Blackstone Group L.P.
Form 10-Q
November 07, 2018
Table of Contents

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 SEPTEMBER 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	**20-8875684**
(State or other jurisdiction of incorporation or organization)	**(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 every Interactive Data File required to be submitted 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 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
	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 November 1, 2018 was 662,286,997.

TABLE OF CONTENTS

Table of Contents

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

Table of Contents

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,

(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.

Perpetual Capital refers to the component of assets under management with an indefinite term, that is not in liquidation, and for which there is no requirement to return capital to investors through redemption requests in the ordinary course of business, except where funded by new capital inflows. Perpetual Capital includes co-investment capital with an investor right to convert into Perpetual Capital.

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

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Financial Condition (Unaudited)

(Dollars in Thousands, Except Unit Data)

	September 30, 2018	December 31, 2017
Assets		
Cash and Cash Equivalents	$ 1,937,963	$ 1,992,497
Cash Held by Blackstone Funds and Other	408,561	1,929,531
Investments (including assets pledged of $231,620 and $169,746 at September 30, 2018 and December 31, 2017, respectively)	22,094,920	24,434,049
Accounts Receivable	875,647	875,018
Due from Affiliates	2,017,637	2,028,137
Intangible Assets, Net	366,368	409,828
Goodwill	1,778,192	1,778,192
Other Assets	269,470	242,697
Deferred Tax Assets	711,599	725,970
Total Assets	$ 30,460,357	$ 34,415,919
Liabilities and Partners Capital		
Loans Payable	$ 10,161,886	$ 14,815,436
Due to Affiliates	981,980	937,158
Accrued Compensation and Benefits	3,414,215	2,623,492
Securities Sold, Not Yet Purchased	166,309	154,380
Repurchase Agreements	199,488	118,840
Accounts Payable, Accrued Expenses and Other Liabilities	829,496	2,043,522
Total Liabilities	15,753,374	20,692,828
Commitments and Contingencies		
Redeemable Non-Controlling Interests in Consolidated Entities	153,504	210,944
Partners Capital		
The Blackstone Group L.P. Partners Capital		
Partners Capital (common units: 669,411,215 issued and outstanding as of September 30, 2018; 659,526,093 issued and outstanding as of December 31, 2017)	7,024,079	6,668,511
Accumulated Other Comprehensive Loss	(36,562)	(34,018)
Total The Blackstone Group L.P. Partners Capital	6,987,517	6,634,493
Non-Controlling Interests in Consolidated Entities	3,673,135	3,253,148
Non-Controlling Interests in Blackstone Holdings	3,892,827	3,624,506
Total Partners Capital	14,553,479	13,512,147

Total Liabilities and Partners Capital	$ 30,460,357	$ 34,415,919

continued

See notes to condensed consolidated financial statements.

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.

	September 30, 2018	December 31, 2017
Assets		
Cash Held by Blackstone Funds	$ 408,278	$ 1,580,296
Investments	8,493,379	12,948,653
Accounts Receivable	273,966	470,156
Due from Affiliates	8,780	46,112
Other Assets	5,549	5,189
Total Assets	$ 9,189,952	$ 15,050,406
Liabilities		
Loans Payable	$ 6,679,598	$ 11,300,621
Due to Affiliates	122,836	86,393
Securities Sold, Not Yet Purchased	118,205	89,907
Repurchase Agreements	199,488	118,840
Accounts Payable, Accrued Expenses and Other Liabilities	265,397	1,562,534
Total Liabilities	$ 7,385,524	$ 13,158,295

See notes to condensed consolidated financial statements.

Table of Contents

THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Operations (Unaudited)

(Dollars in Thousands, Except Unit and Per Unit Data)

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Revenues				
Management and Advisory Fees, Net	$ 780,009	$ 685,922	$ 2,230,242	$ 2,022,263
Incentive Fees	9,799	35,513	41,743	122,327
Investment Income				
Performance Allocations				
Realized	592,103	434,982	1,365,119	2,149,549
Unrealized	299,238	406,649	1,367,678	377,560
Principal Investments				
Realized	134,619	74,805	305,961	451,207
Unrealized	52,840	96,085	268,082	63,172
Total Investment Income	1,078,800	1,012,521	3,306,840	3,041,488
Interest and Dividend Revenue	48,604	36,974	124,062	99,172
Other	9,368	(35,572)	625,394	(99,448)
Total Revenues	1,926,580	1,735,358	6,328,281	5,185,802
Expenses				
Compensation and Benefits				
Compensation	419,285	359,209	1,236,167	1,078,001
Incentive Fee Compensation	7,251	18,332	23,656	61,829
Performance Allocations Compensation				
Realized	200,442	162,505	498,902	724,721
Unrealized	178,184	175,534	622,610	269,977
Total Compensation and Benefits	805,162	715,580	2,381,335	2,134,528
General, Administrative and Other	168,813	121,036	441,354	349,974
Interest Expense	41,355	41,545	119,346	122,880
Fund Expenses	2,302	26,350	74,909	100,095
Total Expenses	1,017,632	904,511	3,016,944	2,707,477
Other Income				
Net Gains from Fund Investment Activities	66,838	63,448	250,956	239,634
Income Before Provision for Taxes	975,786	894,295	3,562,293	2,717,959
Provision for Taxes	26,798	59,512	220,024	146,557
Net Income	948,988	834,783	3,342,269	2,571,402
Net Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	2,569	3,215	2,199	6,206

Net Income Attributable to Non-Controlling Interests in Consolidated Entities		143,101		113,446		427,678		365,075
Net Income Attributable to Non-Controlling Interests in Blackstone Holdings		360,576		340,202		1,359,736		1,032,885
Net Income Attributable to The Blackstone Group L.P.	$	442,742	$	377,920	$	1,552,656	$	1,167,236
Net Income Per Common Unit								
Common Units, Basic	$	0.65	$	0.57	$	2.28	$	1.76
Common Units, Diluted	$	0.64	$	0.55	$	2.27	$	1.73
Weighted-Average Common Units Outstanding								
Common Units, Basic		682,435,177		667,384,727		679,598,629		664,331,632
Common Units, Diluted		1,205,877,983		1,200,502,292		1,209,113,244		1,200,092,676

See notes to condensed consolidated financial statements.

Table of Contents

THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Income	$ 948,988	$ 834,783	$ 3,342,269	$ 2,571,402
Other Comprehensive Income (Loss), Net of Tax Currency Translation Adjustment	(7,412)	26,761	(33,660)	73,354
Comprehensive Income	941,576	861,544	3,308,609	2,644,756
Less:				
Comprehensive Income Attributable to Redeemable Non-Controlling Interests in Consolidated Entities	2,569	3,215	2,199	6,206
Comprehensive Income Attributable to Non-Controlling Interests in Consolidated Entities	143,101	127,149	425,288	409,963
Comprehensive Income Attributable to Non-Controlling Interests in Blackstone Holdings	331,850	340,202	1,331,010	1,032,885
Comprehensive Income Attributable to The Blackstone Group L.P.	$ 464,056	$ 390,978	$ 1,550,112	$ 1,195,702

See notes to condensed consolidated financial statements.

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 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
Net Income		442,742		442,742	143,101	360,576	946,419	2,569
Currency Translation Adjustment			21,314	21,314		(28,726)	(7,412)	
Capital Contributions					193,213		193,213	1,880
Capital Distributions		(395,718)		(395,718)	(154,468)	(377,751)	(927,937)	(9,744)
Transfer of Non-Controlling Interests in Consolidated Entities					(1,332)		(1,332)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		1,221		1,221			1,221	
Equity-Based Compensation		54,245		54,245		42,775	97,020	
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	1,003,987	(3,389)		(3,389)		(2,740)	(6,129)	
Repurchase of Common Units and Blackstone Holdings Partnership Units	(6,000,000)	(218,381)		(218,381)			(218,381)	
Change in The Blackstone Group L.P. s Ownership Interest		31,601		31,601		(31,601)		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	863,146	6,533		6,533		(6,533)		
Balance at September 30, 2018	669,411,215	$ 7,024,079	$ (36,562)	$ 6,987,517	$ 3,673,135	$ 3,892,827	$ 14,553,479	$ 153,504

continued

See notes to condensed consolidated financial statements.

Table of Contents

THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Changes in Partners Capital (Unaudited)

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P.							
	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 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
Net Income		377,920		377,920	113,446	340,202	831,568	3,215
Currency Translation Adjustment			13,058	13,058	13,703		26,761	
Capital Contributions					131,693		131,693	8,940
Capital Distributions		(358,828)		(358,828)	(203,927)	(314,155)	(876,910)	(1,478)
Transfer of Non-Controlling Interests in Consolidated Entities					(3,406)		(3,406)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		706		706			706	
Equity-Based Compensation		47,328		47,328		39,548	86,876	
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	3,209,675	(14,598)		(14,598)		(915)	(15,513)	
Change in The Blackstone Group L.P. s Ownership Interest		(1,029)		(1,029)		1,029		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	626,464	4,053		4,053		(4,053)		
Balance at September 30, 2017	657,637,533	$ 6,596,030	$ (34,421)	$ 6,561,609	$ 3,174,680	$ 3,476,496	$ 13,212,785	$ 201,377

continued

See notes to condensed consolidated financial statements.

Table of Contents

THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Changes in Partners Capital (Unaudited)

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P.							
	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		1,552,656		1,552,656	427,678	1,359,736	3,340,070	2,199
Currency Translation Adjustment			(2,544)	(2,544)	(2,390)	(28,726)	(33,660)	
Capital Contributions					617,345		617,345	2,980
Capital Distributions		(1,202,488)		(1,202,488)	(446,431)	(1,060,315)	(2,709,234)	(62,619)
Transfer of Non-Controlling Interests in Consolidated Entities					20,876		20,876	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		12,143		12,143			12,143	
Equity-Based Compensation		154,764		154,764		122,675	277,439	
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	4,036,359	(17,885)		(17,885)		(3,575)	(21,460)	
Repurchase of Common Units and Blackstone Holdings Partnership Units	(8,200,000)	(290,066)		(290,066)			(290,066)	
Change in The Blackstone Group L.P. s Ownership Interest		32,436		32,436		(32,436)		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	13,298,024	89,038		89,038		(89,038)		
Issuance of Common Units	750,739	24,970		24,970			24,970	
Balance at September 30, 2018	669,411,215	$ 7,024,079	$ (36,562)	$ 6,987,517	$ 3,673,135	$ 3,892,827	$ 14,553,479	$ 153,504

continued

See notes to condensed consolidated financial statements.

Table of Contents

THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Changes in Partners Capital (Unaudited)

(Dollars in Thousands, Except Unit Data)

	The Blackstone Group L.P.							
	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		1,167,236		1,167,236	365,075	1,032,885	2,565,196	6,206
Currency Translation Adjustment			28,466	28,466	44,888		73,354	
Consolidation of a Fund Entity					387,006		387,006	
Capital Contributions					507,001		507,001	30,294
Capital Distributions		(1,241,717)		(1,241,717)	(552,440)	(1,068,553)	(2,862,710)	(20,513)
Transfer of Non-Controlling Interests in Consolidated Entities					(5,814)		(5,814)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests from Non-Controlling Interest Holders		7,992		7,992			7,992	
Equity-Based Compensation		135,292		135,292		112,109	247,401	
Net Delivery of Vested Blackstone Holdings Partnership Units and Blackstone Common Units	6,985,219	(27,027)		(27,027)		(1,705)	(28,732)	
Change in The Blackstone Group L.P. s Ownership Interest		(14,850)		(14,850)		14,850		
Conversion of Blackstone Holdings Partnership Units to Blackstone Common Units	7,192,772	47,573		47,573		(47,573)		
Balance at September 30, 2017	657,637,533	$ 6,596,030	$ (34,421)	$ 6,561,609	$ 3,174,680	$ 3,476,496	$ 13,212,785	$ 201,377

See notes to condensed consolidated financial statements.

Table of Contents

THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Nine Months Ended September 30,	
	2018	**2017**
Operating Activities		
Net Income	$ 3,342,269	$ 2,571,402
Adjustments to Reconcile Net Income to Net Cash Used in Operating Activities		
Blackstone Funds Related		
Net Realized Gains on Investments	(1,740,100)	(2,833,208)
Changes in Unrealized Gains on Investments	(343,488)	(71,122)
Non-Cash Performance Allocations	(1,367,678)	(377,560)
Non-Cash Performance Allocations and Incentive Fee Compensation	1,137,152	1,056,527
Equity-Based Compensation Expense	282,733	262,773
Amortization of Intangibles	43,460	32,891
Other Non-Cash Amounts Included in Net Income	110,103	210,644
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	(118,225)	141,312
Reverse Repurchase Agreements		118,495
Due from Affiliates	(343,696)	(386,037)
Other Assets	(53,689)	237
Accrued Compensation and Benefits	(345,264)	(594,610)
Securities Sold, Not Yet Purchased	15,893	(112,921)
Accounts Payable, Accrued Expenses and Other Liabilities	(293,314)	(735,996)
Repurchase Agreements	80,647	(597)
Due to Affiliates	44,987	(15,433)
Investments Purchased	(11,609,707)	(12,853,487)
Cash Proceeds from Sale of Investments	10,686,644	12,375,565
Net Cash Used in Operating Activities	(1,339,810)	(1,230,869)
Investing Activities		
Purchase of Furniture, Equipment and Leasehold Improvements	(8,760)	(20,405)
Net Cash Used in Investing Activities	(8,760)	(20,405)

continued

See notes to condensed consolidated financial statements.

Table of Contents

THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Nine Months Ended September 30,	
	2018	**2017**
Financing Activities		
Distributions to Non-Controlling Interest Holders in Consolidated Entities	$ (503,060)	$ (535,072)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	615,561	528,175
Payments Under Tax Receivable Agreement		(59,667)
Net Settlement of Vested Common Units and Repurchase of Common and Blackstone Holdings Partnership Units	(311,526)	(28,732)
Proceeds from Loans Payable	3,218,399	3,846,577
Repayment and Repurchase of Loans Payable	(1,007,479)	(166,920)
Distributions to Unitholders	(2,262,803)	(2,310,270)
Net Cash Provided by (Used in) Financing Activities	(250,908)	1,274,091
Effect of Exchange Rate Changes on Cash and Cash Equivalents, Cash Held by Blackstone Funds and Other, and Restricted Cash	9,513	105,716
Cash and Cash Equivalents, Cash Held by Blackstone Funds and Other, and Restricted Cash		
Net Increase (Decrease)	(1,589,965)	128,533
Beginning of Period	3,936,489	2,860,955
End of Period	$ 2,346,524	$ 2,989,488
Supplemental Disclosure of Cash Flows Information		
Payments for Interest	$ 126,963	$ 133,535
Payments for Income Taxes	$ 136,686	$ 77,059
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Non-Cash Contributions from Non-Controlling Interest Holders	$	$ 1,746
Non-Cash Distributions to Non-Controlling Interest Holders	$ (5,924)	$ (37,881)
Net Assets Related to the Consolidation of a Fund Entity	$	$ 387,006
Transfer of Interests to Non-Controlling Interest Holders	$ 20,876	$ (5,814)
Change in The Blackstone Group L.P. s Ownership Interest	$ 32,436	$ (14,850)
Net Settlement of Vested Common Units	$ 131,857	$ 122,590
Conversion of Blackstone Holdings Units to Common Units	$ 89,038	$ 47,573
Acquisition of Ownership Interests from Non-Controlling Interest Holders		
Deferred Tax Asset	$ (80,942)	$ (53,151)

Due to Affiliates	$	68,799	$	45,159
Partners Capital	$	12,143	$	7,992
Issuance of Common Units	$	24,970	$	

continued

See notes to condensed consolidated financial statements.

Table of Contents

THE BLACKSTONE GROUP L.P.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

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:

	September 30, 2018	December 31, 2017
Cash and Cash Equivalents	$ 1,937,963	$ 1,992,497
Cash Held by Blackstone Funds and Other	408,561	1,929,531
Restricted Cash included in Other Assets		14,461
	$ 2,346,524	$ 3,936,489

See notes to condensed consolidated financial statements.

15

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.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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 Blackstone s 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

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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

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)

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

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

financial 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.

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.

21

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)

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.

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

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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 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.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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 consists of (a) 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, and expensed over the vesting period on a straight-line basis, taking into consideration expected forfeitures, 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 criteria making them eligible for retirement (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

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)

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 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 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 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 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.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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 September 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 $11.4 million, $6.7 million, $0.01 per common unit, and $0.01 per common unit, respectively. For the nine months ended September 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 $51.1 million, $22.0 million, $0.03 per common unit, and $0.03 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 nine months ended September 30, 2017, these costs were $5.3 million and $12.9 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

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)

determinable fair value were applied prospectively as permitted under the guidance. Adoption did not have a material impact on Blackstone s condensed consolidated financial statements.

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. In July 2018, the FASB issued targeted improvements to the amended guidance, which included a new transition method allowing entities to initially apply the new leases standard at the adoption date (January 1, 2019 for Blackstone) and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Prior to that issuance, adoption was required on a modified retrospective basis. Blackstone expects to elect the new transition alternative upon adoption, and also expects to elect a package of practical expedients made available earlier by the FASB which result in no requirement to reassess (a) whether any expired or existing contracts are or contain leases, (b) the lease classification for any expired or existing leases or (c) the recognition requirements for initial direct costs for any existing leases. Blackstone is evaluating the impact of the amended guidance on the Condensed Consolidated Statement of Financial Condition, which is expected to result in recognition of an operating liability equal to the present value of the remaining lease payments on existing leases as of January 1, 2019 and a corresponding right-of-use asset. The amended guidance 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 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 nine months ended September 30, 2017 the new guidance resulted in a decrease in Net Cash Used in Operating Activities of $573.4 million, an increase in Net Cash Used in Investing Activities of $11.4 million, and an increase in Effect of Exchange Rate Changes on Cash and Cash Equivalents, Cash Held by Blackstone Funds, and Restricted Cash of $88.1 million. Additionally, the new guidance increased the December 31, 2016 Beginning of Period and September 30, 2017 End of Period balances by $1.0 billion and $1.7 billion, respectively, in the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2017.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

In August 2018, the FASB issued amended guidance on the disclosure requirements for fair value measurement. The amended guidance added, eliminated and modified disclosures for investments measured at fair value. The guidance is effective January 1, 2020. However, Blackstone has early adopted the amendments, as is permitted, for the period ended September 30, 2018. The impact of the amended guidance on Blackstone was the removal of the requirements to disclose (a) the amount and reasons for transfers between Level I and Level II investments of the fair value hierarchy, (b) the policy for timing of transfers between levels and (c) the valuation process for Level III fair value measurements. The amended guidance also required modification to Blackstone s disclosure to clarify that information regarding measurement uncertainty is provided as of the relevant reporting date. The requirements to provide additional disclosures did not impact Blackstone as those disclosures had already been provided in prior periods.

3. INTANGIBLE ASSETS

Intangible Assets, Net consists of the following:

	September 30, 2018	December 31, 2017
Finite-Lived Intangible Assets / Contractual Rights	$ 1,594,876	$ 1,594,876
Accumulated Amortization	(1,228,508)	(1,185,048)
Intangible Assets, Net	$ 366,368	$ 409,828

Amortization expense associated with Blackstone s intangible assets was $14.5 million and $43.5 million for the three and nine month periods ended September 30, 2018, respectively, and $11.0 million and $32.9 million for the three and nine month periods ended September 30, 2017, respectively.

Amortization of Intangible Assets held at September 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 September 30, 2018 are expected to amortize over a weighted-average period of 8.6 years.

4. INVESTMENTS

Investments consist of the following:

	September 30, 2018	December 31, 2017
Investments of Consolidated Blackstone Funds	$ 8,503,423	$ 12,954,121
Equity Method Investments		
Partnership Investments	3,690,841	3,263,131
Accrued Performance Allocations	6,722,430	5,328,280
Corporate Treasury Investments	2,883,610	2,566,043
Other Investments	294,616	322,474

	$ 22,094,920	$ 24,434,049

Blackstone s share of Investments of Consolidated Blackstone Funds totaled $413.7 million and $488.4 million at September 30, 2018 and December 31, 2017, respectively.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Realized Gains	$ 23,475	$ 2,664	$ 57,853	$ 110,349
Net Change in Unrealized Gains	415	16,990	75,378	7,951
Realized and Net Change in Unrealized Gains from Consolidated Blackstone Funds	23,890	19,654	133,231	118,300
Interest and Dividend Revenue Attributable to Consolidated Blackstone Funds	42,948	43,794	117,725	121,334
Other Income Net Gains from Fund Investment Activities	$ 66,838	$ 63,448	$ 250,956	$ 239,634

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 nine months ended September 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 $137.6 million and $152.1 million for the three months ended September 30, 2018 and 2017, respectively. The Partnership recognized net gains related to its equity method investments of $465.6 million and $444.7 million for the nine months ended September 30, 2018 and 2017, respectively.

30

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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	1,643,509	917,619	30,694	160,961	2,752,783
Foreign Exchange Loss		(20,143)			(20,143)
Fund Distributions	(403,531)	(809,249)	(7,196)	(118,514)	(1,338,490)
Accrued Performance Allocations, September 30, 2018	$ 3,156,949	$ 2,947,534	$ 37,300	$ 580,647	$ 6,722,430

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Realized Gains (Losses)	$ (2,504)	$ 7,424	$ 4,609	$ 3,995
Net Change in Unrealized Gains (Losses)	14,691	8,258	(205)	51,553
	$12,187	$15,682	$4,404	$55,548

Other Investments

Other Investments consist primarily of proprietary investment securities held by Blackstone. Other investments include equity investments without readily determinable fair values which have a carrying value of $44.9 million as of September 30, 2018. The following table presents Blackstone s Realized and Net Change in Unrealized Gains (Losses) in Other Investments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Realized Gains	$ 30,618	$ 2,955	$ 46,937	$ 5,825
Net Change in Unrealized Gains (Losses)	3,683	(1,783)	49,094	8,508

	$ 34,301	$ 1,172	$ 96,031	$ 14,333

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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 September 30, 2018 is presented below:

Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Diversified Instruments	$ 211,301	$ 130	(a)	(a)
Credit Driven	115,365	268	(b)	(b)
Equity	38,309		(c)	(c)
Commodities	1,826		(d)	(d)
	$ 366,801	$ 398		

(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 40% 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 60% 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 9% 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 forward contracts to hedge a portion of the net investment in Blackstone s non-U.S. dollar denominated foreign operations.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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 September 30, 2018 there was no resulting gain or loss. For the nine months ended September 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.

	September 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	967,128	36,660	908,553	58,097	225,550	2,042	1,530,751	27,275
Foreign Currency Contracts	26,614	961	327,124	2,190	279,050	2,097	296,252	2,975
Credit Default Swaps			28,509	1,687	2,073	304	2,073	304
Investments of Consolidated Blackstone Funds								
Foreign Currency Contracts	107,009	1,906	25,081	1,504	493,181	24,087	264,693	5,628
Credit Default Swaps	22,961	170	50,242	3,599	45,670	3,731	45,582	5,163
Total Return Swaps	31,492	233			25,645	526		
Equity Options	1	122	1	67				
	1,155,205	40,052	1,339,510	67,144	1,071,169	32,787	2,139,351	41,345
	$ 1,155,205	$ 40,052	$ 1,339,510	$ 67,144	$ 1,071,169	$ 32,787	$ 2,190,208	$ 41,798

33

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Investment Hedges Foreign Currency Contracts				
Hedge Ineffectiveness	$	$ (37)	$ (8)	$ (72)
Freestanding Derivatives				
Realized Gains (Losses)				
Interest Rate Contracts	$ 401	$ (1,195)	$ 2,471	$ (5,142)
Foreign Currency Contracts	3,583	17,002	11,821	13,690
Credit Default Swaps	(333)	(1,964)	(841)	(3,622)
Total Return Swaps	(37)	293	137	293
Equity Options		(258)		(258)
	$ 3,614	$ 13,878	$ 13,588	$ 4,961
Net Change in Unrealized Gains (Losses)				
Interest Rate Contracts	$ 7,076	$ (6,273)	$ 7,037	$ (6,916)
Foreign Currency Contracts	(5,248)	4,638	(7,520)	17,320
Credit Default Swaps	2,368	1,966	2,856	5,127
Total Return Swaps	(173)	(397)	(121)	(397)
Equity Options	(99)	38	(99)	38
	$ 3,924	$ (28)	$ 2,153	$ 15,172

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

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

7. FAIR VALUE OPTION

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

	September 30, 2018	December 31, 2017
Assets		
Loans and Receivables	$ 419,803	$ 239,659
Equity and Preferred Securities	473,778	475,485
Debt Securities	523,556	418,061
Assets of Consolidated CLO Vehicles		
Corporate Loans	6,917,711	10,825,759
Corporate Bonds		690,125
Other		458
	$ 8,334,848	$ 12,649,547
Liabilities		
Liabilities of Consolidated CLO Vehicles		
Senior Secured Notes		
Loans Payable	$ 6,520,975	$ 10,594,656
Due to Affiliates	3,273	996
Subordinated Notes		
Loans Payable	158,623	703,164
Due to Affiliates	65,259	40,390
	$ 6,748,130	$ 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 September 30,			
	2018		2017	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
Assets				
Equity and Preferred Securities	$	$ 20,329	$ 18	$ 3,599
Debt Securities	(2,461)	325	3,171	(1,425)
Assets of Consolidated CLO Vehicles				
Corporate Loans	(3,030)	(14,095)	(4,358)	(29,172)
Corporate Bonds			326	(12,732)
Other				356

	$	(5,491)	$	6,559	$	(843)	$	(39,374)
Liabilities								
Liabilities of Consolidated CLO Vehicles								
Subordinated Notes	$		$	36,021	$		$	39,007

35

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

	Nine Months Ended September 30,			
	2018		2017	
	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)	Realized Gains (Losses)	Net Change in Unrealized Gains (Losses)
Assets				
Loans and Receivables	$	$	$	$ 7,418
Equity and Preferred Securities		18,462	19	23,824
Debt Securities	(1,634)	(1,973)	3,515	(3,300)
Assets of Consolidated CLO Vehicles				
Corporate Loans	(7,429)	(21,134)	(2,778)	(16,974)
Corporate Bonds	(24,056)	9,693	8,011	(19,477)
Other		6		500
	$ (33,119)	$ 5,054	$ 8,767	$ (8,009)
Liabilities				
Liabilities of Consolidated CLO Vehicles				
Subordinated Notes	$	$ 96,481	$	$ 71,719

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

	September 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	$ 1,060	$	$	$ 1,207	$	$
Debt Securities	(2,168)			(372)		
Assets of Consolidated CLO Vehicles						
Corporate Loans	(29,513)			(13,495)	57,778	(19,633)
Corporate Bonds				(21,455)		
	$ (30,621)	$	$	$ (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 September 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 September 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.

36

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements   Continued

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

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:

	September 30, 2018				
	Level I	Level II	Level III	NAV	Total
Assets					
Cash and Cash Equivalents Money Market Funds	$ 471,940	$	$	$	$ 471,940
Investments					
Investments of Consolidated Blackstone Funds (a)					
Investment Funds				85,287	85,287
Equity Securities	67,442	44,256	190,692		302,390
Partnership and LLC Interests		6,714	329,474		336,188
Debt Instruments		758,340	101,076		859,416
Freestanding Derivatives					
Foreign Currency Contracts		1,906			1,906
Credit Default Swaps		170			170
Total Return Swaps		233			233
Equity Options		122			122
Assets of Consolidated CLO Vehicles Corporate Loans		6,368,295	549,416		6,917,711
Total Investments of Consolidated Blackstone Funds	67,442	7,180,036	1,170,658	85,287	8,503,423
Corporate Treasury Investments					
Equity Securities	316,771				316,771
Debt Instruments	406,164	1,880,805	17,038		2,304,007
Other				262,832	262,832
Total Corporate Treasury Investments	722,935	1,880,805	17,038	262,832	2,883,610
Other Investments	202,453		73,481	18,682	294,616
Total Investments	992,830	9,060,841	1,261,177	366,801	11,681,649
Accounts Receivable Loans and Receivables			419,803		419,803
Other Assets					
Freestanding Derivatives					
Interest Rate Contracts	2,109	34,551			36,660
Foreign Currency Contracts		961			961
Total Other Assets	2,109	35,512			37,621
	$ 1,466,879	$ 9,096,353	$ 1,680,980	$ 366,801	$ 12,611,013

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

	September 30, 2018			
	Level I	Level II	Level III	Total
Liabilities				
Loans Payable Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes (b)	$	$ 6,520,975	$	$ 6,520,975
Subordinated Notes (b)		158,623		158,623
Total Loans Payable		6,679,598		6,679,598
Due to Affiliates Liabilities of Consolidated CLO Vehicles (a)				
Senior Secured Notes (b)		3,273		3,273
Subordinated Notes (b)		65,259		65,259
Total Due to Affiliates		68,532		68,532
Securities Sold, Not Yet Purchased	35,374	130,936		166,310
Accounts Payable, Accrued Expenses and Other Liabilities				
Liabilities of Consolidated Blackstone Funds Freestanding Derivatives (a)				
Foreign Currency Contracts		1,504		1,504
Credit Default Swaps		3,599		3,599
Equity Options		67		67
Total Liabilities of Consolidated Blackstone Funds		5,170		5,170
Freestanding Derivatives				
Interest Rate Contracts	875	57,222		58,097
Foreign Currency Contracts		2,190		2,190
Credit Default Swaps		1,687		1,687
Total Freestanding Derivatives	875	61,099		61,974
Total Accounts Payable, Accrued Expenses and Other Liabilities	875	66,269		67,144
	$ 36,249	$ 6,945,335	$	$ 6,981,584

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

	December 31, 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

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

	December 31, 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 (1) the fair value of any beneficial interests held by Blackstone, and (2) the carrying value of any beneficial interests that represent compensation for services.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level III of the fair value hierarchy as of September 30, 2018:

	Fair Value	Valuation Techniques	Unobservable Inputs	Ranges	Weighted-Average (a)
Financial Assets					
Investments of Consolidated Blackstone Funds					
Equity Securities	$ 128,731	Discounted Cash Flows	Discount Rate	7.1% - 26.1%	12.4%
			Revenue CAGR	-12.2% - 45.4%	7.3%
			Book Value Multiple	1.1x - 9.5x	8.4x
			Exit Capitalization Rate	5.0% - 11.4%	8.0%
			Exit Multiple - EBITDA	2.6x - 17.5x	10.4x
			Exit Multiple - NOI	8.8x - 12.8x	11.9x
			Exit Multiple - P/E	10.0x - 17.0x	14.2x
	1,516	Market Comparable Companies	Book Value Multiple	0.8x - 8.0x	1.4x
	34,220	Other	N/A	N/A	N/A
	26,225	Transaction Price	N/A	N/A	N/A
Partnership and LLC Interests	279,686	Discounted Cash Flows	Discount Rate	4.5% - 26.5%	9.7%
			Revenue CAGR	-3.0% - 45.5%	7.5%
			Book Value Multiple	8.5x - 9.3x	9.2x
			Exit Capitalization Rate	1.5% - 12.3%	6.1%
			Exit Multiple - EBITDA	0.1x - 15.2x	9.5x
			Exit Multiple - NOI	13.3x	N/A
	626	Market Comparable Companies	Book Value Multiple	1.1x	N/A
	10,755	Other	N/A	N/A	N/A
	609	Third Party Pricing	N/A	N/A	N/A
	37,798	Transaction Price	N/A	N/A	N/A
Debt Instruments	5,510	Discounted Cash Flows	Discount Rate	7.8% - 16.7%	9.7%
			Exit Capitalization Rate	3.9%	N/A
	93,648	Third Party Pricing	N/A	N/A	N/A
	1,918	Transaction Price	N/A	N/A	N/A
Assets of Consolidated CLO Vehicles	41	Discounted Cash Flows	Discount Rate	6.0%	N/A
	549,375	Third Party Pricing	N/A	N/A	N/A
Total Investments of Consolidated Blackstone Funds	1,170,658				
Corporate Treasury Investments	7,541	Discounted Cash Flows	Discount Rate	5.2% - 6.2%	5.6%
			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 + 400 bps	N/A
	9,497	Third Party Pricing	N/A	N/A	N/A
Loans and Receivables	353,494	Discounted Cash Flows	Discount Rate	4.4% - 12.9%	8.9%
	66,309	Transaction Price	N/A	N/A	N/A
Other Investments	27,758	Discounted Cash Flows	Discount Rate	0.8% - 9.6%	2.0%
			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
45,723	Transaction Price	N/A	N/A	N/A
$ 1,680,980				

41

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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

42

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)

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 as of the reporting date 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 have resulted in a lower (higher) fair value measurement. Increases (decreases) in any of the recovery rates and reinvestment rates in isolation would have resulted 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 could have resulted in a lower (higher) fair value measurement. Increases (decreases) in any of exit multiples and revenue compound annual growth rates in isolation could have resulted 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 Investment Income (Loss) or Net Gains from Fund Investment Activities in the Condensed Consolidated Statements of Operations.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

	Level III Financial Assets at Fair Value Three Months Ended September 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	$ 1,086,724	$ 346,603	$ 114,723	$ 1,548,050	$ 715,744	$ 306,279	$ 115,689	$ 1,137,712
Transfer In to Level III (b)	255,398		5,299	260,697	145,810		5,859	151,669
Transfer Out of Level III (b)	(221,162)		(11,192)	(232,354)	(62,821)		(721)	(63,542)
Purchases	156,527	347,890	15,754	520,171	300,037	241,006	3,250	544,293
Sales	(119,593)	(274,817)	(69,272)	(463,682)	(154,131)	(174,814)	(6,723)	(335,668)
Settlements		(8,397)		(8,397)		(4,469)	(370)	(4,839)
Changes in Gains Included in Earnings	12,764	8,524	35,207	56,495	27,116	3,730	3,232	34,078
Balance, End of Period	$ 1,170,658	$ 419,803	$ 90,519	$ 1,680,980	$ 971,755	$ 371,732	$ 120,216	$ 1,463,703
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at the Reporting Date	$ 8,229	$ 8,523	$ 5,431	$ 22,183	$ 20,207	$ 3,730	$ (446)	$ 23,491

	Level III Financial Assets at Fair Value Nine Months Ended September 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)	160,125		5,299	165,424	99,042		22,254	121,296
Transfer Out of Level III (b)	(117,372)		(26,909)	(144,281)	(138,299)		(18,732)	(157,031)
Purchases	590,153	718,811	35,567	1,344,531	584,519	578,711	24,853	1,188,083
Sales	(374,479)	(538,520)	(92,751)	(1,005,750)	(319,350)	(426,315)	(50,769)	(796,434)
Settlements		(17,376)	(4)	(17,380)		(8,362)	(1,463)	(9,825)

Changes in Gains Included in Earnings	49,999	17,229	49,675	116,903	63,948	16,339	13,485	93,772
Balance, End of Period	$ 1,170,658	$ 419,803	$ 90,519	$ 1,680,980	$ 971,755	$ 371,732	$ 120,216	$ 1,463,703
Changes in Unrealized Gains Included in Earnings Related to Investments Still Held at the Reporting Date	$ 11,670	$ 17,229	$ 5,049	$ 33,948	$ 19,854	$ 16,340	$ 16	$ 36,210

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

(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 nine months ended September 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.

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 nine months ended September 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:

	September 30, 2018	December 31, 2017
Investments	$ 941,393	$ 805,501
Accounts Receivable		15,760
Due from Affiliates	300,125	81,465
Total VIE Assets	1,241,518	902,726
Due to Affiliates	5,653	179
Potential Clawback Obligation	55,504	98,331

Maximum Exposure to Loss	$ 1,302,675	$ 1,001,236

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

10. REPURCHASE AGREEMENTS

At September 30, 2018, the Partnership pledged securities with a carrying value of $231.6 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.

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

	September 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	$	$ 56,636	$ 69,084	$ 73,768	$ 199,488
Gross Amount of Recognized Liabilities for Repurchase Agreements in Note 11. Offsetting of Assets and Liabilities					$ 199,488
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 September 30, 2018:

	Gross and Net Amounts of Assets Presented in the	Gross Amounts Not Offset in the Statement of Financial Condition

	Statement of Financial Condition	Financial Instruments (a)	Cash Collateral Received	Net Amount
Assets				
Freestanding Derivatives	$ 39,455	$ 36,084	$	$ 3,371

46

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

	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	$ 67,144	$ 58,129	$ 6,904	$ 2,111
Repurchase Agreements	199,488	199,488		
	$ 266,632	$ 257,617	$ 6,904	$ 2,111

(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:

	September 30, 2018	December 31, 2017
Furniture, Equipment and Leasehold Improvements, Net	$ 116,615	$ 126,566
Prepaid Expenses	96,170	78,723
Other Assets	19,064	32,965
Freestanding Derivatives	37,621	4,443
	$ 269,470	$ 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.

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)

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 September 30, 2018, the aggregate cash balance on deposit relating to the cash pooling arrangement was $1.4 billion, which was offset with an accompanying overdraft of $1.4 billion.

12. BORROWINGS

On September 21, 2018, Blackstone Holdings Finance Co. L.L.C. (the Issuer), an indirect subsidiary of the Partnership, entered into an amended and restated $1.6 billion revolving credit facility (the Credit Facility) with Citibank, N.A., as administrative agent, and the lenders party thereto. The amendment and restatement to the Issuer s existing credit facility, among other things, increased the amount of available borrowings and extended the maturity date from August 31, 2021 to September 21, 2023.

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.

	September 30, 2018		December 31, 2017	
Senior Notes	Carrying Value	Fair Value (a)	Carrying Value	Fair Value (a)
5.875%, Due 3/15/2021	$ 398,836	$ 421,560	$ 398,514	$ 438,320
4.750%, Due 2/15/2023	394,903	414,520	394,137	434,200
2.000%, Due 5/19/2025	343,899	359,434	355,425	385,433
1.000%, Due 10/5/2026	687,022	659,200	709,871	711,440
3.150%, Due 10/2/2027	296,637	274,230	296,399	295,320
6.250%, Due 8/15/2042	238,170	286,750	238,019	328,200
5.000%, Due 6/15/2044	488,693	499,900	488,536	574,100
4.450%, Due 7/15/2045	344,009	321,720	343,925	372,575
4.000%, Due 10/2/2047	290,119	261,330	289,989	296,940
	$ 3,482,288	$ 3,498,644	$ 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.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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:

	September 30, 2018			December 31, 2017		
	Borrowing Outstanding	Weighted-Average Interest Rate	Weighted-Average Remaining Maturity in Years	Borrowing Outstanding	Weighted-Average Interest Rate	Weighted-Average Remaining Maturity in Years
Senior Secured Notes	$ 6,532,488	3.85%	3.2	$ 10,689,240	2.35%	4.1
Subordinated Notes	331,735	(a)	N/A	894,367	(a)	N/A
	$ 6,864,223			$ 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.

Senior Secured Notes and Subordinated Notes comprise the following amounts:

	September 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	$ 6,524,248	$ 3,250	$ 3,273	$ 10,595,652	$ 1,000	$ 996
Subordinated Notes	223,882	111,659	65,259	743,554	53,400	40,390
	$ 6,748,130	$ 114,909	$ 68,532	$ 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 September 30, 2018 and December 31, 2017, the fair value of the consolidated CLO assets was $7.4 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 September 30, 2018 were as follows:

	Operating Borrowings	Blackstone Fund Facilities/CLO Vehicles	Total Borrowings
2018	$	$	$

2019			
2020			
2021	400,000		400,000
2022			
Thereafter	3,144,360	6,864,223	10,008,583
	$ 3,544,360	$ 6,864,223	$ 10,408,583

13. INCOME TAXES

Blackstone s effective tax rate was 2.7% and 6.7% for the three months ended September 30, 2018 and 2017, respectively, and 6.2% and 5.4% for the nine months ended September 30, 2018 and 2017, respectively.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

Blackstone s income tax provision was $26.8 million and $59.5 million for the three months ended September 30, 2018 and 2017, respectively, and $220.0 million and $146.6 million for the nine months ended September 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 nine months ended September 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.

14. NET INCOME PER COMMON UNIT

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Income for Per Common Unit Calculation				
Net Income Attributable to The Blackstone Group L.P., Basic	$ 442,742	$ 377,920	$ 1,552,656	$ 1,167,236
Incremental Net Income from Assumed Exchange of Blackstone Holdings Partnership Units	327,850	283,455	1,187,908	907,645
Net Income Attributable to The Blackstone Group L.P., Diluted	$ 770,592	$ 661,375	$ 2,740,564	$ 2,074,881
Units Outstanding				
Weighted-Average Common Units Outstanding, Basic	682,435,177	667,384,727	679,598,629	664,331,632
Weighted-Average Unvested Deferred Restricted Common Units	230,759	663,474	215,270	823,877
Weighted-Average Blackstone Holdings Partnership Units	523,212,047	532,454,091	529,299,345	534,937,167
Weighted-Average Common Units Outstanding, Diluted	1,205,877,983	1,200,502,292	1,209,113,244	1,200,092,676
Net Income Per Common Unit, Basic	$ 0.65	$ 0.57	$ 2.28	$ 1.76
Net Income Per Common Unit, Diluted	$ 0.64	$ 0.55	$ 2.27	$ 1.73
Distributions Declared Per Common Unit (a)	$ 0.58	$ 0.54	$ 1.78	$ 1.88

(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 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 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.

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 nine months ended September 30, 2017, no units were repurchased. During the three and nine months ended September 30, 2018, Blackstone repurchased 6.0 million and 8.2 million Blackstone common units, respectively, at a total cost of $218.4 million and $290.1 million, respectively. As of September 30, 2018, the amount remaining available for repurchases under this program was $709.9 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 nine months ended September 30, 2018, the Partnership recorded compensation expense of $73.7 million and $282.7 million, respectively, in relation to its equity-based awards with corresponding tax benefits of $11.7 million and $46.3 million, respectively. For the three and nine months ended September 30, 2017, the Partnership recorded compensation expense of $83.0 million and $262.8 million, respectively, in relation to its equity-based awards with corresponding tax benefits of $16.9 million and $53.7 million, respectively. As of September 30, 2018, there was $743.6 million of estimated unrecognized compensation expense related to unvested awards. This cost is expected to be recognized over a weighted-average period of 4.1 years.

Total vested and unvested outstanding units, including Blackstone common units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,202,105,411 as of September 30, 2018. Total outstanding phantom units were 49,858 as of September 30, 2018.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

A summary of the status of the Partnership s unvested equity-based awards as of September 30, 2018 and of changes during the period January 1, 2018 through September 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	7,914,072	32.13	4,697,672	32.39	9,408	36.87
Vested	(7,074,035)	34.76	(4,392,305)	30.02	(5,858)	36.25
Forfeited	(2,084,013)	37.27	(339,954)	30.74		
Balance, September 30, 2018	28,779,213	$ 34.39	8,985,387	$ 31.22	47,746	$ 36.70

Units Expected to Vest

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

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	24,889,558	3.6
Deferred Restricted Blackstone Common Units	7,628,833	2.4
Total Equity-Based Awards	32,518,391	3.3
Phantom Units	38,488	2.7

16. RELATED PARTY TRANSACTIONS
Affiliate Receivables and Payables

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

	September 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	$ 461,853	$ 410,877
Amounts Due from Portfolio Companies and Funds	522,048	587,955
Management Fees and Performance Allocations Due from Non-Consolidated Funds	556,752	594,484
Payments Made on Behalf of Non-Consolidated Entities	469,112	355,766
Investments Redeemed in Non-Consolidated Funds	6,397	77,943
Accrual for Potential Clawback of Previously Distributed Performance Allocations	1,475	1,112
	$ 2,017,637	$ 2,028,137

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

	September 30, 2018	December 31, 2017
Due to Affiliates		
Due to Certain Non-Controlling Interest Holders in Connection with the Tax Receivable Agreements	$ 785,782	$ 715,734
Distributions Received on Behalf of Certain Non-Controlling Interest Holders and Blackstone Employees	39,803	87,829
Distributions Received on Behalf of Blackstone Entities	1,104	38,789
Payments Made by Non-Consolidated Entities	83,944	51,249
Due to Note Holders of Consolidated CLO Vehicles	68,532	41,386
Accrual for Potential Repayment of Previously Received Performance Allocations	2,815	2,171
	$ 981,980	$ 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 September 30, 2018 and December 31, 2017, such investments aggregated $872.7 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 $21.2 million and $32.6 million for the three months ended September 30, 2018 and 2017, respectively, and $87.1 million and $83.1 million for the nine months ended September 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 $1.3 million and $1.1 million for the three months ended September 30, 2018 and 2017, respectively, and $3.8 million and $2.4 million for the nine months ended September 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 September 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

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

Executive Vice Chairman, and a Director of Blackstone, and another senior managing director; an aircraft owned as 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 $785.8 million over the next 15 years. The after-tax net present value of these estimated payments totals $296.9 million assuming a 15% discount rate and using Blackstone s most recent projections relating to the estimated timing of the benefit to be received. Future payments under the tax receivable agreements in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreements are not conditioned upon continued ownership of Blackstone equity interests by the pre-IPO owners and the others mentioned above.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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 $2.5 billion of investment commitments as of September 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 $564.1 million as of September 30, 2018 which includes $121.7 million of signed investment commitments for portfolio company acquisitions in the process of closing.

Contingencies

Guarantees

Certain of Blackstone s consolidated real estate funds guarantee payments to third parties in connection with the on-going business activities and/or acquisitions of their Portfolio Companies. There is no direct recourse to the Partnership to fulfill such obligations. To the extent that underlying funds are required to fulfill guarantee obligations, the Partnership s invested capital in such funds is at risk. Total investments at risk in respect of guarantees extended by consolidated real estate funds was $34.1 million as of September 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 September 30, 2018 was $191.8 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.

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

Contingent Obligations (Clawback)

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:

Segment	September 30, 2018 Blackstone Holdings	September 30, 2018 Current and Former Personnel	September 30, 2018 Total	December 31, 2017 Blackstone Holdings	December 31, 2017 Current and Former Personnel	December 31, 2017 Total
Credit	$ 1,340	$ 1,475	$ 2,815	$ 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 September 30, 2018, $712.4 million was held in segregated accounts for the purpose of meeting any clawback obligations of current and former personnel if such payments are required.

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 September 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 $6.9 billion, on an after-tax basis where applicable, of which Blackstone Holdings is potentially liable for $6.3 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

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)

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, 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, 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.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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

	Three Months Ended September 30, 2018				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total Segments
Revenues					
Management and Advisory Fees, Net					
Base Management Fees	$ 205,893	$ 254,088	$ 129,554	$ 132,071	$ 721,606
Transaction, Advisory and Other Fees, Net	21,709	45,678	766	5,791	73,944
Management Fee Offsets	(4,973)	(8,265)		(3,093)	(16,331)
Total Management and Advisory Fees, Net	222,629	291,501	130,320	134,769	779,219
Performance Revenues					
Realized Incentive Fees		5,898	3,847	55	9,800
Realized Performance Allocations	290,012	297,710	138	4,798	592,658
Unrealized Performance Allocations	242,613	31,877	13,171	11,270	298,931
Total Performance Revenues	532,625	335,485	17,156	16,123	901,389
Principal Investment Income					
Realized	44,408	16,197	2,024	2,991	65,620
Unrealized	19,140	269	8,474	821	28,704
Total Principal Investment Income	63,548	16,466	10,498	3,812	94,324
Interest and Dividend Revenue	13,258	18,556	6,672	11,450	49,936
Other	3,252	4,190	(639)	2,289	9,092
Total Revenues	835,312	666,198	164,007	168,443	1,833,960
Expenses					
Compensation	117,031	124,475	50,213	62,482	354,201
Performance Compensation					
Realized Incentive Fees		3,289	3,284	678	7,251
Realized Performance Allocations	106,401	89,879	1,314	2,848	200,442
Unrealized Performance Allocations	119,135	48,898	4,142	6,009	178,184
Total Compensation and Benefits	342,567	266,541	58,953	72,017	740,078
Interest Expense	12,139	13,584	6,459	8,741	40,923
Other Operating Expenses	36,654	39,787	20,753	31,551	128,745
Total Expenses	391,360	319,912	86,165	112,309	909,746
Economic Income	$ 443,952	$ 346,286	$ 77,842	$ 56,134	$ 924,214

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

	Three Months Ended September 30, 2017				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total Segments
Revenues					
Management and Advisory Fees, Net					
Base Management Fees	$ 182,764	$ 224,048	$ 129,410	$ 133,680	$ 669,902
Transaction, Advisory and Other Fees, Net	8,748	20,616	48	2,883	32,295
Management Fee Offsets	(1,088)	(4,232)	(28)	(4,867)	(10,215)
Total Management and Advisory Fees, Net	190,424	240,432	129,430	131,696	691,982
Performance Revenues					
Realized Incentive Fees		3,778	12,186	19,549	35,513
Realized Performance Allocations	101,918	307,932	2,031	23,113	434,994
Unrealized Performance Allocations	80,326	273,731	10,327	43,041	407,425
Total Performance Revenues	182,244	585,441	24,544	85,703	877,932
Principal Investment Income (Loss)					
Realized	7,077	44,449	1,316	7,346	60,188
Unrealized	17,300	(8,319)	12,723	(4,320)	17,384
Total Principal Investment Income	24,377	36,130	14,039	3,026	77,572
Interest and Dividend Revenue	9,046	15,461	5,316	8,062	37,885
Other	(8,346)	(13,108)	(5,859)	(6,831)	(34,144)
Total Revenues	397,745	864,356	167,470	221,656	1,651,227
Expenses					
Compensation	96,166	105,753	44,347	56,532	302,798
Performance Compensation					
Realized Incentive Fees		1,967	5,862	10,503	18,332
Realized Performance Allocations	48,019	104,112	1,022	9,352	162,505
Unrealized Performance Allocations	45,484	105,640	3,541	20,869	175,534
Total Compensation and Benefits	189,669	317,472	54,772	97,256	659,169
Interest Expense	10,804	15,028	6,763	8,154	40,749
Other Operating Expenses	32,166	33,256	17,958	23,237	106,617
Total Expenses	232,639	365,756	79,493	128,647	806,535
Economic Income	$ 165,106	$ 498,600	$ 87,977	$ 93,009	$ 844,692

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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

	Three Months Ended September 30, 2018			
	Revenues	Expenses	Other Income	Economic Income / Income Before Provision for Taxes (a)
Total Segments	$ 1,833,960	$ 909,746	$	$ 924,214
Adjustments				
Impact of Consolidation (b)	92,092	13,260	66,838	145,670
Amortization of Intangibles (c)	(387)	14,469		(14,856)
Intersegment Eliminations	(1,253)	(1,253)		
Transaction-Related Charges (d)	2,168	81,410		(79,242)
Total Adjustments	92,620	107,886	66,838	51,572
Blackstone Consolidated	$ 1,926,580	$ 1,017,632	$ 66,838	$ 975,786

	Three Months Ended September 30, 2017			
	Revenues	Expenses	Other Income	Economic Income / Income Before Provision for Taxes (a)
Total Segments	$ 1,651,227	$ 806,535	$	$ 844,692
Adjustments				
Impact of Consolidation (b)	84,928	31,715	63,448	116,661
Amortization of Intangibles (c)	(387)	10,957		(11,344)
Intersegment Eliminations	(1,877)	(1,877)		
Transaction-Related Charges (d)	1,467	57,181		(55,714)
Total Adjustments	84,131	97,976	63,448	49,603
Blackstone Consolidated	$ 1,735,358	$ 904,511	$ 63,448	$ 894,295

(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 Pátria, 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 actions.

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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

	September 30, 2018 and the Nine Months Then Ended				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total Segments
Revenues					
Management and Advisory Fees, Net					
Base Management Fees	$ 584,375	$ 730,294	$ 388,335	$ 418,673	$ 2,121,677
Transaction, Advisory and Other Fees, Net	45,583	92,625	1,923	11,791	151,922
Management Fee Offsets	(12,517)	(13,718)		(9,107)	(35,342)
Total Management and Advisory Fees, Net	617,441	809,201	390,258	421,357	2,238,257
Performance Revenues					
Realized Incentive Fees		21,667	18,905	1,298	41,870
Realized Performance Allocations	505,306	800,649	2,527	57,373	1,365,855
Unrealized Performance Allocations	1,138,203	97,741	28,162	103,588	1,367,694
Total Performance Revenues	1,643,509	920,057	49,594	162,259	2,775,419
Principal Investment Income (Loss)					
Realized	83,346	81,086	10,430	14,098	188,960
Unrealized	120,755	(25,088)	4,073	(4,932)	94,808
Total Principal Investment Income	204,101	55,998	14,503	9,166	283,768
Interest and Dividend Revenue	33,350	48,178	16,636	29,884	128,048
Other	13,511	13,150	6,692	9,261	42,614
Total Revenues	2,511,912	1,846,584	477,683	631,927	5,468,106
Expenses					
Compensation	320,558	346,898	148,599	191,863	1,007,918
Performance Compensation					
Realized Incentive Fees		11,319	11,473	864	23,656
Realized Performance Allocations	207,959	253,295	4,666	32,982	498,902
Unrealized Performance Allocations	491,684	76,698	9,100	45,128	622,610
Total Compensation and Benefits	1,020,201	688,210	173,838	270,837	2,153,086
Interest Expense	35,045	39,122	18,630	25,249	118,046
Other Operating Expenses	103,852	105,230	58,032	91,189	358,303
Total Expenses	1,159,098	832,562	250,500	387,275	2,629,435
Economic Income	$ 1,352,814	$ 1,014,022	$ 227,183	$ 244,652	$ 2,838,671

Segment Assets	$ 8,152,986	$ 7,572,396	$ 2,216,436	$ 4,014,282	$ 21,956,100

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

	Nine Months Ended September 30, 2017				
	Private Equity	Real Estate	Hedge Fund Solutions	Credit	Total Segments
Revenues					
Management and Advisory Fees, Net					
Base Management Fees	$ 537,154	$ 649,792	$ 386,576	$ 410,706	$ 1,984,228
Transaction, Advisory and Other Fees, Net	42,213	57,982	2,003	9,211	111,409
Management Fee Offsets	(17,031)	(12,800)	(28)	(27,379)	(57,238)
Total Management and Advisory Fees, Net	562,336	694,974	388,551	392,538	2,038,399
Performance Revenues					
Realized Incentive Fees		11,538	32,821	77,968	122,327
Realized Performance Allocations	882,767	1,217,246	3,075	46,950	2,150,038
Unrealized Performance Allocations	(104,143)	355,373	43,991	83,833	379,054
Total Performance Revenues	778,624	1,584,157	79,887	208,751	2,651,419
Principal Investment Income (Loss)					
Realized	129,539	221,627	909	11,894	363,969
Unrealized	(49,114)	(112,691)	42,594	4,493	(114,718)
Total Principal Investment Income	80,425	108,936	43,503	16,387	249,251
Interest and Dividend Revenue	23,629	42,048	13,987	20,420	100,084
Other	(26,270)	(39,223)	(18,189)	(21,218)	(104,900)
Total Revenues	1,418,744	2,390,892	507,739	616,878	4,934,253
Expenses					
Compensation	270,445	318,721	139,312	168,604	897,082
Performance Compensation					
Realized Incentive Fees		6,011	16,973	38,845	61,829
Realized Performance Allocations	292,712	408,580	1,590	21,839	724,721
Unrealized Performance Allocations	28,347	187,686	15,931	38,013	269,977
Total Compensation and Benefits	591,504	920,998	173,806	267,301	1,953,609
Interest Expense	31,959	44,450	19,994	24,090	120,493
Other Operating Expenses	88,519	97,499	50,655	72,244	308,917
Total Expenses	711,982	1,062,947	244,455	363,635	2,383,019
Economic Income	$ 706,762	$ 1,327,945	$ 263,284	$ 253,243	$ 2,551,234

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

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

	September 30, 2018 and the Nine Months Then Ended				
	Revenues	Expenses	Other Income	Economic Income / Income Before Provision for Taxes (a)	Total Assets
Total Segments	$ 5,468,106	$ 2,629,435	$	$ 2,838,671	$ 21,956,100
Adjustments					
Impact of Consolidation (b)	278,368	99,447	250,956	429,877	8,504,257
Amortization of Intangibles (c)	(1,161)	43,441		(44,602)	
Intersegment Eliminations	(3,887)	(3,887)			
Transaction-Related Charges (d)	586,855	248,508		338,347	
Total Adjustments	860,175	387,509	250,956	723,622	8,504,257
Blackstone Consolidated	$ 6,328,281	$ 3,016,944	$ 250,956	$ 3,562,293	$ 30,460,357

	Nine Months Ended September 30, 2017			
	Revenues	Expenses	Other Income	Economic Income / Income Before Provision for Taxes (a)
Total Segments	$ 4,934,253	$ 2,383,019	$	$ 2,551,234
Adjustments				
Impact of Consolidation (b)	244,070	112,423	239,634	371,281
Amortization of Intangibles (c)	(1,161)	32,871		(34,032)
Intersegment Eliminations	(4,944)	(4,944)		
Transaction-Related Charges (d)	13,584	184,108		(170,524)
Total Adjustments	251,549	324,458	239,634	166,725
Blackstone Consolidated	$ 5,185,802	$ 2,707,477	$ 239,634	$ 2,717,959

(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 Pátria, 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

Table of Contents

THE BLACKSTONE GROUP L.P.

Notes to Condensed Consolidated Financial Statements Continued

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

actions. During the nine months ended September 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 September 30, 2018 that require recognition or disclosure in the Condensed Consolidated Financial Statements.

Table of Contents

ITEM 1A. UNAUDITED SUPPLEMENTAL PRESENTATION OF STATEMENTS OF FINANCIAL CONDITION
THE BLACKSTONE GROUP L.P.

Unaudited Consolidating Statements of Financial Condition

(Dollars in Thousands)

	September 30, 2018			
	Consolidated Operating Partnerships	Consolidated Blackstone Funds (a)	Reclasses and Eliminations	Consolidated
Assets				
Cash and Cash Equivalents	$ 1,937,963	$	$	$ 1,937,963
Cash Held by Blackstone Funds and Other		408,561		408,561
Investments	14,263,255	8,503,423	(671,758)	22,094,920
Accounts Receivable	601,405	274,242		875,647
Due from Affiliates	2,033,401	9,891	(25,655)	2,017,637
Intangible Assets, Net	366,368			366,368
Goodwill	1,778,192			1,778,192
Other Assets	263,917	5,553		269,470
Deferred Tax Assets	711,599			711,599
Total Assets	$ 21,956,100	$ 9,201,670	$ (697,413)	$ 30,460,357
Liabilities and Partners Capital				
Loans Payable	$ 3,482,288	$ 6,679,598	$	$ 10,161,886
Due to Affiliates	860,487	524,325	(402,832)	981,980
Accrued Compensation and Benefits	3,414,215			3,414,215
Securities Sold, Not Yet Purchased	48,104	118,205		166,309
Repurchase Agreements		199,488		199,488
Accounts Payable, Accrued Expenses and Other Liabilities	563,879	265,617		829,496
Total Liabilities	8,368,973	7,787,233	(402,832)	15,753,374
Redeemable Non-Controlling Interests in Consolidated Entities	22,070	131,434		153,504
Partners Capital				
Partners Capital	7,024,079	294,581	(294,581)	7,024,079
Accumulated Other Comprehensive Loss	(36,562)			(36,562)
Non-Controlling Interests in Consolidated Entities	2,684,713	988,422		3,673,135
Non-Controlling Interests in Blackstone Holdings	3,892,827			3,892,827
Total Partners Capital	13,565,057	1,283,003	(294,581)	14,553,479
Total Liabilities and Partners Capital	$ 21,956,100	$ 9,201,670	$ (697,413)	$ 30,460,357

continued

Table of Contents

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.

BSSF I AIV L.P.

66

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.

Table of Contents

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 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 third quarter of 2018 was characterized by continued global economic expansion, particularly in the U.S., despite growing concerns over rising interest rates, trade protectionism and emerging market weakness. Strong U.S. economic growth and corporate earnings led the S&P 500 higher during the quarter, up 8%, its largest quarterly advance in five years. In the third quarter, the MSCI World Index rose 5%, the MSCI World excluding the U.S. Index increased 1% and the MSCI Europe and Asia indices were both flat. Emerging market equities underperformed, with the MSCI Emerging Markets Index down 2% for the quarter. Subsequent to the end of the third quarter, however, U.S. and other global equity markets experienced a sharp decline amid concerns of potentially slowing economic growth for the fourth quarter and into 2019. After declining 25% in the third quarter, the Cboe Volatility Index rose sharply in October concurrent with the sharp decline in global equity markets.

Despite positive momentum in the U.S., the global growth cycle has become less synchronized with signs of slowing in Europe, Japan and China. For example, in the third quarter of 2018, China s economy grew at 6.5%, its weakest year-over-year quarterly growth since the first quarter of 2009 during the global financial crisis. In the U.S., the Bureau of Economic Analysis initial report on third quarter 2018 GDP indicated growth of 3.5%, representing a deceleration in growth from the second quarter, as most economists expected. U.S. monetary policy continues to tighten as the U.S. Federal Reserve raised interest rates in September for the eighth time since December 2015, with the current target range set at 2.0 to 2.25%. Ten-year U.S. Treasury yields rose to 3.06% in the quarter and exceeded 3.2% subsequent to quarter end, 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 flat, U.S. investment grade corporates were down 0.5% and high yield corporates advanced 2.4% for the quarter. High yield spreads tightened by 40 basis points during the quarter, near their lowest level since 2008, while issuances fell 27% year over year.

In the U.S., the unemployment rate fell to 3.7% in September, its lowest level since 1969, and weekly wages rose at an annualized 3.3% in the third quarter of 2018, higher than the 2.6% increase in inflation over the same period.

Global equity issuance for both initial public offerings and follow-on offerings slowed, with the first nine months of the year down 6% year over year, marking the slowest nine-month period since 2016. Global merger and acquisition volume reached a record $3.2 trillion for the first nine months of the year, but declined 35% quarter over quarter, reflecting ongoing concerns over trade and antitrust policy.

Energy was modestly weaker during the quarter and the S&P 500 Energy Index was flat. The price of crude oil fell slightly, with West Texas Intermediate Crude down 1% to $73 per barrel, still well below historical averages, while the Henry Hub Natural Gas spot price rose 3%. Spot prices for other commodities declined, with the Bloomberg Commodity Index down 3% during the quarter.

In the near term, most economists expect continued steady economic growth and the continued normalization of monetary policy in the U.S, although global trade tensions, increasing interest rates and rising geopolitical instability present ongoing concerns.

Table of Contents

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 each of August 6, 2018 and November 5, 2018.

On September 21, 2018, Blackstone Holdings Finance Co L.L.C., an indirect subsidiary of the Partnership, entered into an amended and restated $1.6 billion revolving credit facility. The amendment and restatement to the Issuer s credit facility, among other things, increased the amount of available borrowings and extended the maturity date from August 31, 2021 to September 21, 2023.

On October 4, 2018, Blackstone announced an agreement to acquire Clarus Ventures, LLC and certain of its affiliates (Clarus), a leading global life sciences investment firm that has raised $2.6 billion since its founding. Clarus is focused on funding growth-stage investments, often in partnership with major biopharmaceutical companies through research and development collaborations (the Clarus Acquisition). The Clarus Acquisition launches Blackstone Life Sciences, a private investment platform with capabilities to invest across the life-cycle of companies and products within the key life sciences sectors. The Clarus Acquisition is expected to close in the fourth quarter of 2018, subject to customary closing conditions. Once the Clarus Acquisition closes, Clarus will be included in our Private Equity segment.

Table of Contents

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.

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

Table of Contents

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 Blackstone s 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.

Table of Contents

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.

Table of Contents

Expenses

Compensation and Benefits Compensation Compensation consists of (a) 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, and expensed over the vesting period on a straight-line basis, taking into consideration expected forfeitures, 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 criteria making them eligible for retirement (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.

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 measured and received on a recurring basis and not subject to future realization events. Fee Related Earnings equals management and advisory fees (net of management fee reductions and offsets) plus Fee Related Net Performance Revenues, less (a) cash compensation expense directly related to earning those revenues, 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.

Fee Related Net Performance Revenues refers to the realized portion of Performance Revenues from Perpetual Capital that are (a) measured and received on a recurring basis and (b) not dependent on realization events from the underlying investments (Fee Related Performance Revenues), net of directly related cash compensation expense.

Performance Revenues collectively refers to: (a) Incentive Fees and (b) Performance Allocations. Performance Compensation collectively refers to: (a) Incentive Fee Compensation and (b) Performance Allocations Compensation.

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 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 .

Table of Contents

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,

(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.

Perpetual Capital. Perpetual Capital refers to the component of assets under management with an indefinite term, that is not in liquidation, and for which there is no requirement to return capital to investors through redemption requests in the ordinary course of business, except where funded by new capital inflows. Perpetual Capital includes co-investment capital with an investor right to convert into Perpetual Capital.

Limited Partner Capital Invested. Limited Partner Capital Invested represents the aggregate amount of third party capital invested by our funds and vehicles, including investments closed but not yet funded by investors during each period presented, including (a) capital invested by our carry and drawdown funds and vehicles, (b) certain perpetual capital invested including undistributed proceeds that are reinvested, and (c) capital invested through fee-paying co-investments made by third parties in investments of our carry and perpetual funds and vehicles.

Dry Powder. Dry Powder represents the amount of capital available for investment or reinvestment, including general partner and employee capital, is known as dry powder and is an indicator of the capital we have available for future investments.

Performance Revenue Eligible Assets Under Management. Performance Revenue Eligible Assets Under Management represents invested and to be invested capital at fair value, including capital closed for funds whose investment period has not yet commenced, on which performance fees could be earned if certain hurdles are met.

Consolidated Results of Operations

Following is a discussion of our consolidated results of operations for the three and nine months ended September 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.

81

Table of Contents

The following table sets forth information regarding our consolidated results of operations and certain key operating metrics for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		2018 vs. 2017		Nine Months Ended September 30,		2018 vs. 2017	
	2018	2017	$	%	2018	2017	$	%
	(Dollars in Thousands)							
Revenues								
Management and Advisory Fees, Net	$ 780,009	$ 685,922	$ 94,087	14%	$ 2,230,242	$ 2,022,263	$ 207,979	10%
Incentive Fees	9,799	35,513	(25,714)	-72%	41,743	122,327	(80,584)	-66%
Investment Income								
Performance Allocations								
Realized	592,103	434,982	157,121	36%	1,365,119	2,149,549	(784,430)	-36%
Unrealized	299,238	406,649	(107,411)	-26%	1,367,678	377,560	990,118	262%
Principal Investments								
Realized	134,619	74,805	59,814	80%	305,961	451,207	(145,246)	-32%
Unrealized	52,840	96,085	(43,245)	-45%	268,082	63,172	204,910	324%
Total Investment Income	1,078,800	1,012,521	66,279	7%	3,306,840	3,041,488	265,352	9%