected to materially affect our common unitholders, and authorizes a contingent 17% surtax on such management income for gross income tax and corporate income tax purposes. These carried interest provisions remain non-operative as they are dependent upon Connecticut, New York and Massachusetts enacting legislation with identical provisions. In addition, New York State has considered legislation, which could cause a non-resident of New York State 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. As part of that same proposal, New York State also considered a state tax surcharge of 17% on carried interest in addition to the personal income tax. Similar proposals are under consideration in other jurisdictions such as California. Whether or when similar legislation will be enacted is unclear.

Finally, several state and local jurisdictions are evaluating ways to subject partnerships to entity level taxation through the imposition of state or local income, franchise or other forms of taxation or to increase the amount of such taxation. For example, although it would not affect us materially, Connecticut recently enacted an income tax on pass-through entities doing business in Connecticut, and states in which we do business may consider similar tax changes. These and other proposals have recently been under heightened consideration in light of U.S. federal income tax legislation, known as the Tax Cuts and Jobs Act, which was signed into law on December 22, 2017 (the Tax Reform Bill).

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.

The recently enacted Tax Reform Bill has resulted in fundamental changes to the Internal Revenue Code. Changes to U.S. tax laws resulting from the Tax Reform Bill, including reduction to the federal corporate income tax rate, partial limitation on the deductibility of business interest expense, and a longer three-year holding period requirement for carried interest to be treated as long-term capital gain could have a material effect on our business operations and our funds investment activities. These and other changes from the Tax Reform Bill including

limitations on the use, carryback and carryforward of net operating losses and changes relating to the scope and timing of U.S. taxation on earnings from international business operations could also have a significant effect on the business of our portfolio companies. The exact impact of the Tax Reform Bill for future years is still unclear and difficult to quantify, but these changes could have a material adverse effect on our business, results of operations and financial condition. In addition, other changes could be enacted in the future to increase the corporate tax rate, limit further the deductibility of interest, subject carried interest to more onerous taxation or effect other changes that could have a material adverse effect on our business, results of operations and financial condition.

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 (BEPS) 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. Several of the proposed measures are potentially relevant to some of our structures and could have an adverse tax impact on our funds, investors and/or our portfolio companies. Some member countries have been moving forward on the BEPS agenda but, because timing of implementation and the specific measures adopted will vary among participating states, significant uncertainty remains regarding the impact of BEPS proposals. If implemented, these proposals could result in a loss of tax treaty benefits and increased taxes on income from our investments.

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.

In addition, legislation enacted in 2015 significantly changed the rules for U.S. federal income tax audits of partnerships. Such audits will be conducted at the partnership level, 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 an 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 performance and in making resource deployment and compensation decisions across its four segments. Economic Income presents revenues and expenses on a basis that deconsolidates the investment funds Blackstone manages, and excludes the amortization of

intangibles and other activity referred to as Transaction-Related Charges . Transaction-Related Charges arise from corporate actions including acquisitions, divestitures, and Blackstone s initial public offering. They consist primarily of equity-based compensation charges, gains and losses on contingent consideration arrangements, changes in the balance of the tax receivable agreement resulting from a change in tax law or similar event, transaction costs and any gains or losses associated with these corporate actions. For segment reporting purposes, Performance Allocations and Incentive Fees are presented together and referred to collectively as Performance Revenues or Performance Compensation. 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 .

Economic Net Income

Economic Net Income (ENI) represents Economic Income adjusted to include current period taxes. Current period 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 and adjusted to exclude the tax impact of any divestitures. ENI is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. See Non-GAAP Financial Measures for our reconciliation of Economic Net Income.

Fee Related Earnings

Blackstone uses Fee Related Earnings, which is derived from Economic Income, as a performance measure to assess its ability to generate profits from revenues that are not subject to future realization events. Fee Related Earnings represents Economic Income adjusted to exclude: (a) the income related to Performance Revenue and related Performance 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. Fee Related Earnings equals contractual fee revenues less (a) cash compensation expenses (which excludes Performance Compensation), and (b) Other Operating Expenses. Fee Related 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 Non-GAAP Financial Measures for our reconciliation of Fee Related Earnings.

Distributable Earnings

Distributable Earnings, which is derived from our segment reported results, is a supplemental measure to assess performance and amounts available for distributions to Blackstone unitholders, including Blackstone personnel and others who are limited partners of the Blackstone Holdings partnerships. Distributable Earnings 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 Non-GAAP Financial Measures for our reconciliation of Distributable Earnings.

Distributable Earnings is the sum across all segments of: (a) Total Management, Advisory and Other Fees, Net, (b) Interest and Dividend Revenue, (c) Realized Incentive Fees, (d) Realized Performance Allocations, and (e) Realized Principal Investment Income (Loss); less (a) Compensation, excluding the expense of equity-based awards, (b) Realized Incentive Fee Compensation, (c) Realized Performance Allocations Compensation, (d) Interest Expense, (e) Other Operating Expenses, and (f) 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 measure and may be used to assess our ability to service our borrowings. Adjusted EBITDA represents Distributable Earnings plus the addition of (a) Interest Expense, (b) Taxes and Related Payables

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Including Payable Under Tax Receivable Agreement, and (c) Depreciation and Amortization. Adjusted EBITDA is derived from and reconciled to, but not equivalent to, its most directly comparable GAAP measure of Income (Loss) Before Provision for Taxes. See Non-GAAP Financial Measures for our reconciliation of Adjusted EBITDA.

Summary Walkdown of GAAP to Non-GAAP Financial Measures

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 Non-GAAP Financial Measures .

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Operating Metrics

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

Assets Under Management. Assets Under Management refers to the assets we manage. Our Assets Under Management 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 (1) 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, or (2) 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, certain co-investments managed by us, 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, excluding our BIS separately managed accounts, may generally be terminated by an investor on 30 to 90 days notice.

Fee-Earning Assets Under Management. Fee-Earning Assets Under Management refers to the assets we manage on which we derive management fees and/or performance revenues. 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,

(c) the remaining invested capital or fair value of assets held in co-investment vehicles managed by us on which we receive fees,

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(d) the net asset value of our funds of hedge funds, hedge funds, open ended core+ real estate fund, certain co-investments managed by us, certain registered investment companies, our non-exchange traded REIT, and certain of our Hedge Fund Solutions drawdown funds,

(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 revenues 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 management fees, Performance Allocations or Incentive Fees.

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

Consolidated Results of Operations

Following is a discussion of our consolidated results of operations for the three and six months ended June 30, 2018 and 2017. 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 .

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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, 2018 and 2017:

	Three Months Ended June 30,		2018 vs. 2017		Six Months Ended June 30,		2018 vs. 2017	
	2018	2017	$	%	2018	2017	$	%
	(Dollars in Thousands)							
Revenues								
Management and Advisory Fees, Net	$ 721,384	$ 690,857	$ 30,527	4%	$ 1,450,233	$ 1,336,341	$ 113,892	9%
Incentive Fees	19,378	40,303	(20,925)	-52%	31,944	86,814	(54,870)	-63%
Investment Income (Loss)								
Performance Allocations								
Realized	503,376	602,662	(99,286)	-16%	773,016	1,714,567	(941,551)	-55%
Unrealized	440,351	95,532	344,819	361%	1,068,440	(29,089)	1,097,529	N/M
Principal Investments								
Realized	129,197	125,058	4,139	3%	171,342	376,402	(205,060)	-54%
Unrealized	103,468	7,275	96,193	N/M	215,242	(32,913)	248,155	N/M
Total Investment Income	1,176,392	830,527	345,865	42%	2,228,040	2,028,967	199,073	10%
Interest and Dividend Revenue	40,073	33,703	6,370	19%	75,458	62,198	13,260	21%
Other	675,343	(59,664)	735,007	N/M	616,026	(63,876)	679,902	N/M
Total Revenues	2,632,570	1,535,726	1,096,844	71%	4,401,701	3,450,444	951,257	28%
Expenses								
Compensation and Benefits								
Compensation	427,479	367,203	60,276	16%	816,882	718,792	98,090	14%
Incentive Fee Compensation	9,743	21,032	(11,289)	-54%	16,405	43,497	(27,092)	-62%
Performance Allocations Compensation								
Realized	186,398	195,738	(9,340)	-5%	298,460	562,216	(263,756)	-47%
Unrealized	189,991	86,910	103,081	119%	444,426	94,443	349,983	371%
Total Compensation and Benefits	813,611	670,883	142,728	21%	1,576,173	1,418,948	157,225	11%
General, Administrative and Other	145,828	119,552	26,276	22%	272,541	228,938	43,603	19%
Interest Expense	39,320	41,089	(1,769)	-4%	77,991	81,335	(3,344)	-4%
Fund Expenses	17,622	49,669	(32,047)	-65%	72,607	73,745	(1,138)	-2%
Total Expenses	1,016,381	881,193	135,188	15%	1,999,312	1,802,966	196,346	11%
Other Income								
Net Gains from Fund Investment Activities	73,519	110,054	(36,535)	-33%	184,118	176,186	7,932	5%
Income Before Provision for Taxes	1,689,708	764,587	925,121	121%	2,586,507	1,823,664	762,843	42%
Provision for Taxes	138,731	29,608	109,123	369%	193,226	87,045	106,181	122%
Net Income	1,550,977	734,979	815,998	111%	2,393,281	1,736,619	656,662	38%
Net Income (Loss) Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	905	991	(86)	-9%	(370)	2,991	(3,361)	N/M
	129,078	112,944	16,134	14%	284,577	251,629	32,948	13%

Net Income Attributable to Non-Controlling Interests in Consolidated Entities								
Net Income Attributable to Non-Controlling Interests in Blackstone Holdings	678,952	283,637	395,315	139%	999,160	692,683	306,477	44%
Net Income Attributable to The Blackstone Group L.P.	$ 742,042	$ 337,407	$ 404,635	120%	$ 1,109,914	$ 789,316	$ 320,598	41%

N/M Not meaningful.

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Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Revenues

Revenues were $2.6 billion for the three months ended June 30, 2018, an increase of $1.1 billion compared to $1.5 billion for the three months ended June 30, 2017. The increase in Revenues was primarily attributable to increases of $735.0 million in Other Revenue, $345.9 million in Investment Income and $30.5 million in Management and Advisory Fees, Net, partially offset by a decrease of $20.9 million in Incentive Fees.

The increase in Other Revenue was primarily due to the proceeds received from the conclusion of our sub-advisory relationship with FS Investments funds and a foreign exchange gain on our euro denominated bonds.

The increase in Investment Income was primarily attributable to increase in our Private Equity and Credit segments of $539.8 million and $101.3 million, respectively, partially offset by a decrease in our Real Estate segment of $303.0 million. The increase in our Private Equity segment was primarily due to corporate private equity. Corporate private equity carrying value increased 9.5% in the three months ended June 30, 2018 compared to 2.8% in the three months ended June 30, 2017. The increase in our Credit segment was primarily attributable to higher returns in our performing credit strategies, and distressed strategies. The decrease in our Real Estate segment was primarily attributable to lower net appreciation of investment holdings in our BREP opportunistic funds compared to the comparable quarter in 2017. The carrying value of investments for our BREP opportunistic funds increased 2.7% compared to 5.4% in the comparable quarter in 2017.

The increase in Management and Advisory Fees, Net was primarily due to increases in our Real Estate and Private Equity segments of $30.8 million and $12.7 million, respectively, partially offset by a decrease in our Credit segment of $17.4 million. The increase in our Real Estate segment was primarily due to AUM growth in our core+ real estate funds and the launch of BREP Asia II in the fourth quarter of 2017. The increase in our Private Equity segment was primarily attributable to the launch of the third vintage of the Tactical Opportunities program. The decrease in our Credit segment was primarily attributable to the conclusion of our sub-advisory relationship with FS Investments, partially offset by the acquisition of Harvest.

The decrease in Incentive Fees was primarily attributable to a decrease in our Credit segment of $27.7 million, primarily due to the conclusion of our sub-advisory relationship with FS Investments.

Expenses

Expenses were $1.0 billion for the three months ended June 30, 2018, an increase of $135.2 million compared to $881.2 million for the three months ended June 30, 2017. The increase was primarily attributable to increases in Performance Allocations Compensation and Compensation, partially offset by a decrease in Fund Expenses. The increase of $93.7 million in Performance Allocations Compensation was primarily due to the increase in Investment Income. The increase of $60.3 million in Compensation was due to the increase in Management and Advisory Fees, Net, on which a portion of compensation is based, as well as investment in initiatives. The decrease of $32.0 million in Fund Expenses was due to a decrease of $28.9 million in our Credit segment primarily from the deconsolidation of certain CLO and other vehicles in 2018.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Revenues

Revenues were $4.4 billion for the six months ended June 30, 2018, an increase of $951.3 million compared to $3.5 billion for the six months ended June 30, 2017. The increase in Revenues was primarily attributable to increases of $679.9 million in Other Revenue, $199.1 million in Investment Income and $113.9 million in Management and Advisory Fees, Net, partially offset by a decrease of $54.9 million in Incentive Fees.

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The increase in Other Revenue was primarily due to the proceeds received from the conclusion of our sub-advisory relationship with FS Investments funds and a foreign exchange gain on our euro denominated bonds.

The increase in Investment Income was primarily attributable to increases in our Private Equity and Credit segments of $599.0 million and $72.3 million, respectively, partially offset by decreases in our Real Estate and Hedge Fund Solutions segments of $455.4 million and $42.8 million, respectively. The increase in our Private Equity segment was due to corporate private equity. Corporate private equity carrying value increased 16.4% in the six months ended June 30, 2018 compared to 9.3% in the six months ended June 30, 2017. The increase in our Credit segment was primarily attributable to higher returns in our performing credit strategies, and distressed strategies. The decrease in our Real Estate segment was primarily attributable to lower net appreciation of investment holdings in our BREP opportunistic funds compared to the comparable quarter in 2017. The carrying value of investments for our BREP opportunistic funds increased 6.0% compared to 10.5% in the comparable quarter in 2017. The decrease in our Hedge Fund Solutions segment was due to lower returns across the segment compared to the second quarter of 2017.

The increase in Management and Advisory Fees, Net was primarily due to increases in our Real Estate, Credit and Private Equity segments of $63.2 million, $25.7 million and $22.9 million, respectively. The increase in our Real Estate segment was primarily due to AUM growth in our core+ real estate funds and the launch of BREP Europe V in the fourth quarter of 2016 (and the corresponding expiration of its fee holiday in the second quarter of 2017) and the launch of BREP Asia II in the fourth quarter of 2017. The increase in our Credit segment was primarily attributable to the acquisition of Harvest and inclusion of our insurance solutions initiative, partially offset by the conclusion of our sub-advisory relationship with FS Investments. The increase in our Private Equity segment was primarily attributable to the launch of the third vintage of the Tactical Opportunities program and BCP Asia.

The decrease in Incentive Fees was primarily attributable to a decrease in our Credit segment of $57.2 million. The decrease in our Credit segment was primarily attributable to the conclusion of our sub-advisory relationship with FS Investments.

Expenses

Expenses were $2.0 billion for the six months ended June 30, 2018, an increase of $196.3 million compared to $1.8 billion for the six months ended June 30, 2017. The increase was primarily attributable to increases in Compensation and Performance Allocations Compensation, partially offset by a decrease in Incentive Fee Compensation. The increase of $98.1 million in Compensation was due to the increase in Management and Advisory Fees, Net, on which a portion of compensation is based, as well as investment in initiatives. The increase of $86.2 million in Performance Allocations Compensation was primarily due to the increase in Investment Income. The decrease of $27.1 million in Incentive Fee Compensation was primarily due to the decrease in Realized Incentive Fees in our Credit segment, on which a portion of Incentive Fee Compensation is based.

Other Income

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Other Income was $73.5 million for the three months ended June 30, 2018, a decrease of $36.5 million compared to $110.1 million for the three months ended June 30, 2017. The decrease in Other Income was due to a decrease in Net Gains from Fund Investment Activities. The decrease in Other Income Net Gain from Fund Investment Activities was principally driven by a decrease in our Credit segment of $42.2 million primarily from the deconsolidation of certain CLOs and other vehicles in 2018.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Other Income was $184.1 million for the six months ended June 30, 2018, an increase of $7.9 million compared to $176.2 million for the six months ended June 30, 2017. The increase in Other Income was due to an

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increase in Net Gains from Fund Investment Activities. The increase in Other Income Net Gain from Fund Investment Activities was principally driven by increases of $20.6 million in our Private Equity segment and $10.0 million in our Credit Segment, partially offset by a decrease of $16.8 million in our Real Estate segment. The increase in our Private Equity segment was primarily the result of a year over year net increase in the appreciation of investments. The increase in our Credit segment was primarily driven by newly launched CLOs and certain long only strategies. The decrease in our Real Estate segment was primarily the result of a year over year net decrease 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,	
	2018	2017	2018	2017
Income Before Provision for Taxes	$ 1,689,708	$ 764,587	$ 2,586,507	$ 1,823,664
Provision for Taxes	$ 138,731	$ 29,608	$ 193,226	$ 87,045
Effective Income Tax Rate	8.2%	3.9%	7.5%	4.8%

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

	Three Months Ended June 30,		2018 vs.	Six Months Ended June 30,		2018 vs.
	2018	2017	2017	2018	2017	2017
Statutory U.S. Federal Income Tax Rate	21.0%	35.0%	-14.0%	21.0%	35.0%	-14.0%
Income Passed Through to Common Unitholders and Non-Controlling Interest Holders (a)	-14.7%	-29.0%	14.3%	-15.3%	-29.7%	14.4%
State and Local Income Taxes	2.1%	0.8%	1.3%	1.9%	1.0%	0.9%
Other	-0.2%	-2.9%	2.7%	-0.1%	-1.5%	1.4%
Effective Income Tax Rate	8.2%	3.9%	4.3%	7.5%	4.8%	2.7%

(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, 2018 Compared to Three Months Ended June 30, 2017

Blackstone s Provision for Taxes for the three months ended June 30, 2018 and 2017 was $138.7 million and $29.6 million, respectively. This resulted in an effective tax rate of 8.2% and 3.9%, respectively.

The Tax Reform Bill enacted in late 2017 reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The decrease in the effective tax rate from the rate reduction was offset by the corresponding reduction in the benefit for the exclusion of income passed through to common unitholders and non-controlling interest holders. In addition, the reduction in the federal corporate income tax rate reduced the benefit for the income tax rate differential between the U.S. and foreign jurisdictions on foreign income and the federal income tax benefit for state income taxes resulting in an overall increase in the effective tax rate for the three months ended June 30, 2018 compared to the three months ended June 30, 2017.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Blackstone s Provision for Taxes for the six months ended June 30, 2018 and 2017 was $193.2 million and $87.0 million, respectively. This resulted in an effective tax rate of 7.5% and 4.8%, respectively.

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The Tax Reform Bill enacted in late 2017 reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The decrease in the effective tax rate from the rate reduction was offset by the corresponding reduction in the benefit for the exclusion of income passed through to common unitholders and non-controlling interest holders. In addition, the reduction in the federal corporate income tax rate reduced the benefit for the income tax rate differential between the U.S. and foreign jurisdictions on foreign income and the federal income tax benefit for state income taxes resulting in an overall increase in the effective tax rate for the six months ended June 30, 2018 compared to the six months ended June 30, 2017.

All factors are expected to impact the effective tax rate for future years.

Additional information regarding our income taxes can be found in Note 13. Income Taxes in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.

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 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 such as fees allocable to The Blackstone Group L.P.

For the three months ended June 30, 2018 and 2017, the Net Income Before Taxes allocated to Blackstone Holdings was 43.9% and 45.0%, respectively. For the six months ended June 30, 2018 and 2017, the net income before taxes allocated to Blackstone Holdings was 44.1% and 45.2%, respectively. The decreases of 1.1% 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.

The Other Income Reduction of Tax Receivable Agreement Liability was entirely allocated to The Blackstone Group L.P.

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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, 2018 and 2017. 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									
	June 30, 2018					June 30, 2017				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
	(Dollars in Thousands)									
arning Assets Management										
ce, Beginning iod	$ 72,398,415	$ 87,284,578	$ 73,570,498	$ 111,397,306	$ 344,650,797	$ 68,227,286	$ 71,904,741	$ 68,812,528	$ 71,270,996	$ 280,215,
s, including itments (a)	7,057,401	5,937,991	2,379,116	5,579,039	20,953,547	2,219,991	3,376,228	1,805,294	4,946,453	12,347,
ws, including utions (b)	(617,880)	(1,381,867)	(4,355,699)	(21,548,439)	(27,903,885)	(1,114,755)	(98,811)	(3,330,068)	(929,653)	(5,473,
ations (c)	(1,000,261)	(2,459,391)	(100,122)	(1,414,399)	(4,974,173)	(1,400,348)	(2,371,349)	(176,568)	(3,276,948)	(7,225,
flows ows)	5,439,260	2,096,733	(2,076,705)	(17,383,799)	(11,924,511)	(295,112)	906,068	(1,701,342)	739,852	(350,
t Appreciation eciation) (d)(f)	208,022	(604,810)	395,497	253,150	251,859	97,496	899,434	713,278	359,286	2,069,
ce, End of	$ 78,045,697	$ 88,776,501	$ 71,889,290	$ 94,266,657	$ 332,978,145	$ 68,029,670	$ 73,710,243	$ 67,824,464	$ 72,370,134	$ 281,934,
se (Decrease)	$ 5,647,282	$ 1,491,923	$ (1,681,208)	$ (17,130,649)	$ (11,672,652)	$ (197,616)	$ 1,805,502	$ (988,064)	$ 1,099,138	$ 1,718,
se (Decrease)	8%	2%	-2%	-15%	-3%	-0%	3%	-1%	2%	

	Six Months Ended									
	June 30, 2018					June 30, 2017				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
	(Dollars in Thousands)									
arning Assets Management										
ce, Beginning iod	$ 70,140,883	$ 83,984,824	$ 69,914,061	$ 111,304,230	$ 335,343,998	$ 69,110,457	$ 72,030,054	$ 66,987,553	$ 68,964,608	$ 277,092,
s, including itments (a)	10,461,715	9,488,268	6,195,502	11,131,172	37,276,657	3,329,520	5,501,521	4,988,598	10,392,598	24,212,
ws, including utions (b)	(1,087,275)	(1,592,458)	(5,258,000)	(23,593,109)	(31,530,842)	(1,119,448)	(195,323)	(5,599,328)	(1,740,847)	(8,654,
ations (c)	(1,736,535)	(3,953,617)	(155,877)	(3,408,975)	(9,255,004)	(3,563,368)	(5,151,011)	(623,692)	(6,073,764)	(15,411,
flows ows)	7,637,905	3,942,193	781,625	(15,870,912)	(3,509,189)	(1,353,296)	155,187	(1,234,422)	2,577,987	145,
t Appreciation eciation) (d)(g)	266,909	849,484	1,193,604	(1,166,661)	1,143,336	272,509	1,525,002	2,071,333	827,539	4,696,
ce, End of	$ 78,045,697	$ 88,776,501	$ 71,889,290	$ 94,266,657	$ 332,978,145	$ 68,029,670	$ 73,710,243	$ 67,824,464	$ 72,370,134	$ 281,934,
se (Decrease)	$ 7,904,814	$ 4,791,677	$ 1,975,229	$ (17,037,573)	$ (2,365,853)	$ (1,080,787)	$ 1,680,189	$ 836,911	$ 3,405,526	$ 4,841,
se (Decrease)	11%	6%	3%	-15%	-1%	-2%	2%	1%	5%	
lized Base gement Fee e)	1.00%	1.12%	0.72%	0.50%	0.83%	1.04%	1.24%	0.76%	0.76%	0

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	Three Months Ended									
	June 30, 2018					June 30, 2017				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
	(Dollars in Thousands)									
ssets										
ement										
e, ing of	$ 111,414,214	$ 119,575,884	$ 78,657,551	$ 139,966,177	$ 449,613,826	$ 99,707,057	$ 102,070,930	$ 73,303,381	$ 93,115,549	$ 368,196
s, including itments (a)	6,282,722	5,124,391	2,995,023	5,687,114	20,089,250	1,731,553	3,199,773	1,968,985	5,171,173	12,071
vs, ng utions (b)	(401,296)	(1,002,502)	(4,544,409)	(21,647,826)	(27,596,033)	(287,123)	(867,119)	(3,360,854)	(1,135,777)	(5,650
tions (c)	(2,058,727)	(4,326,910)	(126,015)	(1,791,552)	(8,303,204)	(2,795,612)	(4,564,380)	(185,929)	(3,550,374)	(11,096
lows ws)	3,822,699	(205,021)	(1,675,401)	(17,752,264)	(15,809,987)	(1,351,182)	(2,231,726)	(1,577,798)	485,022	(4,675
iation	4,287,605	29,110	420,928	845,174	5,582,817	1,663,841	4,195,083	750,861	925,263	7,535
e, End of	$ 119,524,518	$ 119,399,973	$ 77,403,078	$ 123,059,087	$ 439,386,656	$ 100,019,716	$ 104,034,287	$ 72,476,444	$ 94,525,834	$ 371,056
e ase)	$ 8,110,304	$ (175,911)	$ (1,254,473)	$ (16,907,090)	$ (10,227,170)	$ 312,659	$ 1,963,357	$ (826,937)	$ 1,410,285	$ 2,859
e ase)	7%	-0%	-2%	-12%	-2%	0%	2%	-1%	2%	

	Six Months Ended									
	June 30, 2018					June 30, 2017				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total
	(Dollars in Thousands)									
ssets										
ement										
e, ing of	$ 105,560,576	$ 115,340,363	$ 75,090,834	$ 138,136,470	$ 434,128,243	$ 100,189,994	$ 101,963,652	$ 71,119,718	$ 93,280,101	$ 366,553
s, including itments (a)	9,817,185	8,747,267	6,935,637	12,768,519	38,268,608	4,355,225	6,529,257	5,609,665	9,534,387	26,028
vs, ng utions (b)	(779,956)	(1,150,663)	(5,671,098)	(23,608,043)	(31,209,760)	(509,999)	(1,077,244)	(5,862,592)	(3,222,969)	(10,672
tions (c)	(3,100,511)	(6,993,625)	(182,087)	(4,283,836)	(14,560,059)	(8,962,912)	(11,249,184)	(689,120)	(6,812,909)	(27,714
lows ws)	5,936,718	602,979	1,082,452	(15,123,360)	(7,501,211)	(5,117,686)	(5,797,171)	(942,047)	(501,491)	(12,358
iation	8,027,224	3,456,631	1,229,792	45,977	12,759,624	4,947,408	7,867,806	2,298,773	1,747,224	16,861
e, End of	$ 119,524,518	$ 119,399,973	$ 77,403,078	$ 123,059,087	$ 439,386,656	$ 100,019,716	$ 104,034,287	$ 72,476,444	$ 94,525,834	$ 371,056
e ase)	$ 13,963,942	$ 4,059,610	$ 2,312,244	$ (15,077,383)	$ 5,258,413	$ (170,278)	$ 2,070,635	$ 1,356,726	$ 1,245,733	$ 4,502
	13%	4%	3%	-11%	1%	-0%	2%	2%	1%	

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(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, increases in the capital we manage pursuant to separately managed account programs, allocations from multi-asset products to other strategies and acquisitions.
(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 or 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) Represents the annualized current quarter s Base Management Fee divided by period end Fee-Earning Assets Under Management.
(f) For the three months ended June 30, 2018, the impact to Fee-Earning Assets Under Management due to foreign exchange rate fluctuations was $(1.3) billion, $(697.4) million and $(2.0) billion for the Real Estate, Credit and Total segments, respectively. For the three months ended June 30, 2017, such impact was $(1.0) million, $544.1 million, $673.7 million and $1.2 billion for the Private Equity, Real Estate, Credit and Total segments, respectively.
(g) For the six months ended June 30, 2018, the impact to Fee-Earning Assets Under Management due to foreign exchange rate fluctuations was $(711.4) million, $(300.5) million and $(1.0) billion for the Real Estate, Credit and Total segments, respectively. For the six months ended June 30, 2017, such impact 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.
(h) For the three months ended June 30, 2018, the impact to Total Assets Under Management due to foreign exchange rate fluctuations was $(743.3) million, $(2.7) billion, $(882.7) million and $(4.3) billion for the Private Equity, Real Estate, Credit and Total segments, respectively. For the three months ended June 30, 2017, such impact 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.
(i) For the six months ended June 30, 2018, the impact to Total Assets Under Management due to foreign exchange rate fluctuations was $(270.2) million, $(1.5) billion, $(439.9) million and $(2.2) billion for the Private Equity, Real Estate, Credit and Total segments, respectively. For the six months ended June 30, 2017, such impact 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.

Fee-Earning Assets Under Management

Fee-Earning Assets Under Management were $333.0 billion at June 30, 2018, a decrease of $11.7 billion, compared to $344.7 billion at March 31, 2018. The net decrease was due to:

Outflows of $27.9 billion primarily attributable to:

$21.5 billion in our Credit segment driven by the conclusion of our sub-advisory relationship with FS Investment. The remaining outflows were mainly related to certain long only and MLP strategies,

$4.4 billion in our Hedge Fund Solutions segment, reflecting investors liquidity needs and certain strategic shifts in their programs, primarily driven by outflows of $2.2 billion from customized solutions, $1.4 billion from commingled products and $675.1 million from individual investor and specialized solutions, and

$1.4 billion in our Real Estate segment primarily driven by $787.0 million of uninvested capital at the close of a BPP separately managed account s investment period and $513.5 million of redemptions from the BREDS liquids funds.

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Realizations of $5.0 billion primarily driven by:

- $2.5 billion in our Real Estate segment driven by $1.1 billion from BREP opportunistic funds and co-investment, $1.0 billion from BREDS and $360.5 million from core+ real estate funds,
- $1.4 billion in our Credit segment driven by $574.7 million of capital returned to investors from CLOs that are post their re-investment periods, $376.7 million of realizations from distressed strategies, and $268.1 million of realizations from mezzanine funds, and
- $1.0 billion in our Private Equity segment driven by $465.7 million from Tactical Opportunities, $371.7 million from Strategic Partners and $162.8 million from corporate private equity.

Offsetting these decreases were:

Inflows of $21.0 billion related to:

- $7.1 billion in our Private Equity segment driven by $4.5 billion from BIP, $1.2 billion from Tactical Opportunities, $742.5 million from core private equity, $616.8 million from corporate private equity and $140.0 million from Strategic Partners,
- $5.6 billion in our Credit segment driven by $4.4 billion from certain long only and MLP strategies, $2.1 billion of capital raised from new CLO launches and CLO refinancings, $912.6 million from our distressed strategies, $484.0 million from BIS and $424.1 million from mezzanine funds, partially offset by $2.8 billion of allocations from insurance multi-asset products to other strategies,
- $5.9 billion in our Real Estate segment driven by $2.7 billion from BREDS, $1.5 billion from BPP U.S. and co-investment, $749.7 million from BREIT, $624.4 million from BPP Europe and co-investment and $271.6 million from BREP opportunistic funds and co-investment, and
- $2.4 billion in our Hedge Fund Solutions segment driven by growth of $1.2 billion in customized solutions, $814.6 million in individual investor and specialized solutions and $398.3 million in commingled products.

Market appreciation of $251.9 million due to:

- $395.5 million appreciation in our Hedge Fund Solutions segment driven by returns from BAAM s Principal Solutions Composite of 1.5% gross (1.3% net),
- $253.2 million appreciation in our Credit segment driven by $950.5 million of appreciation from market activity ($1.4 billion from long only and MLP strategies, offset by $411.4 million from BIS) and foreign exchange depreciation of $697.4 million mainly related to CLOs and mezzanine funds,

$208.0 million appreciation in our Private Equity segment driven by Strategic Partners, and

Partially offset by $604.8 million depreciation in our Real Estate segment driven by $542.6 million of depreciation from BREP opportunistic funds and co-investment, all of which was from foreign exchange depreciation and $180.5 million of depreciation from core+ real estate funds ($801.4 million from foreign exchange depreciation offset by $620.9 million from market appreciation).

BAAM had net inflows of $2.3 billion from July 1 through August 1, 2018.

Fee-Earning Assets Under Management were $333.0 billion at June 30, 2018, a decrease of $2.4 billion, compared to $335.3 billion at December 31, 2017. The net decrease was due to:

Outflows of $31.5 billion primarily attributable to:

$23.6 billion in our Credit segment driven by the conclusion of our sub-advisory relationship with FS Investment. The remaining outflows were mainly related to certain long only and MLP strategies,

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- $5.3 billion in our Hedge Fund Solutions segment, reflecting investors liquidity needs and certain strategic shifts in their programs, driven by outflows of $2.5 billion from customized solutions, $1.5 billion from commingled products and $1.3 billion from individual investor and specialized solutions,

- $1.6 billion in our Real Estate segment primarily driven by $787.0 million of uninvested capital at the close of a BPP separately managed account s investment period and $689.9 million of redemptions from the BREDS liquids funds, and

- $1.1 billion in our Private Equity segment driven by reductions of $575.1 million from Tactical Opportunities and $512.2 million from multi-asset products.

Realizations of $9.3 billion primarily driven by:

- $4.0 billion in our Real Estate segment driven by $1.8 billion from BREP opportunistic funds and co-investment, $1.5 billion from BREDS and $582.4 million from core+ real estate funds,

- $3.4 billion in our Credit segment driven by $1.4 billion of realizations from distressed strategies, $1.1 billion of capital returned to investors from CLOs that are post their re-investment periods and $495.6 million of realizations from mezzanine funds, and

- $1.7 billion in our Private Equity segment driven by $842.6 million from Strategic Partners, $642.3 million from Tactical Opportunities and $251.6 million from corporate private equity.

Offsetting these decreases were:

Inflows of $37.3 billion related to:

- $11.1 billion in our Credit segment driven by $6.2 billion from certain long only and MLP strategies, $3.8 billion of capital raised from new CLO launches and CLO refinancings, $2.0 billion from BIS and $1.5 billion from our distressed strategies, partially offset by $3.1 billion of allocation from insurance multi-asset products to other strategies,

- $10.5 billion in our Private Equity segment driven by $4.5 billion from BIP, $2.9 billion from Tactical Opportunities, $916.1 million from multi-asset products, $846.8 million from corporate private equity, $742.5 million from core private equity and $574.8 million from Strategic Partners,

- $9.5 billion in our Real Estate segment driven by $3.1 billion from BREDS, $1.8 billion from BPP U.S. and co-investment, $1.6 billion from BREP opportunistic funds and co-investment, $1.4 billion from BPP Europe and co-investment and $1.4 billion from BREIT, and

- $6.2 billion in our Hedge Fund Solutions segment driven by growth of $3.0 billion in customized solutions, $2.4 billion in individual investor and specialized solutions and $822.1 million in commingled products.

Market appreciation of $1.1 billion due to:

- $1.2 billion in our Hedge Fund Solutions segment driven by returns from BAAM s Principal Solutions Composite of 2.7% gross (2.3% net),
- $849.5 million appreciation in our Real Estate segment primarily driven by $910.1 million of appreciation from core+ real estate funds ($1.4 billion from market appreciation offset by $452.9 million from foreign exchange depreciation) and $217.2 million of market appreciation from BREDS, offset by $258.5 million of foreign exchange depreciation from BREP opportunistic funds and co-investment, and
- Partially offset by $1.2 billion depreciation in our Credit segment driven by $966.2 million of market activity depreciation from BIS and $300.5 million of foreign exchange depreciation, mainly related to CLOs.

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Total Assets Under Management

Total Assets Under Management were $439.4 billion at June 30, 2018, a decrease of $10.2 billion, compared to $449.6 billion at March 31, 2018. The net decrease was due to:

- Outflows of $27.6 billion primarily attributable to:
  - $21.6 billion in our Credit segment driven by the conclusion of our sub-advisory relationship with FS Investment. The remaining outflows were mainly related to certain long only and MLP strategies,
  - $4.5 billion in our Hedge Fund Solutions segment, reflecting investors liquidity needs and certain strategic shifts in their programs, driven by outflows of $2.3 billion from customized solutions, $1.5 billion from commingled products and $779.0 million from individual investor and specialized solutions, and
  - $1.0 billion in our Real Estate segment driven by redemptions from the BREDS liquid funds and a release of reserves from BREDS drawdown funds.
- Realizations of $8.3 billion primarily driven by:
  - $4.3 billion in our Real Estate segment driven by $3.2 billion from BREP opportunistic funds and co-investment, $693.8 million from BREDS and $397.9 million from core+ real estate funds,
  - $2.1 billion in our Private Equity segment driven by continued disposition activity across the segment, mainly related to $862.5 million from corporate private equity, $706.4 million from Tactical Opportunities and $489.8 million from Strategic Partners, and
  - $1.8 billion in our Credit segment driven by $574.7 million from capital returned to investors from CLOs that are post their re-investment periods, $554.7 million from our distressed strategies and $465.6 million from our mezzanine strategies.

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.

Offsetting these decreases were:

- Inflows of $20.0 billion related to:
  - $6.3 billion in our Private Equity segment driven by $4.6 billion from BIP, $1.0 billion from Tactical Opportunities, $569.2 million from corporate private equity and $128.5 million from Strategic Partners,
  - $5.7 billion in our Credit segment driven by $4.6 billion from certain long only and MLP strategies, $2.1 billion of capital raised from CLO launches and CLO refinancings, $982.4 million from distressed strategies, $484.2 million from BIS,

$301.5 million from mezzanine funds, partially offset by $2.8 billion of allocations from insurance multi-asset products to other strategies,

$5.1 billion in our Real Estate segment driven by $2.1 billion from BREDS, $1.5 billion from BPP U.S. and co-investment, $749.7 million from BREIT, $331.1 million from BPP Europe and co-investment and $200.3 million from the close of the second Asian opportunistic fund, and

$3.0 billion in our Hedge Fund Solutions segment driven by growth of $1.4 billion in individual investor and specialized solutions, $1.2 billion in customized solutions and $423.0 million in commingled products.

Market appreciation of $5.6 billion due to:

$4.3 billion in our Private Equity segment driven by carrying value increase in corporate private equity, Strategic Partners and Tactical Opportunities of 9.5%, 5.8% and 2.1%, respectively, which included $743.3 million of foreign exchange depreciation across the segment,

$845.2 million in our Credit segment driven by $1.2 billion of appreciation from certain long only and MLP strategies ($1.4 billion from market appreciation offset by $235.0 million from foreign

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exchange depreciation), offset by $411.4 million of depreciation from BIS, all of which was from market activity, and

$420.9 million in our Hedge Fund Solutions segment driven by 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).

Total Assets Under Management were $439.4 billion at June 30, 2018, an increase of $5.3 billion, compared to $434.1 billion at December 31, 2017. The net increase was due to:

Inflows of $38.3 billion related to:

$12.8 billion in our Credit segment driven by $6.5 billion from certain long only and MLP strategies, $3.9 billion of capital raised from CLO launches and CLO refinancings, $3.0 billion from distressed strategies, $2.0 billion from BIS and $358.7 million from mezzanine funds, partially offset by $3.1 billion of allocations from insurance multi-asset products to other strategies,

$9.8 billion in our Private Equity segment driven by $4.6 billion from BIP, $2.9 billion from Tactical Opportunities, $967.4 million from corporate private equity, $914.5 million from Strategic Partners and $415.6 million from multi-asset products,

$8.7 billion in our Real Estate segment driven by $2.5 billion from BREDS, $2.0 billion from BPP U.S. and co-investment, $1.4 billion from BREIT, $1.2 billion from the close of the second Asian opportunistic fund and $1.0 billion from BPP Europe and co-investment, and

$6.9 billion in our Hedge Fund Solutions segment driven by growth of $3.1 billion in individual investor and specialized solutions, $3.0 billion in customized solutions and $853.4 million in commingled products.

Market appreciation of $12.8 billion due to:

$8.0 billion in our Private Equity segment driven by carrying value increase in corporate private equity, Strategic Partners and Tactical Opportunities of 16.4%, 13.5% and 7.3%, respectively, which included $270.2 million of foreign exchange depreciation across the segment,

$3.5 billion in our Real Estate segment driven by carrying value increases in our opportunistic and core+ real estate funds of 6.0% and 5.7%, respectively, which includes $1.5 billion of foreign exchange depreciation across the segment, and

$1.2 billion in our Hedge Fund Solutions segment driven by reasons noted above in Fee-Earning Assets Under Management.

Offsetting these increases were:

Outflows of $31.2 billion primarily attributable to:

- $23.6 billion in our Credit segment driven by the conclusion of our sub-advisory relationship with FS Investment. The remaining outflows were mainly related to certain long only and MLP strategies,

- $5.7 billion in our Hedge Fund Solutions segment, reflecting investors liquidity needs and certain strategic shifts in their programs, driven by outflows of $2.5 billion from customized solutions, $1.6 billion from individual investors and specialized solutions and $1.5 billion from commingled products, and

- $1.2 billion in our Real Estate segment driven by redemptions from the BREDS liquids funds and a release of reserves from BREDS drawdown funds.

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Realizations of $14.6 billion primarily driven by:

- $7.0 billion in our Real Estate segment driven by $5.2 billion from BREP opportunistic funds and co-investment, $1.2 billion from BREDS and $654.4 million from core+ real estate funds,
- $4.3 billion in our Credit segment driven by $1.9 billion from our distressed strategies, $1.1 billion from capital returned to investors from CLOs that are post their re-investment periods and $846.5 million from our mezzanine strategies, and
- $3.1 billion in our Private Equity segment driven by continued disposition activity across the segment, mainly related to $1.2 billion from corporate private equity, $955.6 million from Strategic Partners and $927.9 million from Tactical Opportunities.

Limited Partner Capital Invested

The following presents the limited partner capital invested for each of the respective three month periods:

Note: Totals may not add due to rounding.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2018	2017	2018
	(Dollars in Thousands)			
Limited Partner Capital Invested				
Private Equity	$ 3,846,841	$ 2,356,960	$ 8,583,229	$ 5,658,909
Real Estate	2,371,918	4,538,154	4,962,337	8,792,355
Hedge Fund Solutions (a)	89,985	112,753	211,842	868,571
Credit	1,490,880	1,018,831	3,752,146	2,030,192
	$ 7,799,624	$ 8,026,698	$ 17,509,554	$ 17,350,027

(a) Limited Partner Capital Invested for the Hedge Fund Solutions segment has been updated for an adjustment applicable to the three months ended March 31, 2017.

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The following presents the dry powder as of quarter end of each period:

Note: Totals may not add due to rounding.

(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,	
	2017	2018
	(Dollars in Thousands)	
Dry Powder Available for Investment		
Private Equity	$ 37,503,446	$ 36,425,713
Real Estate	31,678,807	26,545,329
Hedge Fund Solutions	3,838,039	3,501,849
Credit	16,995,736	21,844,231
	$ 90,016,028	$ 88,317,122

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Net Accrued Performance Revenues

The following table presents the Accrued Performance Revenues, net of performance compensation, of the Blackstone Funds as of June 30, 2018 and 2017. Net Accrued Performance Revenues 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 Revenues as of each reporting date is principally unrealized; if realized, such amount can be a significant component of Distributable Earnings.

	June 30,	
	2018	2017
	(Dollars in Millions)	
Private Equity		
BCP IV	$ 99	$ 86
BCP V	87	68
BCP VI	911	579
BCP VII	94	
BEP I	142	89
BEP II	50	12
Tactical Opportunities	152	117
Strategic Partners	91	46
BTAS	30	27
Other	1	4
Total Private Equity (a)	1,657	1,028
Real Estate		
BREP IV	14	8
BREP V	159	238
BREP VI	132	229
BREP VII	592	544
BREP VIII	317	211
BREP Europe III	33	169
BREP Europe IV	211	367
BREP Europe V	61	
BREP Asia I	110	76
BPP	194	118
BREIT	10	3
BREDS	29	21
BTAS	31	
Total Real Estate (a)	1,893	1,984
Hedge Fund Solutions	23	29
Credit	299	216
Total Blackstone Net Accrued Performance Revenues	$ 3,872	$ 3,257

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

Net Accrued Performance Revenues receivable was increased by net Performance Revenues of $2.3 billion for the six months ended June 30, 2018 and decreased by net realized distributions of $1.7 billion for the six months ended June 30, 2018.

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Performance Revenue Eligible Assets Under Management

The following represents our Performance Revenue Eligible Assets Under Management as of June 30, 2018:

Note: Totals may not add due to rounding.

(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 Revenue could be earned if certain hurdles are met.

(b) Represents dry powder exclusive of non-revenue 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, 2018:

			Unrealized Investments			Realized Investments		Total Investments		Net IRRs (c	
(Investment Period Beginning Date / Ending Date)	Committed Capital	Available Capital (a)	Value	MOIC (b)	% Public	Value	MOIC (b)	Value	MOIC (b)	Realized	Tot
			(Dollars in Thousands, Except Where Noted)								
te Equity											
I (Oct 1987 / Oct 1993)	$ 859,081	$	$	N/A		$ 1,741,738	2.6x	$ 1,741,738	2.6x	19%	
II (Oct 1993 / Aug 1997)	1,361,100			N/A		3,256,819	2.5x	3,256,819	2.5x	32%	
III (Aug 1997 / Nov 2002)	3,967,422			N/A		9,184,688	2.3x	9,184,688	2.3x	14%	
M (Jun 2000 / Jun 2006)	2,137,330	24,575	17,086	1.3x		2,953,649	1.4x	2,970,735	1.4x	7%	
IV (Nov 2002 / Dec 2005)	6,773,182	207,524	872,299	0.9x	50%	20,677,725	3.2x	21,550,024	2.9x	42%	
V (Dec 2005 / Jan 2011)	21,022,164	1,052,763	2,256,568	1.1x	30%	36,189,148	2.0x	38,445,716	1.9x	9%	
VI (Jan 2011 / May 2016)	15,190,523	1,800,629	17,512,669	1.8x	32%	8,990,744	2.1x	26,503,413	1.9x	23%	
I (Aug 2011 / Feb 2015)	2,436,904	168,684	2,947,107	1.7x	36%	1,416,870	2.0x	4,363,977	1.8x	29%	
II (Feb 2015 / Feb 2021)	4,874,208	1,698,584	2,884,607	1.4x		65,371	2.9x	2,949,978	1.4x	N/M	
VII (May 2016 / May 2022)	18,494,651	12,230,285	5,644,440	1.4x		311,717	1.2x	5,956,157	1.4x	N/M	
Asia (Dec 2017 / Dec 2023) (d)	2,369,469	2,208,544	13,992	N/A			N/A	13,992	N/A	N/A	N/
Corporate Private Equity	$ 79,486,034	$ 19,391,588	$ 32,148,768	1.5x	24%	$ 84,788,469	2.2x	$ 116,937,237	2.0x	17%	
cal Opportunities	$ 18,427,737	$ 8,426,505	$ 9,781,454	1.2x	10%	$ 5,287,948	1.7x	$ 15,069,402	1.4x	26%	
cal Opportunities Co-Investment and Other	5,119,604	1,409,243	3,670,283	1.2x	2%	1,198,810	1.6x	4,869,093	1.3x	N/A	
gic Partners I-V and Co-Investment (e)	11,913,113	1,796,921	2,020,522	N/M		15,588,672	N/M	17,609,194	1.5x	N/A	
gic Partners VI LBO, RE and SMA (e)	7,402,171	2,070,236	3,500,627	N/M		2,739,347	N/M	6,239,974	1.5x	N/A	
gic Partners VII (e)	7,669,970	2,334,958	4,876,510	N/M		350,751	N/M	5,227,261	1.3x	N/A	
gic Partners RA II (e)	1,806,807	1,446,595	262,612	N/M		12,940	N/M	275,552	1.2x	N/A	
P (Jan 2017 / Jan 2021) (f)	4,755,620	2,605,464	2,214,439	1.0x			N/A	2,214,439	1.0x	N/A	
Funds and Co-Investment (g)	1,621,936	442,069	68,639	0.9x	22%	637,161	0.9x	705,800	0.9x	N/M	N/
Estate											
REP	$ 140,714	$	$	N/A		$ 345,190	2.5x	$ 345,190	2.5x	33%	
P I (Sep 1994 / Oct 1996)	380,708			N/A		1,327,708	2.8x	1,327,708	2.8x	40%	
P II (Oct 1996 / Mar 1999)	1,198,339			N/A		2,531,614	2.1x	2,531,614	2.1x	19%	
P III (Apr 1999 / Apr 2003)	1,522,708			N/A		3,330,406	2.4x	3,330,406	2.4x	21%	
P IV (Apr 2003 / Dec 2005)	2,198,694		313,328	0.4x	30%	4,259,530	2.2x	4,572,858	1.7x	35%	
P V (Dec 2005 / Feb 2007)	5,539,418		1,181,187	2.3x	31%	12,230,080	2.3x	13,411,267	2.3x	12%	
P VI (Feb 2007 / Aug 2011)	11,060,444	556,530	1,554,579	1.6x	3%	25,908,690	2.6x	27,463,269	2.5x	14%	
P VII (Aug 2011 / Apr 2015)	13,495,034	2,058,135	11,964,442	1.7x	19%	16,641,294	2.1x	28,605,736	1.9x	29%	
P VIII (Apr 2015 / Oct 2020)	16,419,603	8,407,055	11,023,120	1.4x	2%	4,003,140	1.5x	15,026,260	1.4x	27%	
Global BREP	$ 51,955,662	$ 11,021,720	$ 26,036,656	1.5x	11%	$ 70,577,652	2.3x	$ 96,614,308	2.0x	19%	
P Int 1 (Jan 2001 / Sep 2005)	824,172			N/A		1,369,016	2.1x	1,369,016	2.1x	23%	
P Int 1 II (Sep 2005 / Jun 2008) (h)	1,629,748		140,384	0.5x		2,294,647	2.0x	2,435,031	1.7x	10%	
P Europe III (Jun 2008 / Sep 2013)	3,205,167	463,758	1,154,882	1.3x		5,199,477	2.5x	6,354,359	2.2x	21%	
P Europe IV (Sep 2013 / Dec 2016)	6,709,145	1,333,963	4,903,348	1.5x	10%	6,316,424	2.0x	11,219,772	1.8x	25%	
P Europe V (Dec 2016 / Jun 2022)	7,855,686	4,256,899	4,164,195	1.2x	4%	14,155	N/M	4,178,350	1.2x	N/M	
Euro BREP	20,223,918	6,054,620	10,362,809	1.3x	7%	15,193,719	2.1x	25,556,528	1.7x	17%	
P Asia I (Jun 2013 / Dec 2017)	$ 5,096,522	$ 1,881,675	$ 4,253,540	1.4x		$ 2,508,819	1.8x	$ 6,762,359	1.5x	23%	
P Asia II (Dec 2017 / Jun 2023)	7,105,707	7,008,667	262,033	N/M			N/M	262,033	N/M	N/M	N/
P Co-Investment (i)	6,892,347	146,573	2,098,516	1.7x	51%	11,800,844	2.1x	13,899,360	2.1x	16%	
BREP	$ 95,817,573	$ 27,054,144	$ 44,954,095	1.4x	11%	$ 104,310,222	2.2x	$ 149,264,317	1.9x	19%	
j)	$ 25,307,653	$ 2,882,693	$ 25,930,125	1.2x		$ 2,678,843	N/A	$ 28,608,968	1.2x	N/M	
DS (k)	$ 13,247,759	$ 4,600,992	$ 2,966,415	1.1x		$ 9,474,771	1.3x	$ 12,441,186	1.3x	12%	

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Fund (Investment Period Beginning Date / Ending Date)	Committed Capital	Available Capital (a)	Unrealized Investments Value	Unrealized Investments MOIC (b)	% Public	Realized Investments Value	Realized Investments MOIC (b)	Total Investments Value	Total Investments MOIC (b)	Net IRRs (c) Realized	Net IRRs (c) Total
	(Dollars in Thousands, Except Where Noted)										
Hedge Fund Solutions											
BSCH (Dec 2013 / Jun 2020) (l)	$ 3,298,575	$ 2,356,290	$ 973,480	1.0x		$ 256,301	N/A	$ 1,229,781	1.3x	N/A	6%
BSCH Co-Investment	276,000	164,877	102,280	0.9x		24,167	N/A	126,447	1.1x	N/A	9%
Total Hedge Fund Solutions	$ 3,574,575	$ 2,521,167	$ 1,075,760	1.0x		$ 280,468	N/A	$ 1,356,228	1.3x	N/A	6%
Credit (m)											
Mezzanine I (Jul 2007 / Oct 2011)	$ 2,000,000	$ 97,114	$ 45,909	0.8x		$ 4,770,221	1.6x	$ 4,816,130	1.6x	N/A	17%
Mezzanine II (Nov 2011 / Nov 2016)	4,120,000	1,146,274	2,535,690	1.1x		4,100,043	1.6x	6,635,733	1.4x	N/A	13%
Mezzanine III (Sep 2016 / Sep 2021)	6,639,133	3,457,539	2,547,038	1.1x		636,892	1.5x	3,183,930	1.2x	N/A	13%
Stressed / Distressed Investing I (Sep 2009 / May 2013)	3,253,143	175,000	417,641	0.7x		5,568,943	1.5x	5,986,584	1.4x	N/A	11%
Stressed / Distressed Investing II (Jun 2013 / Jun 2018)	5,125,000	648,283	2,846,622	1.1x		2,968,264	1.4x	5,814,886	1.2x	N/A	13%
Stressed / Distressed Investing III (Dec 2017 / Dec 2022)	7,356,380	6,329,287	769,329	1.1x		23,341	N/A	792,670	1.1x	N/A	N/A
Energy Select Opportunities (Nov 2015 / Nov 2018)	2,856,867	1,108,540	1,875,069	1.2x		415,064	1.7x	2,290,133	1.2x	N/A	19%
Euro											
European Senior Debt Fund (Feb 2015 / Feb 2019)	1,964,689	1,560,617	1,811,098	1.0x		656,896	1.5x	2,467,994	1.1x	N/A	11%
Total Credit	$ 33,616,933	$ 14,784,215	$ 13,151,845	1.1x		$ 19,235,263	1.5x	$ 32,387,108	1.3x	N/A	14%

The returns 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) Available Capital represents total investable capital commitments, including side-by-side, adjusted for certain expenses and expired or recallable 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, 2018 IRR on total invested capital based on realized proceeds and unrealized value, as applicable, after management fees, expenses and carried interest.
(d) Includes foreign currency gain or loss on invested undrawn capital, if any.
(e) Realizations are treated as return of capital until fully recovered and therefore unrealized and realized MOICs are not meaningful.
(f) BCEP, or Blackstone Core Equity Partners, is a core private equity fund which invests with a more modest risk profile and longer hold period.
(g) Returns for Other Funds and Co-Investment are not meaningful as these funds have limited transaction activity.
(h) The 10% Realized Net IRR and 8% Total Net IRR exclude investors that opted out of the Hilton investment opportunity. Overall BREP International II performance reflects a 9% Realized Net IRR and a 6% Total Net IRR.
(i) 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.
(j) BPP represents the core+ real estate funds which invest with a more modest risk profile and lower leverage. Excludes BREIT.
(k) Excludes Capital Trust drawdown funds.
(l) BSCH, or Blackstone Strategic Capital Holdings, is a permanent capital vehicle focused on acquiring strategic minority positions in alternative asset managers.
(m) Funds presented represent the flagship credit drawdown funds only. The Total Credit Net IRR is the combined IRR of the eight 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.

Private Equity

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

	Three Months Ended June 30,		2018 vs. 2017		Six Months Ended June 30,		2018 vs. 2017	
	2018	2017	$	%	2018	2017	$	%
	(Dollars in Thousands)							
Revenues								
Management and Advisory Fees, Net								
Base Management Fees	$ 195,521	$ 177,684	$ 17,837	10%	$ 378,482	$ 354,390	$ 24,092	7%
Transaction, Advisory and Other Fees, Net	12,780	17,289	(4,509)	-26%	23,874	33,465	(9,591)	-29%
Management Fee Offsets	(4,351)	(3,753)	(598)	16%	(7,544)	(15,943)	8,399	-53%
Total Management and Advisory Fees, Net	203,950	191,220	12,730	7%	394,812	371,912	22,900	6%
Performance Revenues								
Realized Performance Allocations	138,171	198,168	(59,997)	-30%	215,294	780,849	(565,555)	-72%
Unrealized Performance Allocations	498,274	9	498,265	N/M	895,590	(184,469)	1,080,059	N/M
Total Performance Revenues	636,445	198,177	438,268	221%	1,110,884	596,380	514,504	86%
Principal Investment Income (Loss)								
Realized	32,600	41,168	(8,568)	-21%	38,938	122,462	(83,524)	-68%
Unrealized	84,247	(25,892)	110,139	N/M	101,615	(66,414)	168,029	N/M
Total Principal Investment Income	116,847	15,276	101,571	665%	140,553	56,048	84,505	151%
Interest and Dividend Revenue	11,549	7,922	3,627	46%	20,092	14,583	5,509	38%
Other	26,667	(16,124)	42,791	N/M	10,259	(17,924)	28,183	N/M
Total Revenues	995,458	396,471	598,987	151%	1,676,600	1,020,999	655,601	64%
Expenses								
Compensation	103,798	90,676	13,122	14%	203,527	174,279	29,248	17%
Performance Compensation								
Realized Performance Allocations	68,513	63,060	5,453	9%	101,558	244,693	(143,135)	-58%
Unrealized Performance Allocations	193,747	22,219	171,528	772%	372,549	(17,137)	389,686	N/M
Total Compensation and Benefits	366,058	175,955	190,103	108%	677,634	401,835	275,799	69%

Interest Expense	12,773	10,728	2,045	19%	22,906	21,155	1,751	8%
Other Operating Expenses	36,047	28,592	7,455	26%	67,198	56,353	10,845	19%
Total Expenses	414,878	215,275	199,603	93%	767,738	479,343	288,395	60%
Economic Income	$ 580,580	$ 181,196	$ 399,384	220%	$ 908,862	$ 541,656	$ 367,206	68%

N/M Not meaningful.

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Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Revenues

Revenues were $995.5 million for the three months ended June 30, 2018, an increase of $599.0 million compared to $396.5 million for the three months ended June 30, 2017. The increase in Revenues was primarily attributable to increases of $438.3 million in Performance Revenues and $101.6 million in Principal Investment Income.

Revenues in our Private Equity segment in the second quarter of 2018 were higher compared to the second quarter of 2017, primarily driven by increased Performance Revenues largely due to positive performance in our corporate private equity investments, particularly in energy and technology. The market environment continues to be generally characterized by high prices and as a result, the market for new investments remains challenging. Nonetheless, in the second quarter of 2018 we deployed $2.6 billion and committed an additional $1.9 billion of capital across the segment. U.S. tax reform is expected to have a neutral to slightly positive impact for our U.S. private equity investments. Realizations of $2.1 billion in the quarter were driven by activity across our corporate private equity funds, Tactical Opportunities and Strategic Partners, although volatility could be a factor in fewer realizations going forward. Although we and our portfolio companies are operating against a backdrop of continuing economic strength and improving fundamentals that we expect will benefit our businesses, interest rates are expected to continue to rise throughout 2018 and will likely increase the cost of debt financing for us and our portfolio companies. Revenues in the Private Equity segment would likely be negatively impacted if pressure on wages and other inputs and higher tariffs increasingly pressure profit margins. Revenues in our Private Equity segment would also likely be negatively impacted from rising interest rates, a stronger U.S. dollar and higher inflation, although such impact may be meaningfully mitigated if occurring against a backdrop of corresponding economic growth. See Item 1A. Risk Factors Risks Related to Our Business 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, 2017.

Performance Revenues were $636.4 million for the three months ended June 30, 2018, an increase of $438.3 million compared to $198.2 million for the three months ended June 30, 2017, driven by corporate private equity. Corporate private equity carrying value increased 9.5% in the three months ended June 30, 2018 compared to 2.8% in the three months ended June 30, 2017.

Principal Investment Income was $116.8 million for the three months ended June 30, 2018, an increase of $101.6 million compared to $15.3 million for the three months ended June 30, 2017, primarily driven by an increase in the appreciation of our investment holdings.

Expenses

Expenses were $414.9 million for the three months ended June 30, 2018, an increase of $199.6 million compared to $215.3 million for the three months ended June 30, 2017. The increase was primarily attributable to an increase of $190.1 million in Total Compensation and Benefits. The increase in Total Compensation and Benefits was primarily due to an increase of $177.0 million in Performance Compensation. Performance Compensation increased as a result of the increase in Performance Revenues.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Revenues

Revenues were $1.7 billion for the six months ended June 30, 2018, an increase of $655.6 million compared to $1.0 billion for the six months ended June 30, 2017. The increase in Revenues was primarily attributable to increases of $514.5 million in Performance Revenues, $84.5 million in Principal Investment Income and $22.9 million in Total Management and Advisory Fees, Net.

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Performance Revenues were $1.1 billion for the six months ended June 30, 2018, an increase of $514.5 million, compared to $596.4 million for the six months ended June 30, 2017, driven by corporate private equity. Corporate private equity carrying value increased 16.4% in the six months ended June 30, 2018 compared to 9.3% in the six months ended June 30, 2017.

Principal Investment Income was $140.6 million for the six months ended June 30, 2018, an increase of $84.5 million, compared to $56.0 million for the six months ended June 30, 2017. The increase was due to an increase in the appreciation of our investment holdings.

Total Management and Advisory Fees, Net were $394.8 million for the six months ended June 30, 2018, an increase of $22.9 million compared to $371.9 million for the six months ended June 30, 2017, primarily driven by an increase in Base Management Fees. Base Management Fees were $378.5 million for the six months ended June 30, 2018, an increase of $24.1 million compared to $354.4 million for the six months ended June 30, 2017, primarily due to the launch of the third vintage of the Tactical Opportunities program and BCP Asia.

Expenses

Expenses were $767.7 million for the six months ended June 30, 2018, an increase of $288.4 million compared to $479.3 million for the six months ended June 30, 2017. The increase was primarily attributable to an increase of $275.8 million in Total Compensation and Benefits. The increase in Total Compensation and Benefits was primarily due to increases of $246.6 million in Performance Compensation and $29.2 million in Compensation. Performance Compensation increased as a result of the increase in Performance Revenues. Compensation increased primarily due to the increase in Management and Advisory Fees, Net, on which a portion of compensation is based, as well as investment in initiatives.

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.

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

	Three Months Ended June 30,				Six Months Ended June 30,				June 30, 2018 Inception to Date			
	2018		2017		2018		2017		Realized		Total	
Fund (a)	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BCP IV	24%	21%	1%	1%	16%	14%	-1%	-1%	56%	42%	50%	36%
BCP V	14%	11%	2%	1%	12%	9%	5%	4%	11%	9%	10%	8%
BCP VI	8%	7%	4%	3%	16%	13%	13%	11%	29%	23%	20%	15%
BCP VII	8%	5%	N/M	N/M	20%	12%	N/M	N/M	N/M	N/M	36%	17%
BEP I	19%	16%	-2%	-2%	19%	16%	8%	7%	37%	29%	19%	15%
BEP II	8%	5%	2%		18%	11%	13%	8%	N/M	N/M	29%	15%
BCOM	-2%	-2%	-17%	-17%	2%	1%	-14%	-14%	13%	7%	13%	6%
Tactical Opportunities	2%	2%	5%	4%	8%	6%	8%	14%	28%	26%	15%	12%
Tactical Opportunities Co-Investment and Other	8%	5%	6%	5%	12%	10%	10%	6%	N/A	N/A	20%	18%
Strategic Partners I-V and Co-Investment (b)	2%	1%	2%	1%	4%	3%	4%	3%	N/A	N/A	16%	13%
Strategic Partners VI LBO, RE and SMA (b)	6%	5%	3%	2%	12%	11%	8%	6%	N/A	N/A	26%	21%
Strategic Partners VII (b)	9%	8%	N/M	N/M	21%	18%	N/M	N/M	N/A	N/A	67%	54%

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) Realizations are treated as return of capital until fully recovered and therefore inception to date realized returns are not applicable.

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, 2018, BCP IV was above its carried interest threshold (i.e., the preferred return payable to its limited partners before the general partner is eligible to receive carried interest) and would still be above its carried interest threshold even if all remaining investments were valued at zero. BCP V is comprised of two fund classes based on the timings of fund closings, the BCP V main fund and BCP V-AC fund. Within these fund classes, the general partner 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 Revenues are recognized from BCOM on current period gains and losses. BEP I is currently above its carried interest threshold.

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Real Estate

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

	Three Months Ended June 30,		2018 vs. 2017		Six Months Ended June 30,		2018 vs. 2017	
	2018	2017	$	%	2018	2017	$	%
	(Dollars in Thousands)							
Revenues								
Management Fees, Net								
Base Management Fees	$ 249,680	$ 227,865	$ 21,815	10%	$ 476,206	$ 425,744	$ 50,462	12%
Transaction and Other Fees, Net	23,859	16,087	7,772	48%	46,947	37,366	9,581	26%
Management Fee Offsets	(3,785)	(5,018)	1,233	-25%	(5,453)	(8,568)	3,115	-36%
Total Management Fees, Net	269,754	238,934	30,820	13%	517,700	454,542	63,158	14%
Performance Revenues								
Realized Incentive Fees	11,394	4,878	6,516	134%	15,769	7,760	8,009	103%
Realized Performance Allocations	351,630	389,441	(37,811)	-10%	502,939	909,314	(406,375)	-45%
Unrealized Performance Allocations	(160,578)	89,688	(250,266)	N/M	65,864	81,642	(15,778)	-19%
Total Performance Revenues	202,446	484,007	(281,561)	-58%	584,572	998,716	(414,144)	-41%
Principal Investment Income (Loss)								
Realized	50,199	57,599	(7,400)	-13%	64,889	177,178	(112,289)	-63%
Unrealized	(28,044)	(20,519)	(7,525)	37%	(25,357)	(104,372)	79,015	-76%
Total Principal Investment Income	22,155	37,080	(14,925)	-40%	39,532	72,806	(33,274)	-46%
Interest and Dividend Revenue	14,494	14,493	1	0%	29,622	26,587	3,035	11%
Other	30,457	(22,965)	53,422	N/M	8,960	(26,115)	35,075	N/M
Total Revenues	539,306	751,549	(212,243)	-28%	1,180,386	1,526,536	(346,150)	-23%
Expenses								
Compensation	109,599	110,266	(667)	-1%	222,423	212,968	9,455	4%
Performance Compensation								
Realized Incentive Fees	5,820	2,711	3,109	115%	8,030	4,044	3,986	99%
Realized Performance Allocations	109,233	124,512	(15,279)	-12%	163,416	304,468	(141,052)	-46%
Unrealized Performance Allocations	(51,370)	64,254	(115,624)	N/M	27,800	82,046	(54,246)	-66%
Total Compensation and Benefits	173,282	301,743	(128,461)	-43%	421,669	603,526	(181,857)	-30%
Interest Expense	11,389	14,787	(3,398)	-23%	25,538	29,422	(3,884)	-13%
Other Operating Expenses	36,026	33,379	2,647	8%	65,443	64,243	1,200	2%
Total Expenses	220,697	349,909	(129,212)	-37%	512,650	697,191	(184,541)	-26%
Economic Income	$ 318,609	$ 401,640	$ (83,031)	-21%	$ 667,736	$ 829,345	$ (161,609)	-19%

N/M Not meaningful.

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Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Revenues

Revenues were $539.3 million for the three months ended June 30, 2018, a decrease of $212.2 million compared to $751.5 million for the three months ended June 30, 2017. The decrease in Revenues was primarily attributable to decreases of $281.6 million in Performance Revenues and $14.9 million in Principal Investment Income, partially offset by increases $53.4 million in Other Revenue and $30.8 million in Total Management Fees, Net.

Revenues in our Real Estate segment in the second quarter of 2018 were lower compared to the second quarter of 2017, primarily driven by lower Performance Revenues resulting from lower appreciation in our real estate opportunistic funds compared to the first quarter of 2017. Overall, operating trends in our Real Estate portfolio remain stable and supply-demand fundamentals remain positive in most markets, although we see decelerating growth in certain sectors, notably retail. As a result of less distress and rising asset values compared to prior years in the United States, the opportunistic investment environment continues to be challenging. Nonetheless, our Real Estate funds deployed $4.6 billion and committed an additional $6.0 billion of capital in the quarter, including in six large public company transactions. Volatility could be a factor in fewer realizations going forward, although our Real Estate funds had $4.3 billion of realizations in the second quarter. Overall, we believe U.S. tax reform will have a neutral to slightly positive impact for our real estate investments. Although we are operating against a backdrop of continuing economic strength and improving fundamentals that we expect will benefit our businesses, interest rates are expected to continue to rise throughout 2018 and will likely increase the cost of debt financing for our real estate businesses and assets. Revenues in our Real Estate segment would likely be negatively impacted if pressure on wages and other inputs increasingly pressure profit margins. Revenues in our Real Estate segment would also likely be negatively impacted from rising interest rates, a stronger U.S. dollar and higher inflation, although such impact may be meaningfully mitigated if occurring against a backdrop of economic strength and improving fundamentals. See Item 1A. Risk Factors Risks Related to Our Business 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, 2017.

Performance Revenues were $202.4 million for the three months ended June 30, 2018, a decrease of $281.6 million compared to $484.0 million for the three months ended June 30, 2017. The decrease in Performance Revenues was due to lower net appreciation of investment holdings in our BREP opportunistic funds compared to the comparable quarter in 2017. For the three months ended June 30, 2018, the carrying value of investments for our BREP opportunistic funds increased 2.7% compared to 5.4% in the comparable 2017 quarter.

Principal Investment Income was $22.2 million for the three months ended June 30, 2018, a decrease of $14.9 million compared to $37.1 million for the three months ended June 30, 2017. The decrease in Principal Investment Income was primarily due to lower net appreciation of the Partnership s principal investments.

Other Revenue was $30.5 million for the three months ended June 30, 2018, and increase of $53.4 million compared to $(23.0) million for the three months ended June 30, 2017, primarily due to foreign exchange gain on our euro denominated bonds.

Total Management Fees, Net were $269.8 million for the three months ended June 30, 2018, an increase of $30.8 million compared to $238.9 million for the three months ended June 30, 2017, driven primarily by an increase in Base Management Fees. Base Management Fees were $249.7 million for the three months ended June 30, 2018, an increase of $21.8 million compared to $227.9 million for the three months ended June 30, 2017, primarily due to AUM growth in our core+ real estate funds and the launch of BREP Asia II in the fourth quarter of 2017.

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Expenses

Expenses were $220.7 million for the three months ended June 30, 2018, a decrease of $129.2 million compared to $349.9 million for the three months ended June 30, 2017. The decrease was primarily attributable to a decrease in Performance Compensation of $127.8 million. Performance Compensation decreased as a result of the decrease in Performance Revenues.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Revenues

Revenues were $1.2 billion for the six months ended June 30, 2018, a decrease of $346.2 million compared to $1.5 billion for the six months ended June 30, 2017. The decrease in Revenues was primarily attributable to decreases of $414.1 million in Performance Revenues and $33.3 million in Principal Investment Income, partially offset by an increase of $63.2 million in Total Management Fees, Net.

Performance Revenues were $584.6 million for the six months ended June 30, 2018, a decrease of $414.1 million compared to $998.7 million for the six months ended June 30, 2017. Performance Revenues decreased due to the lower net appreciation of investment holdings in our BREP opportunistic funds compared to the comparable quarter in 2017. For the six months ended June 30, 2018, the carrying value of investments for our BREP opportunistic funds increased 6.0% compared to 10.5% for the comparable 2017 period.

Principal Investment Income was $39.5 million for the six months ended June 30, 2018, a decrease of $33.3 million compared to $72.8 million for the six months ended June 30, 2017, primarily due to lower net appreciation of the Partnership s principal investments.

Total Management Fees, Net were $517.7 million for the six months ended June 30, 2018, an increase of $63.2 million compared to $454.5 million for the six months ended June 30, 2017, primarily driven by an increase in Base Management Fees. Base Management Fees were $476.2 million for the six months ended June 30, 2018, an increase of $50.5 million compared to $425.7 million for the six months ended June 30, 2017, primarily due to growth in our core+ real estate funds, the launch of BREP Europe V in the fourth quarter of 2016 (and the corresponding expiration of its fee holiday in the second quarter of 2017) and the launch of BREP Asia II in the fourth quarter of 2017.

The Annualized Base Management Fee Rate decreased from 1.24% at June 30, 2017 to 1.12% at June 30, 2018. The decrease was principally due growth in several core+ funds, some of which include Base Management Fee holidays.

Expenses

Expenses were $512.7 million for the six months ended June 30, 2018, a decrease of $184.5 million compared to $697.2 million for the six months ended June 30, 2017. The decrease was primarily attributable to a decrease of $181.9 million in Total Compensation and Benefits. The decrease in Total Compensation and Benefits was attributable to a decrease of $191.3 million in Performance Compensation, partially offset by an increase of $9.5 million in Compensation. Performance Compensation decreased as a result of the decrease in Performance Revenues. The increase in Compensation was primarily due to the increase in Total Management Fees, Net, on which a portion of compensation is based.

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.

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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, except where noted, of our significant real estate funds:

	Three Months Ended June 30,				Six Months Ended June 30,				June 30, 2018 Inception to Date			
	2018		2017		2018		2017		Realized		Total	
Fund (a)	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BREP IV	7%	5%	3%	2%	8%	6%	1%	1%	58%	35%	22%	12%
BREP V	5%	5%	3%	2%	6%	5%	4%	3%	15%	12%	14%	11%
BREP VI	2%	1%	9%	7%	1%	1%	11%	9%	18%	14%	17%	13%
BREP VII	1%	1%	3%	2%	5%	4%	7%	6%	40%	29%	25%	18%
BREP VIII	4%	3%	6%	5%	9%	6%	13%	9%	41%	27%	26%	17%
BREP International II (b)(c)	9%	8%	12%	11%	14%	12%	7%	6%	12%	10%	9%	8%
BREP Europe III (b)	-1%	-1%	6%	5%	1%		14%	11%	31%	21%	24%	16%
BREP Europe IV (b)	6%	5%	8%	7%	11%	9%	22%	18%	35%	25%	25%	18%
BREP Europe V (b)	6%	4%	N/M	N/M	12%	8%	N/M	N/M	N/M	N/M	34%	19%
BREP Asia I	1%		8%	6%	4%	3%	15%	11%	32%	23%	23%	16%
BREP Asia II	N/M	N/M	N/A	N/A	N/M	N/M	N/A	N/A	N/M	N/M	N/M	N/M
BREP Co-Investment (d)	4%	3%	6%	5%	3%	2%	8%	7%	18%	16%	18%	16%
BPP (e)	2%	2%	3%	3%	6%	5%	6%	5%	N/M	N/M	14%	12%
BREDS Drawdown	1%		3%	3%	5%	4%	8%	6%	16%	12%	15%	11%
BREDS Liquid (f)	3%	2%	4%	3%	5%	4%	7%	6%	N/A	N/A	11%	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 revenues.
(b) Euro-based internal rates of return.
(c) The 10% Realized Net IRR and 8% Total Net IRR exclude investors that opted out of the Hilton investment opportunity. Overall BREP International II Performance reflects a 9% Realized Net IRR and a 6% Total Net IRR.
(d) Excludes fully realized co-investments prior to Blackstone s IPO.
(e) BPP represents the core+ real estate funds which invest with a more modest risk profile and lower leverage. Excludes BREIT.
(f) BREDS Liquid represents BREDS funds that invest in liquid real estate debt securities, except funds in liquidation and insurance mandates with specific investment objectives. Effective June 30, 2018, the returns presented represent summarized asset-weighted gross and net rates of return. Inception to Date returns are presented on an annualized basis. Prior periods have been updated to reflect such rates of return.

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The following table presents the carried interest status of our real estate carry funds with expired investment periods which are currently not generating performance revenues as of June 30, 2018:

		Gain to Cross Carried Interest Threshold (a)	
Fully Invested Funds	**Amount (Amounts in Millions)**	**% Change in Total Enterprise Value (b)**	**% Change in Equity Value**
BREP International II (Sep 2005 / Jun 2008)	869	154%	656%

(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. However, since gains are not earned pro-rata, it is possible that certain investors may exceed the carried interest threshold with smaller percentage increases in Equity Value.

(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, 2018: BREP VIII, BREP Europe V and BREDS III.

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Hedge Fund Solutions

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

	Three Months Ended June 30,		2018 vs. 2017		Six Months Ended June 30,		2018 vs. 2017	
	2018	2017	$	%	2018	2017	$	%
	(Dollars in Thousands)							
Revenues								
Management Fees, Net								
Base Management Fees	$ 129,553	$ 128,698	$ 855	1%	$ 258,781	$ 257,166	$ 1,615	1%
Transaction and Other Fees, Net	812	1,696	(884)	-52%	1,157	1,955	(798)	-41%
Total Management Fees, Net	130,365	130,394	(29)	-0%	259,938	259,121	817	0%
Performance Revenues								
Realized Incentive Fees	6,887	6,548	339	5%	15,058	20,635	(5,577)	-27%
Realized Performance Allocations	383	447	(64)	-14%	2,389	1,044	1,345	129%
Unrealized Performance Allocations	9,930	14,849	(4,919)	-33%	14,991	33,664	(18,673)	-55%
Total Performance Revenues	17,200	21,844	(4,644)	-21%	32,438	55,343	(22,905)	-41%
Principal Investment Income (Loss)								
Realized	7,766	225	7,541	N/M	8,406	(407)	8,813	N/M
Unrealized	(4,841)	11,578	(16,419)	N/M	(4,401)	29,871	(34,272)	N/M
Total Principal Investment Income	2,925	11,803	(8,878)	-75%	4,005	29,464	(25,459)	-86%
Interest and Dividend Revenue	5,152	4,674	478	10%	9,964	8,671	1,293	15%
Other	17,619	(10,720)	28,339	N/M	7,331	(12,330)	19,661	N/M
Total Revenues	173,261	157,995	15,266	10%	313,676	340,269	(26,593)	-8%
Expenses								
Compensation	48,086	47,361	725	2%	98,386	94,965	3,421	4%
Performance Compensation								
Realized Incentive Fees	4,155	4,097	58	1%	8,189	11,111	(2,922)	-26%
Realized Performance Allocations	937	265	672	254%	3,352	568	2,784	490%
Unrealized Performance Allocations	2,772	5,968	(3,196)	-54%	4,958	12,390	(7,432)	-60%
Total Compensation and Benefits	55,950	57,691	(1,741)	-3%	114,885	119,034	(4,149)	-3%
Interest Expense	5,900	6,688	(788)	-12%	12,171	13,231	(1,060)	-8%
Other Operating Expenses	18,494	16,318	2,176	13%	37,279	32,697	4,582	14%
Total Expenses	80,344	80,697	(353)	-0%	164,335	164,962	(627)	-0%
Economic Income	$ 92,917	$ 77,298	$ 15,619	20%	$ 149,341	$ 175,307	$ (25,966)	-15%

N/M Not meaningful.

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Revenues

Revenues were $173.3 million for the three months ended June 30, 2018, an increase of $15.3 million compared to $158.0 million for the three months ended June 30, 2017. The increase in Revenues was primarily attributable to an increase of $28.3 million in Other Revenue, partially offset by a decrease of $8.9 million in Principal Investment Income.

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Revenues in our Hedge Fund Solutions segment in the second quarter of 2018 increased compared to the second quarter of 2017 primarily driven by an increase in Other Revenue largely due to foreign exchange gain in Blackstone s euro denominated bonds. Although we are operating against a backdrop of continuing economic strength and improving fundamentals that we expect will benefit our businesses, interest rates are expected to rise throughout 2018 and will likely increase our cost of debt financing. Hedge Fund Solutions revenues would likely be negatively impacted if we failed to anticipate a significant or sustained decline in global, regional or sector asset prices, global market conditions deteriorated, or liquidity needs, performance or other reasons caused investors to withdraw assets. See Item 1A. Risk Factors Risks Related to Our Business 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 and Hedge fund investments are subject to numerous additional risks. in our Annual Report on Form 10-K for the year ended December 31, 2017. The segment operates multiple business lines, manages strategies that are both long and short asset classes and generates a majority of its revenue through management fees, all of which we believe provide a level of downside protection to Hedge Fund Solutions revenues. Over time we anticipate an increasing change in the mix of our product offerings to products whose performance-based fees represent a more significant proportion of the fees than has historically been the case for such products.

Other Revenue was $17.6 million for the three months ended June 30, 2018, an increase of $28.3 million compared to $(10.7) million for the three months ended June 30, 2017. The increase was primarily due to foreign exchange gain on our euro denominated bonds.

Principal Investment Income was $2.9 million for the three months ended June 30, 2018, a decrease of $8.9 million compared to $11.8 million for the three months ended June 30, 2017. The decrease was primarily due to lower returns in investments of which Blackstone owns a share compared to the second quarter of 2017.

Expenses

Expenses were $80.3 million for the three months ended June 30, 2018, relatively stable compared to $80.7 million for the three months ended June 30, 2017.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Revenues

Revenues were $313.7 million for the six months ended June 30, 2018, a decrease of $26.6 million compared to $340.3 million for the six months ended June 30, 2017. The decrease in Revenues was primarily attributable to decreases of $22.9 million in Performance Revenues and $25.5 million in Principal Investment Income, partially offset by an increase of $19.7 million in Other Revenue.

Performance Revenues were $32.4 million for the six months ended June 30, 2018, a decrease of $22.9 million compared to $55.3 million for the six months ended June 30, 2017. The decrease was primarily driven by lower returns across a number of strategies, including customized solutions, commingled products, individual investor solutions and specialized solutions compared to the second quarter of 2017.

Principal Investment Income was $4.0 million for the six months ended June 30, 2018, a decrease of $25.5 million compared to $29.5 million for the six months ended June 30, 2017. The decrease was primarily due to lower returns in investments of which Blackstone owns a share compared to the second quarter of 2017.

Other Revenue was $7.3 million for the six months ended June 30, 2018, an increase of $19.7 million compared to $(12.3) million for the six months ended June 30, 2017. The increase was primarily due to foreign exchange gain on our euro denominated bonds.

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Expenses

Expenses were $164.3 million for the six months ended June 30, 2018, relatively stable compared to $165.0 million for the six months ended June 30, 2017.

Operating Metrics

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

	Fee-Earning Assets Under Management Eligible for Incentive Fees As of June 30,		Estimated % Above High Water Mark / Benchmark (a) As of June 30,	
	2017	2018	2017	2018
	(Dollars in Thousands)			
BAAM-Managed Funds (b)	$ 38,778,670	$ 42,720,613	84%	87%

(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, 2018 the incremental appreciation needed for the 13% of Fee-Earning Assets Under Management below their respective High Water Marks/Benchmarks to reach their respective High Water Marks/Benchmarks was $393.1 million, a decrease of $11.2 million, compared to $404.3 million at June 30, 2017. Of the Fee-Earning Assets Under Management below their respective High Water Marks/Benchmarks as of June 30, 2018, 67% 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) Periods Ended June 30, 2018							
	2018		2017		2018		2017		One Year		Three Year		Five Year		Historical	
Composite	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
BAAM Principal Solutions Composite (b)	1%	1%	1%	1%	3%	2%	4%	4%	7%	6%	5%	4%	6%	5%	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.

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(b) BAAM s Principal Solutions (BPS) Composite covers the period from January 2000 to present, although BAAM s inception date is September 1990. The BPS Composite includes only BAAM-managed commingled and customized multi-manager funds and accounts. None of the other platforms/strategies managed through the Blackstone Hedge Fund Solutions Group are included in the composite (except for investments by BPS funds/accounts directly into those platforms/strategies). BAAM-managed funds in liquidation and non-fee-paying assets (in the case of net returns) are excluded from the composite. The historical return is from January 1, 2000.

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Credit

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

	Three Months Ended June 30,		2018 vs. 2017		Six Months Ended June 30,		2018 vs. 2017	
	2018	2017	$	%	2018	2017	$	%
	(Dollars in Thousands)							
Revenues								
Management Fees, Net								
Base Management Fees	$ 118,161	$ 137,121	$ (18,960)	-14%	$ 286,602	$ 277,026	$ 9,576	3%
Transaction and Other Fees, Net	3,461	3,820	(359)	-9%	6,000	6,328	(328)	-5%
Management Fee Offsets	(2,697)	(4,653)	1,956	-42%	(6,014)	(22,512)	16,498	-73%
Total Management Fees, Net	118,925	136,288	(17,363)	-13%	286,588	260,842	25,746	10%
Performance Revenues								
Realized Incentive Fees	1,223	28,877	(27,654)	-96%	1,243	58,419	(57,176)	-98%
Realized Performance Allocations	13,371	15,040	(1,669)	-11%	52,575	23,837	28,738	121%
Unrealized Performance Allocations	92,798	(8,839)	101,637	N/M	92,318	40,792	51,526	126%
Total Performance Revenues	107,392	35,078	72,314	206%	146,136	123,048	23,088	19%
Principal Investment Income (Loss)								
Realized	4,082	1,895	2,187	115%	11,107	4,548	6,559	144%
Unrealized	764	1,666	(902)	-54%	(5,753)	8,813	(14,566)	N/M
Total Principal Investment Income	4,846	3,561	1,285	36%	5,354	13,361	(8,007)	-60%
Interest and Dividend Revenue	10,532	6,614	3,918	59%	18,434	12,358	6,076	49%
Other	19,673	(12,660)	32,333	N/M	6,972	(14,387)	21,359	N/M
Total Revenues	261,368	168,881	92,487	55%	463,484	395,222	68,262	17%
Expenses								
Compensation	55,907	56,954	(1,047)	-2%	129,381	112,072	17,309	15%
Performance Compensation								
Realized Incentive Fees	(232)	14,224	(14,456)	N/M	186	28,342	(28,156)	-99%
Realized Performance Allocations	7,715	7,901	(186)	-2%	30,134	12,487	17,647	141%
Unrealized Performance Allocations	44,842	(5,531)	50,373	N/M	39,119	17,144	21,975	128%
Total Compensation and Benefits	108,232	73,548	34,684	47%	198,820	170,045	28,775	17%
Interest Expense	8,823	8,091	732	9%	16,508	15,936	572	4%
Other Operating Expenses	31,899	27,549	4,350	16%	59,638	49,007	10,631	22%
Total Expenses	148,954	109,188	39,766	36%	274,966	234,988	39,978	17%
Economic Income	$ 112,414	$ 59,693	$ 52,721	88%	$ 188,518	$ 160,234	$ 28,284	18%

N/M Not meaningful.

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Revenues

Revenues were $261.4 million for the three months ended June 30, 2018, an increase of $92.5 million compared to $168.9 million for the three months ended June 30, 2017. This change was primarily attributable to

increases of $72.3 million in Performance Revenues and $32.3 million in Other Revenue, partially offset by a decrease of $17.4 million in Total Management Fees, Net.

Revenues in our Credit segment in the second quarter of 2018 were higher compared to the second quarter of 2017, primarily driven by higher Performance Revenues as a result of higher appreciation in the Performing Credit and Distressed Strategies, partially offset by the conclusion of our investment sub-advisory relationship with FS Investments. While the conclusion of the relationship with FS Investments will adversely affect revenues in the near term, we believe we will replace and ultimately overtake the prior level of revenue associated with such sub-advisory relationship. Despite the relatively low interest rate environment, the investment pace of our Credit funds remained active, with $2.4 billion of capital deployed or committed during the second quarter. We believe the impact of U.S. tax reform is a net positive for our Credit segment s U.S.-based portfolio companies with the exception of highly levered companies where the new limits on interest expense deductibility may offset the law s other benefits. While interest rates are expected to continue to rise in the course of 2018 and could adversely affect Revenues in our Credit segment, we believe our current portfolio is somewhat insulated because much of our debt portfolio is floating rate, short duration and/or held to maturity. Moreover, such increases are expected to be against a backdrop of continuing economic strength and improving fundamentals, and the rise in interest rates may create investment opportunities. Our Credit segment revenues may, however, be negatively impacted by our failure to accurately assess and react to risk; a sustained period of depressed energy and commodity prices; and weakened market fundamentals that may lead to, among other things, ratings downgrades. See Item 1A. Risk Factors Risks Related to Our Business 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, 2017.

Performance Revenues were $107.4 million for the three months ended June 30, 2018, an increase of $72.3 million compared to $35.1 million for the three months ended June 30, 2017. This change was primarily attributable to higher returns in our performing credit strategies and distressed strategies, partially offset by the conclusion of our sub-advisory relationship with FS Investments.

Other Revenue was $19.7 million for the three months ended June 30, 2018, an increase of $32.3 million compared to $(12.7) million for the three months ended June 30, 2017, primarily due to foreign exchange gain on our euro denominated bonds.

Total Management Fees, Net were $118.9 million for the three months ended June 30, 2018, a decrease of $17.4 million compared to $136.3 million for the three months ended June 30, 2017. The decrease was primarily attributable to an increase in Base Management Fees. Base Management Fees were $118.2 million for the three months ended June 30, 2018, a decrease of $19.0 million compared to $137.1 million for the three months ended June 30, 2017, primarily due to the conclusion of our sub-advisory relationship with FS Investments, partially offset by the acquisition of Harvest.

Expenses

Expenses were $149.0 million for the three months ended June 30, 2018, an increase of $39.8 million compared to $109.2 million for the three months ended June 30, 2017. The increase in expenses was primarily attributable to increases of $35.7 million in Performance Compensation and $4.3 million in Other Operating Expenses. The increase in Performance Compensation was due to the increase in Performance Revenues. The increase in Other Operating Expenses was primarily due to an increase in business development and communication and information services, partially offset by a decrease in professional fees.

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Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Revenues

Revenues were $463.5 million for the six months ended June 30, 2018, an increase of $68.3 million compared to $395.2 million for the six months ended June 30, 2017. This change was primarily attributable to increases of $25.7 million in Total Management Fees, Net, $23.1 in Performance Revenues, and $21.4 million in Other Revenue, partially offset by a decrease of $8.0 million in Principal Investment Income.

Total Management Fees, Net were $286.6 million for the six months ended June 30, 2018, an increase of $25.7 million compared to $260.8 million for the six months ended June 30, 2017. The increase was primarily attributable to the addition of management fees as a result of the acquisition of Harvest and the inclusion of BIS, partially offset by the conclusion of our sub-advisory relationship with FS Investments.

The Annualized Base Management Fee Rate decreased from 0.76% at June 30, 2017 to 0.50% at June 30, 2018. The decrease was principally due to the inclusion of our insurance solutions initiative and the related fee ramp-up period in the first quarter of 2018.

Performance Revenues were $146.1 million for the six months ended June 30, 2018, an increase of $23.1 million compared to $123.0 million for the six months ended June 30, 2017. This change was primarily attributable to higher returns in our performing credit strategies and distressed strategies, partially offset by the conclusion of our sub-advisory relationship with FS Investments.

Other Revenue was $7.0 million for the six months ended June 30, 2018, an increase of $21.4 million compared to $(14.4) million for the six months ended June 30, 2017, primarily due to foreign exchange gain on our euro denominated bonds.

Principal Investment Income was $5.4 million for the six months ended June 30, 2018, a decrease of $8.0 million compared to $13.4 million for the six months ended June 30, 2017, primarily due to the unrealized investment losses in Blackstone s investments in GSO funds, as well as our long only funds.

Expenses

Expenses were $275.0 million for the six months ended June 30, 2018, an increase of $40.0 million compared to $235.0 million for the six months ended June 30, 2017. The increase in expenses was primarily attributable to increases of $17.3 million in Compensation, $11.5 million in Performance Compensation and $10.6 million in Other Operating Expenses. The increase in Compensation was due to the increase in Management Fees, Net, on which a portion of compensation is based, as well as investment in initiatives. The increase in Performance Compensation was due to the increase in Performance Revenues. The increase in Other Operating Expenses was primarily due to an increase in business development and communication and information services.

Fund Returns

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

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

	Three Months Ended June 30,				Six Months Ended June 30,				June 30, 2018	
	2018		2017		2018		2017		Inception to Date	
Composite (a)	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Performing Credit Strategies (b)	5%	4%	2%		8%	6%	5%	3%	15%	9%
Distressed Strategies (c)	4%	3%	-1%	-2%	3%	2%	2%		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 revenues, 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, credit alpha 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.

As of June 30, 2018, there was $14.9 billion of Performance Revenue eligible assets under management invested in Credit strategies that were above the hurdle necessary to generate Incentive Fees or carried interest. This represented 37% of the total Performance Revenue eligible assets at fair value across all Credit strategies.

Non-GAAP Financial Measures

The following tables set forth the calculations of the non-GAAP financial measures used by management when assessing the performance of our business. These non-GAAP financial measures are presented without the consolidation of any Blackstone Funds that are consolidated into the Condensed Consolidated Financial Statements. Consequently, all non-GAAP financial measures exclude the assets, liabilities and operating results related to the Blackstone Funds. See Key Financial Measures and Indicators for our definitions of Economic Income, Economic Net Income, Fee Related Earnings, Distributable Earnings and Adjusted EBITDA.

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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.

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The following table 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 the equity-based compensation expense component of Compensation.
(c) Represents the total equity-based compensation expense component of Realized Incentive Fees Compensation and Realized Performance Allocations Compensation.
(d) Taxes and Related Payables represent the total GAAP tax provision adjusted to include only the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes and to exclude the tax impact on any divestitures and the Payable Under Tax Receivable Agreement.
(e) Represents tax-related payables including the Payable Under Tax Receivable Agreement, which is a component of Taxes and Related Payables.
(f) Represents all equity-based compensation expenses included in Economic Income. This excludes all transaction-related equity-based charges.

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

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(a) This adjustment removes Transaction-Related Charges. Transaction-Related Charges arise from corporate actions including acquisitions, divestitures, and Blackstone s initial public offering. The consist primarily of equity-based compensation charges, gains and losses on contingent consideration arrangements, changes in the balance of the tax receivable agreement resulting from a change in tax law or similar event, transaction costs and any gain or losses associated with these corporate actions.
(b) This adjustment reverses the effect of consolidating the Blackstone Funds and the elimination of non-controlling interests in the Blackstone consolidated operating partnerships.
(c) Taxes represent the total GAAP tax provision adjusted to include only the current tax provision (benefit) calculated on Income (Loss) Before Provision for Taxes and adjusted to exclude the tax impact on any divestitures.
(d) This adjustment removes total segment Performance Revenues.
(e) This adjustment removes total segment Principal Investment Income (Loss).
(f) This adjustment removes total segment Other Revenues.
(g) This adjustment removes total segment Interest and Dividend Revenue less total segment Interest Expense.
(h) This adjustment removes the total segment amount of Performance Compensation, comprised of Incentive Fee Compensation and Performance Allocations Compensation.
(i) This adjustment removes the component of total segment Compensation that is equity-based.
(j) This adjustment adds the total segment amounts or Realized Incentive Fees and Realized Performance Allocations, net of realized Performance Compensation.
(k) This adjustment adds the total segment amount of Realized Principal Investment Income.
(l) 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 for Taxes and to exclude the tax impact on any divestitures and the Payable Under Tax Receivable Agreement.
(m) This adjustment adds back the total segment amount of Interest Expense.

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, 2018, a decrease of $4.3 billion from December 31, 2017. The decrease in total assets was principally due to a decrease of $8.9 billion from the deconsolidation of CLOs and other fund entities, partially offset by an increase of $2.7 billion from the launch of new consolidated CLOs.

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Total liabilities were $15.4 billion as of June 30, 2018, a decrease of $5.3 billion from December 31, 2017. The decrease in total liabilities was primarily due to a decrease of $8.7 billion from the deconsolidation of CLOs and other fund entities, partially offset by an increase of $2.7 billion from the launch of new consolidated CLOs.

The deconsolidation of the CLOs and fund vehicles was the result of the dilution of Blackstone s ownership interests in these vehicles during the six months ended June 30, 2018. As a result of the dilution, Blackstone determined that it was no longer the primary beneficiary of these VIEs under GAAP guidance and deconsolidated these vehicles. See Note 9. Variable Interest Entities in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements of this filing.

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, 2018, Blackstone had $1.7 billion in cash and cash equivalents, $3.5 billion invested in corporate treasury investments, $2.0 billion invested in Blackstone Funds and other investments, against $3.6 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 fee realizations, and (c) realizations on the carry and hedge fund investments that we make. The amounts received from these three sources in particular may vary substantially from year to year and quarter to quarter depending on the frequency and size of realization events or net returns experienced by our investment funds. Our available capital could be adversely affected if there are prolonged periods of few substantial realizations from our investment funds accompanied by substantial capital calls for new investments from those investment funds. Therefore, Blackstone s commitments to our funds are taken into consideration when managing our overall liquidity and cash position.

We 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, (g) repurchase our common units and Blackstone Holdings partnership units, and (h) make distributions to our unitholders and the holders of Blackstone Holdings Partnership Units. Our own capital commitments to our funds, the funds we invest in and our investment strategies as of June 30, 2018 consisted of the following:

	Blackstone and General Partner		Senior Managing Directors and Certain Other Professionals (a)	
Fund	**Original Commitment**	**Remaining Commitment**	**Original Commitment**	**Remaining Commitment**
	(Dollars in Thousands)			
Private Equity				
BCP V	$ 629,356	$ 30,730	$	$
BCP VI	719,718	107,468	250,000	37,330
BCP VII	500,000	387,552	225,000	174,398
BEP I	50,000	4,703		
BEP II	80,000	45,198	26,667	15,066
BCEP	120,000	66,408	18,992	10,405
BCP Asia	40,000	40,000	13,333	13,333
Tactical Opportunities	367,752	192,011	105,251	64,004
Strategic Partners	409,738	235,881	58,627	30,951
BIP	112,333	112,333		
Other (b)	248,592	26,328		

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Fund	Blackstone and General Partner		Senior Managing Directors and Certain Other Professionals (a)	
	Original Commitment	Remaining Commitment	Original Commitment	Remaining Commitment
	(Dollars in Thousands)			
Real Estate				
BREP VI	$ 750,000	$ 36,809	$ 150,000	$ 12,270
BREP VII	300,000	45,290	100,000	15,097
BREP VIII	300,000	153,463	100,000	51,154
BREP Europe III	100,000	13,231	35,000	4,631
BREP Europe IV	130,000	23,842	43,333	7,947
BREP Europe V	150,000	83,124	43,333	24,014
BREP Asia I	50,000	16,063	16,667	5,354
BREP Asia II	71,061	68,423	23,687	22,808
BREDS II	50,000	6,227	16,667	2,076
BREDS III	50,000	30,769	16,667	10,256
Other (b)	151,917	27,925		
Hedge Fund Solutions				
Strategic Alliance	50,000	2,033		
Strategic Alliance II	50,000	1,482		
Strategic Alliance III	22,000	19,769		
Strategic Holdings LP	156,748	110,261		
Other (b)	3,320	1,905		
Credit				
Capital Opportunities Fund II LP	120,000	34,439	110,527	31,720
Capital Opportunities Fund III LP	130,783	98,654	30,431	23,210
GSO Euro Senior Debt Fund LP	63,000	28,070	57,194	25,483
BMezz II	17,692	160		
GSO Capital Solutions	50,000	6,398	27,666	3,540
GSO Capital Solutions II	125,000	59,718	120,534	57,584
GSO Capital Solutions III	151,000	146,130	30,542	29,570
GSO Energy Select Opportunities Fund	80,000	43,324	74,747	40,479
GSO Credit Alpha Fund LP	52,102	7,815	50,285	7,543
Other (b)	136,141	51,926	35,830	11,044
Other				
Treasury	233,855	72,100		
	$ 6,822,108	$ 2,437,962	$ 1,780,980	$ 731,267

(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.

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As of June 30, 2018, 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):

Senior Notes (a)	Aggregate Principal Amount (Dollars/Euros in Thousands)
5.875%, Due 3/15/2021	$ 400,000
4.750%, Due 2/15/2023	$ 400,000
2.000%, Due 5/19/2025	300,000
1.000%, Due 10/5/2026	600,000
3.150%, Due 10/2/2027	$ 300,000
6.250%, Due 8/15/2042	$ 250,000
5.000%, Due 6/15/2044	$ 500,000
4.450%, Due 7/15/2045	$ 350,000
4.000%, Due 10/2/2047	$ 300,000

(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.

On April 16, 2018, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to $1.0 billion of Blackstone common units and Blackstone Holdings Partnership Units. Under the 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 units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. The unit repurchase program may be changed, suspended or discontinued at any time and does not have a specified expiration date.

During the three and six months ended June 30, 2018, we repurchased 2.2 million Blackstone common units as part of the unit repurchase program at a total cost of $71.7 million. As of June 30, 2018, the amount remaining available for repurchases under the program was $928.3 million.

Distributions

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.

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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.

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 2017 and 2018. 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 2018, we have paid to common unitholders a distribution of $0.58 per common unit, aggregating $0.93 per common unit in respect of the six months ended June 30, 2018. With respect to fiscal year 2017, we paid common unitholders aggregate distributions of $2.70 per common unit.

In addition, Blackstone intends to distribute a portion of the after-tax proceeds from the conclusion of its sub-advisory relationship with FS Investments, resulting in an anticipated incremental $0.30 per common unit over the second, third and fourth quarters of 2018, of which $0.10 per common unit was distributed on August 6. 2018.

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

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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 (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:

	Repurchase Agreements	Securities Sold, Not Yet Purchased
	(Dollars in Millions)	
Balance, June 30, 2018	$ 182.5	$ 155.8
Balance, December 31, 2017	$ 118.8	$ 154.4
Six Months Ended June 30, 2018		
Average Daily Balance	$ 152.1	$ 153.4
Maximum Daily Balance	$ 189.7	$ 174.7

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Contractual Obligations, Commitments and Contingencies

The following table sets forth information relating to our contractual obligations as of June 30, 2018 on a consolidated basis and on a basis deconsolidating the Blackstone Funds:

Contractual Obligations	July 1, 2018 to December 31, 2018	2019-2020	2021-2022	Thereafter	Total
			(Dollars in Thousands)		
Operating Lease Obligations (a)	$ 39,275	$ 142,824	$ 155,189	$ 344,234	$ 681,522
Purchase Obligations	17,738	21,852	1,957		41,547
Blackstone Issued Notes and Revolving Credit Facility (b)			400,000	3,151,560	3,551,560
Interest on Blackstone Issued Notes and Revolving Credit Facility (c)	67,088	268,342	233,092	1,614,048	2,182,570
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)	2,819			6,865,160	6,867,979
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	125,235	500,734	500,734	1,841,871	2,968,574
Blackstone Funds Capital Commitments to Investee Funds (f)	545,210				545,210
Due to Certain Non-Controlling Interest Holders in Connection with Tax Receivable Agreements (g)		153,953	136,473	498,876	789,302
Unrecognized Tax Benefits, Including Interest and Penalties (h)	2,684				2,684
Blackstone Operating Entities Capital Commitments to Blackstone Funds and Other (i)	2,437,962				2,437,962
Consolidated Contractual Obligations	3,238,011	1,087,705	1,427,445	14,315,749	20,068,910
Blackstone Funds and CLO Vehicles Debt Obligations Payable (d)	(2,819)			(6,865,160)	(6,867,979)
Interest on Blackstone Funds and CLO Vehicles Debt Obligations Payable (e)	(125,235)	(500,734)	(500,734)	(1,841,871)	(2,968,574)
Blackstone Funds Capital Commitments to Investee Funds (f)	(545,210)				(545,210)
Blackstone Operating Entities Contractual Obligations	$ 2,564,747	$ 586,971	$ 926,711	$ 5,608,718	$ 9,687,147

(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, 2018, 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.

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(d) These obligations are those of the Blackstone Funds including the consolidated CLO vehicles.

(e) Represents interest to be paid over the maturity of the related consolidated Blackstone Funds and CLO vehicles debt obligations which has been calculated assuming no pre-payments will be made and debt will be held until its final maturity date. The future interest payments are calculated using variable rates in effect as of June 30, 2018, at spreads to market rates pursuant to the financing agreements, and range from 2.9% to 8.7%. 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 $1.2 million and interest and penalties of $1.5 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 $16.6 million and interest of $1.5 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, 2018.

Clawback Obligations

Performance Allocations are subject to clawback to the extent that the Performance Allocations 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 Performance Allocation distributions with respect to such fund s realized investments.

As of June 30, 2018, the total clawback obligations were $2.2 million, of which $1.1 million related to Blackstone Holdings and $1.1 million related to current and former Blackstone personnel. If, at June 30, 2018, all of the investments held by our carry funds were deemed worthless, a possibility that management views as remote, the amount of Performance Allocations subject to potential clawback would be $6.5 billion, on an after-tax basis where applicable, of which Blackstone Holdings is potentially liable for $6.0 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.

Principles of Consolidation

The Partnership consolidates all entities that it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner has a controlling financial interest. The Partnership has a controlling financial 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 control held 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.

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The Partnership determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and continuously reconsiders that conclusion. In determining whether the Partnership is the primary beneficiary, Blackstone evaluates its control rights as well as 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.

Revenue Recognition

Revenues primarily consist of management and advisory fees, incentive 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, 2017 for additional information regarding the manner in which Base Management Fees and Incentive Fees are generated.

Management and advisory fees and incentive fees are accounted for as contracts with customers. Under the guidance for contracts with customers, 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. See Note 18. Segment Reporting in the Notes to Condensed Consolidated Financial Statements in Part I. Item 1. Financial Statements for a disaggregated presentation of revenues from contracts with customers.

Investment Income represents the unrealized and realized gains and losses on the Partnership s Performance Allocations and Principal Investments. Interest and Dividend Revenue comprises primarily interest and dividend income earned on principal investments held by us. Other Revenue consists of miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars.

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. These customer contracts require the Partnership to provide investment management services, which represents a performance obligation that the Partnership satisfies over time. Management fees are a form of variable consideration because the fees the Partnership is entitled to vary based on fluctuations in the basis for the management fee. The amount recorded as revenue is generally determined at the end of the period because these management fees are payable on a regular basis (typically quarterly) and are not subject to clawback once paid. 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:

- 0.25% to 1.75% of committed capital or invested capital during the investment period,

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0.25% to 1.50% of invested capital, committed capital and 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, credit and MLP-focused funds structured like hedge funds:

0.50% to 1.50% of net asset value.

On credit and MLP-focused separately managed accounts:

0.25% to 1.50% of net asset value or total assets.

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, certain hedge funds and separately managed accounts invested in hedge funds:

0.50% to 1.25% of net asset value.

On CLO vehicles:

0.40% to 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.

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, advisory and other fees (including monitoring fees) are principally fees charged to the limited partners of funds indirectly through the 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 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. These fees and associated management fee reductions are a component of the transaction price for our performance obligation to provide investment management services to the limited partners of funds and are recognized as changes to the transaction price in the period in which they are charged and the services are performed.

Management fee offsets are reductions to management fees payable by the limited partners of the Blackstone Funds, which are based on the amount such limited partners reimburse the Blackstone Funds or the Partnership primarily for placement fees. Providing investment management services requires the Partnership to arrange for services on behalf of its customers. In those situations where we are acting as an agent on behalf of the limited partners of funds, it presents the cost of services as net against management fee revenue. In all other situations, the Partnership is primarily responsible for fulfilling the services and is therefore acting as a principal for those arrangements. As a result, the cost of

those services is presented gross as Compensation or General, Administrative and Other expense, as appropriate, with any reimbursement from the limited partners of the funds recorded as Management and Advisory Fees, Net.

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.

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Incentive Fees Contractual fees earned based on the performance of Blackstone Funds (Incentive Fees) are a form of variable consideration in their contracts with customers to provide investment management services. Incentive Fees are earned 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 fund s governing agreements. Incentive Fees will not be recognized as revenue until (a) it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur, or (b) the uncertainty associated with the variable consideration is subsequently resolved. Incentive Fees are typically recognized as revenue when realized at the end of the measurement period. Once realized, such fees are not subject to clawback or reversal. Accrued but unpaid Incentive Fees charged directly to investors in Blackstone Funds as of the reporting date are recorded within Due from Affiliates in the Condensed Consolidated Statements of Financial Condition.

Investment Income (Loss) Investment Income (Loss) represents the unrealized and realized gains and losses on the Partnership s Performance Allocations and Principal Investments.

In certain fund structures across private equity, real estate, hedge fund solutions and credit-focused funds (carry funds), Blackstone, through its subsidiaries, invests alongside its limited partners in a partnership and is entitled to its pro-rata share of the results of the fund (a pro-rata allocation). In addition to a pro-rata allocation, and assuming certain investment returns are achieved, Blackstone is entitled to a disproportionate allocation of the income otherwise allocable to the limited partners, commonly referred to as carried interest (Performance Allocations).

Performance Allocations are made 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 balance of Accrued Performance Allocations 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 Accrued Performance Allocations to reflect either (a) positive performance resulting in an increase in the Accrued Performance Allocation 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 the Accrued Performance Allocation to the general partner. In each scenario, it is necessary to calculate the Accrued Performance Allocation on cumulative results compared to the Accrued Performance Allocation recorded to date and make the required positive or negative adjustments. The Partnership ceases to record negative Performance Allocations once previously Accrued Performance Allocations for such fund have been fully reversed. The Partnership is not obligated to pay guaranteed returns or hurdles, and therefore, cannot have negative Performance Allocations over the life of a fund. Accrued Performance Allocations as of the reporting date are reflected in Investments in the Condensed Consolidated Statements of Financial Condition.

Performance Allocations are 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. Performance Allocations are subject to clawback to the extent that the Performance Allocation received to date exceeds the amount due to Blackstone based on cumulative results. As such, the accrual for potential repayment of previously received Performance Allocations, 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.

Principal Investments include the unrealized and realized gains and losses on the Partnership s principal investments, including its investments in Blackstone Funds that are not consolidated and receive pro-rata

allocations, its equity method investments, and other principal investments. Income (Loss) on Principal Investments 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 Income (Loss) on Principal Investments 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 Incentive Fee Compensation Incentive Fee Compensation consists of compensation paid based on Incentive Fees.

Compensation and Benefits Performance Allocations Compensation Performance Allocation Compensation consists of compensation paid based on Performance Allocations (which may be distributed in cash or in-kind). Such compensation expense is subject to both positive and negative adjustments. Unlike Performance Allocations, compensation expense is based on the performance of individual investments held by a fund rather than on a fund by fund basis. These amounts may also include allocations of investment income from Blackstone s principal investments, to senior managing directors and employees participating in certain profit sharing initiatives.

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.

Fair Value of Financial Instruments

GAAP establishes a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a

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

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

Level I Quoted prices are available in active markets for identical financial instruments as of the reporting date. The 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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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 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. 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.

The Partnership has elected the fair value option for the assets of consolidated CLO vehicles. As permitted under GAAP, the Partnership measures the liabilities of consolidated CLO vehicles as (a) the sum of the fair value of the consolidated CLO assets and the carrying value of any non-financial assets held temporarily, less (b) the sum of the fair value of any beneficial interests retained by the Partnership (other than those that represent compensation for services) and the Partnership s carrying value of any beneficial interests that represent compensation for services. As a result of this measurement alternative, there is no attribution of amounts to Non-Controlling Interests for consolidated CLO vehicles. 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 are presented within Net Gains from Fund Investment Activities. Expenses of consolidated CLO vehicles are presented in Fund Expenses.

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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 Performance Allocations. Identifiable finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from three to twenty 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 and the acquisition of Harvest in 2017. Goodwill is reviewed for impairment at least annually utilizing a qualitative or quantitative approach, and more frequently if circumstances indicate impairment may have occurred. The impairment testing for goodwill under the qualitative approach is based first on a qualitative assessment to determine if it is more likely than not that the fair value of Blackstone s operating segments is less than their respective carrying values. The operating segment is the reporting level for testing the impairment of goodwill. If it is determined that it is more 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

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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 $1.8 billion as of June 30, 2018 and December 31, 2017. At June 30, 2018 and December 31, 2017, 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 revenues and investment income.

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

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

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

investments and ongoing analysis of the credit status of investments.

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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, 2018 and June 30, 2017, 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,	
	2018	2017
Fund Management Fees Based on the NAV of the Applicable Funds or Separately Managed Accounts	36%	33%

Market Risk

The Blackstone Funds hold investments which are reported at fair value. Based on the fair value as of June 30, 2018 and June 30, 2017, we estimate that a 10% decline in fair value of the investments would result in the following declines in Management Fees, Performance Revenues, Net of Related Compensation Expense and Investment Income:

	June 30,					
	2018			2017		
	Management Fees (a)	Performance Revenues, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	Performance Revenues, Net of Related Compensation Expense (b)	Investment Income (b)
	(Dollars in Thousands)					
10% Decline in Fair Value of the Investments	$ 81,847	$ 1,398,609	$ 194,951	$ 90,486	$ 1,211,590	$ 173,568

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

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

	June 30, 2018	
	Total Assets Under Management, Excluding Undrawn Capital Commitments and the Amount of Capital Raised for CLOs	Percentage Amount Classified as Level III Investments
	(Dollars in Thousands)	
Private Equity	$ 66,163,644	67%
Real Estate	$ 85,022,062	83%

Credit	$ 74,267,341	33%

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

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Factors in our Annual Report on Form 10-K for the year ended December 31, 2017. 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, 2018 and June 30, 2017, 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 Revenues, Net of Related Compensation Expense and Investment Income:

	June 30,					
	2018			2017		
	Management Fees (a)	Performance Revenues, Net of Related Compensation Expense (b)	Investment Income (b)	Management Fees (a)	Performance Revenues, Net of Related Compensation Expense (b)	Investment Income (b)
	(Dollars in Thousands)					
10% Decline in the Rate of Exchange of All Foreign Currencies Against the U.S. Dollar	$ 19,067	$ 324,948	$ 31,021	$ 10,790	$ 299,715	$ 29,360

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

Interest Rate Risk

Blackstone has debt obligations payable that accrue interest at variable rates. Interest rate changes may therefore affect the amount of our interest payments, future earnings and cash flows. Based on our debt obligations payable as of June 30, 2018 and June 30, 2017, 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,	
	2018	2017
	(Dollars in Thousands)	
Annualized Increase in Interest Expense Due to a One Percentage Point Increase in Interest Rates	$ 28	$ 28

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

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investment securities, freestanding derivative contracts, repurchase and reverse repurchase agreements and other investments. If interest rates were to increase by one percentage point, we estimate that our annualized investment income would decrease, offset by an estimated increase in interest income on an annual basis from interest on floating rate assets, as follows:

	June 30,			
	2018		2017	
	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	$ 22,267(a)	$ 23,892	$ 33,166(a)	$ 23,769

(a) As of June 30, 2018 and 2017, this represents 0.4% and 0.7% of our portfolio of liquid assets, respectively.

Blackstone has U.S. dollar and non-U.S. dollar based interest rate derivatives whose future cash flows and present value may be affected by movement in their respective underlying yield curves. We estimate that as of June 30, 2018, a one percentage increase parallel shift in global yield curves would result in the following impact on Other Revenue:

	June 30,	
	2018	2017
	(Dollars in Thousands)	
Annualized Increase in Other Revenue Due to a One Percentage Point Increase in Interest Rates	$ 19,413	$ (a)

(a) Blackstone held no interest rate risk derivatives as of June 30, 2017 which impact Other Revenue.

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,	
	2018	2017
	(Dollars in Thousands)	
Decrease in Annualized Investment Income Due to a One Percentage Point Increase in Credit Spreads (a)	$ 36,437	$ 48,103

(a) As of June 30, 2018 and 2017, this represents 0.7% and 1.0% 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 investment banks that 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 change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during our most recent quarter, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We may from time to time be involved in litigation and claims incidental to the conduct of our business. Our businesses are also subject to extensive regulation, which may result in regulatory proceedings against us. See Part I. Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017. 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, 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, 2017 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.

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, 2017.

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

The following table sets forth information regarding repurchases of our common units during the quarter ended June 30, 2018.

Period	Total Number of Units Purchased	Average Price Paid per Unit	Total Number of Units Purchased as Part of Publicly Announced Plans or Programs (a)	Approximate Dollar Value of Units that May Yet Be Purchased Under the Program (Dollars in Thousands) (a)
Apr. 1 Apr. 30, 2018		$		$ 1,000,000
May 1 May 31, 2018	217,390	$ 31.68	217,390	$ 993,113
Jun. 1 Jun. 30, 2018	1,982,610	$ 32.68	1,982,610	$ 928,315
	2,200,000		2,200,000	

(a) On April 16, 2018, the Board of Directors of our general partner, Blackstone Group Management L.L.C., authorized the repurchase of up to $1.0 billion of Blackstone common units and Blackstone Holdings Partnership Units. Under the 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 units repurchased will depend on a variety of factors, including legal requirements, price and economic and market

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conditions. The unit repurchase program may be changed, suspended or discontinued at any time and does not have a specified expiration date. 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.

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*	Form of Aircraft Dry Lease Agreement between GH4 Partners LLC and Blackstone Administrative Services Partnership L.P.
10.2*	Form of Aircraft Dry Lease Agreement between XB Partners LLC and Blackstone Administrative Services Partnership L.P.
10.3*	Form of Aircraft Dry Lease Agreement between GBBX Associates LLC, WLBX LLC and Blackstone Administrative Services Partnership L.P.
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.

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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, 2018

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)