Welcome.

ANNUAL REPORT NO. 1

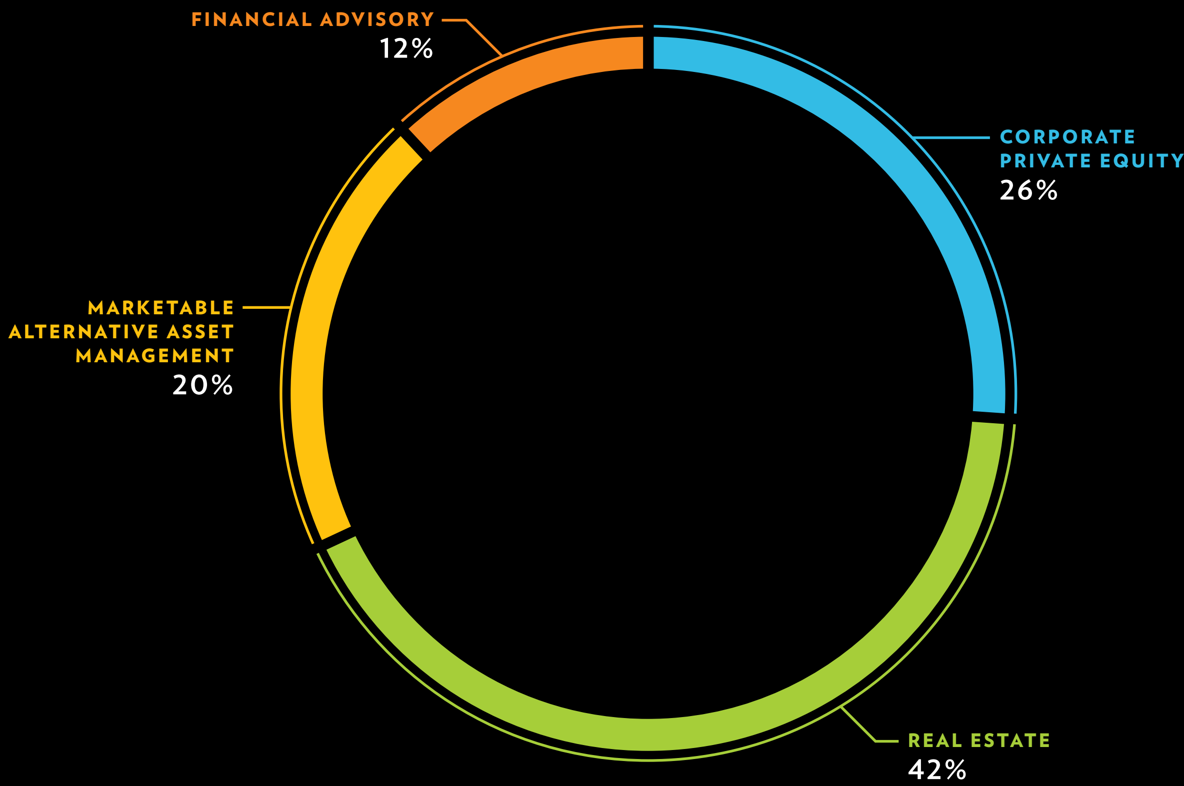
The Blackstone Group®


This is Blackstone.

We are one of the world's leading investment and advisory firms. We seek to create positive economic impact and long-term value for our investors, the companies we invest in, the companies we advise and the broader global economy.

previous page: *Blackstone employees in the plaza of our New York Headquarters at 345 Park Avenue.*

Pro Forma Adjusted Segment Revenues (Year Ended December 31, 2007)



CORPORATE PRIVATE EQUITY

Corporate Private Equity is the business upon which Blackstone built its global brand name and reputation. Established in 1987, our Corporate Private Equity segment manages the world's largest Corporate Private Equity fund. With an exclusive focus on friendly transactions and on partnering with accomplished management teams and major corporations to drive results, we have consistently been ranked among the top-performing corporate private equity funds.

Assets Under Management *(December 31, 2007)*	$31.8 billion
Pro Forma Adjusted Segment Revenues *(Year Ended December 31, 2007)*	$821.3 million

REAL ESTATE

Our Real Estate business is a global investor in hotels, office buildings and a wide variety of other property types. We are currently the largest owner of hotels in the world, and one of the largest owners of office buildings in the U.S. Our focus is on acquiring institutional quality assets and adding value with our in-house experts and skilled real estate operators. Blackstone's Real Estate business has been a top performer in this asset category since 1992.

Assets Under Management *(December 31, 2007)*	$26.1 billion
Pro Forma Adjusted Segment Revenues *(Year Ended December 31, 2007)*	$1.3 billion

MARKETABLE ALTERNATIVE ASSET MANAGEMENT

The Marketable Alternative Asset Management (MAAM) segment manages funds of hedge funds, corporate debt investments and proprietary hedge funds with the objective of generating superior risk-adjusted returns for our investors. MAAM also manages two closed-end mutual funds focused on investments in India and Asia, two of the world's fastest growing regions.

Assets Under Management *(December 31, 2007)*	$44.5 billion
Pro Forma Adjusted Segment Revenues *(Year Ended December 31, 2007)*	$628.0 million

FINANCIAL ADVISORY

Blackstone's Financial Advisory group draws upon our team's world-class experience in transactions and financing to provide independent advice on corporate mergers and acquisitions, as well as bankruptcies and restructurings. Through our Park Hill Group, we also provide fund placement services for other alternative asset managers.

Pro Forma Adjusted Segment Revenues *(Year Ended December 31, 2007)*	$367.7 million

Corporate Private Equity

Seeing Opportunity

CAPITAL RAISED SINCE 1987

OVER $35 BILLION

IN THE LAST FIVE YEARS

42,000 NEW JOBS ADDED

BEGINNING WITH OUR FIRST Corporate Private Equity fund in 1987, Blackstone has built one of the world's largest and most highly respected corporate private equity businesses. At the end of last year, our Corporate Private Equity funds had assets under management of $31.8 billion, and the segment generated pro forma adjusted revenues of $821.3 million in 2007. Our investment performance in private equity has consistently placed Blackstone among the top private equity fund managers.

We are proud of Blackstone's role as a positive economic catalyst for the companies in our Corporate Private Equity portfolio. Over the last five years, the companies in our portfolio have added 42,000 net new jobs and substantially increased their investments in research, new product development and capital expenditures. We work to identify, invest in and enhance the value of great businesses. We seek to attract strong management teams, create incentives for exceptional performance, actively involve ourselves in a company's growth strategies and its plans for operational improvements and promote a long-range perspective. Our transactions include not only leveraged buyout acquisitions but also start-ups, growth equity, turnarounds, partnerships with corporations and industry consolidations.

Global in scope, our Corporate Private Equity group has offices in New York, London, Mumbai and Hong Kong. As of December 31, 2007, our Corporate Private Equity funds held interests in 44 companies. Taken together, these businesses have total revenues of $94 billion, would rank in the top 13 of the Fortune 500 and have total employment of roughly 520,000.

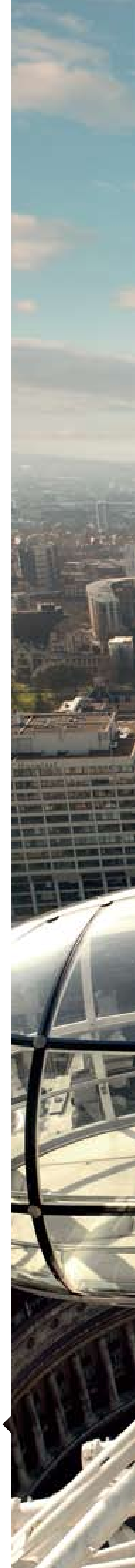


photo: *The London Eye, one of the 51 attractions owned by Merlin Entertainment Group—a Blackstone portfolio company.*

Entertaining Dreams of Growth

Merlin Entertainment Group is the world's second largest owner of leisure attractions, with such brands as Legoland, Madame Tussauds, the London Eye and Sea Life Centers. The growth of Merlin's business, aided by Blackstone's Corporate Private Equity group, has been anything but leisurely. We started with an equity investment of $50 million and now have $309 million of equity invested; revenues in Merlin at the time of the investment were $86 million and are now $1.1 billion.

In 2005 Blackstone joined forces with the company's management to acquire Merlin, a growing business with high returns on capital, known mostly for the Sea Life aquarium. We saw the opportunity to build a global leisure attraction portfolio by consolidating entertainment assets worldwide.

The group soon bought Legoland Parks—creating Europe's second largest visitor attraction business. The synergies between its businesses enabled Merlin to improve profitability dramatically at the Legoland properties. In 2006, the group acquired Gardaland, Italy's leading theme park. Merlin's next purchase, The Tussauds Group, added the world-renowned Madame Tussauds, London Eye and other top destinations. Today, Merlin's 51 attractions in 12 countries draw 32 million visitors a year.

Blackstone and the Merlin team have the "magic touch" for growing the business. Since the original acquisition, with financing from Blackstone, Merlin has opened or acquired 25 attractions and six hotels, and made major improvements at existing properties. Future plans include more attractions, new marketing programs and destination resorts at some theme parks—bringing economic vitality to surrounding communities, creating jobs and delighting families.

"Merlin is a very special company and the management team has always had a profound belief in its potential to be a world leader. Blackstone's vision, financial strength and negotiating expertise have helped make this a reality," said Nick Varney, Merlin's CEO.

photo: *Nicole Kidman's wax likeness, added in 2007 to Madame Tussauds London Museum, one of the 51 unique attractions owned by Merlin Entertainment Group.*

Real Estate

Making Improvements

56%

COMPOUNDED ANNUAL GROWTH IN ASSETS UNDER MANAGEMENT IN THE LAST FIVE YEARS

A GLOBAL PORTFOLIO WITH 52 MILLION SQ. FT. OF OFFICE SPACE AND

615,000 HOTEL ROOMS

BLACKSTONE'S REAL ESTATE GROUP has $26.1 billion in assets under management as of December 31, 2007, and manages one of the world's largest real estate investment funds. Pro forma adjusted segment revenues for 2007 were $1.3 billion. Our Real Estate operation has consistently turned in one of the top investment performances in its asset class.

In seeking to create value through our global real estate holdings, we focus first and foremost on acquiring quality assets at below replacement cost. We then apply the expertise of our own team of asset management professionals, as well as proven real estate operators, to execute well-defined strategies that include property upgrades, enhanced operations and strengthened marketing efforts. In the hospitality industry, for example, we build on our expertise in every facet of hotel operations to add value in areas such as reservation systems and other technologies, yield management and the introduction of amenities such as spas and resort facilities.

Today, our Real Estate business is the largest owner, operator and franchisor of hotels in the world, with approximately 3,800 individual properties totaling around 615,000 rooms. Our hotel brands cover all segments of the industry, ranging from limited service to super-luxury. We also have become one of the largest owners of office buildings in the U.S., with approximately 52 million sq. ft. of office space. Additional holdings include retail properties, distribution and warehousing facilities and a variety of real estate operating companies.

photo: *The lobby of the Conrad Tokyo, a luxury property managed by Hilton Hotels Corporation—a Blackstone portfolio company.*

Reinvigorating Premiere Destinations

As one of the world's most active hotel investors, Blackstone's Real Estate group knows how to create an environment hospitable to growth. One of the group's key strategies has been the acquisition of quality resort hotels whose value can be enhanced through strong management, capital investment and better market positioning.

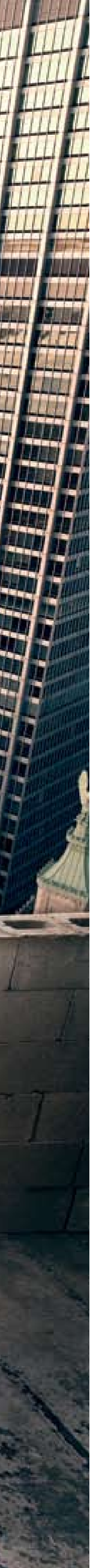
LXR Luxury Resorts & Hotels is a product of that strategy. In 2004, Blackstone began assembling a collection of prestigious beachfront resorts in Florida and Puerto Rico by acquiring public companies such as Boca Resorts, Wyndham and MeriStar, as well as other "trophy" properties in the U.S. and in Europe. Their prime locations, limited availability of land, high construction costs and zoning restrictions gave these properties enormous cachet and scarcity value.

Many of these properties were combined to create LXR, which now manages 29 hotels and almost 10,000 rooms, and includes iconic assets such as the Boca Raton Resort & Club and the El San Juan Hotel & Casino. With the acquisition of Hilton Hotels in October 2007, the Waldorf Astoria joined the portfolio.

Blackstone has now invested nearly $1.5 billion to revitalize, reposition and enhance the value of LXR's portfolio. Investments have included renovated lobbies and guest rooms, new restaurants and amenities, and improved yield management, purchasing and marketing programs. These actions transformed not only the individual properties, but also the surrounding communities, creating an economic stimulus and a significant number of new jobs.

"Blackstone has invested an enormous amount in long-term capital improvements in LXR properties," said Joe Berger, Co-President of LXR. "Their vision and support will give us a distinct competitive advantage in the marketplace."

photo: *The newly refurbished Boca Raton Resort & Club, a landmark destination managed by LXR – a Blackstone portfolio company.*



Marketable Alternative Asset Management

Building Assets

$44.5 BILLION

ASSETS UNDER MANAGEMENT

OVER $600 MILLION

MANAGED FOR UNION PENSION FUNDS

OUR MARKETABLE ALTERNATIVE ASSET MANAGEMENT (MAAM) segment strives to produce superior risk-adjusted returns for investors through a diverse range of strategies and funds. Activities include funds of hedge funds, mezzanine funds, proprietary hedge funds, investments in distressed securities, senior debt vehicles, credit opportunity funds and closed-end mutual funds. This business had a total of $44.5 billion in assets under management at the end of 2007. Pro forma adjusted segment revenues were $628.0 million for the past year.

Within the MAAM segment, our funds of hedge funds operation is one of the leading managers of hedge funds for institutional investors. We select top-performing non-traditional asset managers with an eye toward diversification, superior risk-adjusted returns and a focus on downside protection. Blackstone also sponsors a variety of proprietary hedge funds, with specialties in both credit and equities. We manage and advise The India Fund, which is the largest U.S.-based closed-end mutual fund investing in India, and The Asia Tigers Fund, another closed-end mutual fund which invests in equity securities of Asian companies.

Corporate debt investment is another strong specialty of our MAAM group. A major participant in the leveraged finance markets, our team invests in a range of mezzanine debt and senior debt vehicles. With our 2008 acquisition of GSO Capital Partners, a respected asset manager focused on leveraged finance, we have substantially enhanced Blackstone's capacity to take advantage of today's compelling opportunities in the credit markets.

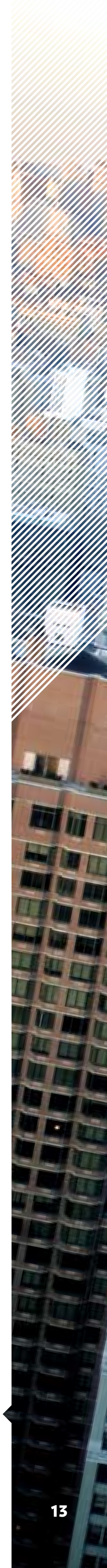


photo: *Taft-Hartley clients trust Blackstone to grow their pension fund assets.*

Securing the Fruits of Labor

Corporate and public pension funds are among the largest clients of Blackstone's Marketable Alternative Asset Management (MAAM) group. For these investors—and their millions of members—Blackstone works hard to preserve their assets and generate the returns needed to support a wide variety of employee benefit programs.

Taft-Hartley funds, which provide unionized employees with pension and other benefits, are increasingly turning to Blackstone to manage their hard-earned pension assets. These funds were among the fastest-growing segments of MAAM's client base in 2007. The 13 new Taft-Hartley clients added in 2007 represented a broad cross-section of the U.S. labor force, including carpenters, electrical workers, bakers, teamsters, musicians, operating engineers, plumbers, pipe fitters, mason tenders, asbestos workers, roofers, hotel workers and service employees. These funds have entrusted Blackstone with well in excess of $600 million in assets.

Blackstone's pension strategy strives first and foremost to protect clients' assets from the risk of substantial loss in turbulent markets without sacrificing returns. The flagship fund has provided millions of workers with the security that they require, while generating net returns in 2007 more than double those of the S&P 500.

As the U.S. population ages, increasing numbers of employees will reach retirement and begin drawing upon their pension benefits—making it all the more critical that pension funds have secure financial backing. At Blackstone, employing sound asset management strategies is the key to building a secure future for pension fund members.

"We consider Blackstone to be a 'best of breed' provider of innovative, customized, alternative investment solutions and an invaluable source of reliable, independent, investment advice," said John Winchester, Chief Investment Officer of the Pennsylvania State Employees' Retirement System (PA SERS).

photo: *Public pension funds are among the largest clients of Blackstone's MAAM group*

Financial Advisory

Providing Perspective

TRUSTED CORPORATE M&A ADVISOR

FOR OVER 22 YEARS

ADVISED IN OVER 150

DISTRESSED SITUATIONS

ASSISTED CLIENTS IN RAISING

$66 BILLION

BLACKSTONE DRAWS UPON ITS EXPERIENCE and global perspective in corporate transactions to provide independent financial advisory services in areas such as mergers and acquisitions and restructurings and reorganizations. Another aspect of our Financial Advisory business is providing fund placement services. Financial Advisory pro forma adjusted segment revenues for 2007 totaled $367.7 million.

Our corporate and mergers and acquisitions practice has been a trusted source of financial and corporate M&A advisory services for over 22 years. We provide advisory services along with a wide range of transaction execution capabilities in the areas of acquisitions, mergers, joint ventures, minority investments, asset swaps, divestitures, takeover defenses and distressed sales. As a principal investor and a major source of financing ourselves, we are uniquely positioned to offer insights from the owner's perspective that maximize the value of these transactions.

Blackstone's restructuring and reorganization advisory group is a leading advisor to companies and creditors in distressed situations. With particular expertise in large, complex and high-profile reorganizations, we have been involved in over 150 bankruptcies and restructurings.

Park Hill Group provides fund placement services for non-Blackstone alternative asset managers, such as corporate private equity funds, real estate funds, hedge funds and venture capital funds. Since 2005, Park Hill has assisted its clients in raising an aggregate of $66 billion.

photo: *The Times Square facade of Reuters New York – a Blackstone advisory client.*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Launching a New Spirit

Blackstone's Financial Advisory group provided Delta Air Lines with a runway for recovery and growth. Facing significant challenges related to its cost structure, capital structure and fleet configuration, as well as high fuel costs and reduced air travel demand, Delta retained Blackstone as its financial advisor in connection with its Chapter 11 filing.

Blackstone worked with Delta to develop a long-term business plan and engineer a dramatic operating transformation. The comprehensive plan involved eliminating unprofitable routes and aircraft, improving revenue through better utilization of remaining aircraft, reducing expenses, addressing pension obligations and restructuring debt.

In addition, Blackstone helped formulate and negotiate proposals to Delta's pilots' union and unsecured creditors, and was integrally involved in structuring a settlement with the Pension Benefit Guaranty Corporation regarding the pilots' pension plan. In the midst of these efforts, Blackstone also helped to defend Delta against an unsolicited takeover attempt by US Airways. Finally, Blackstone helped the carrier raise $5.3 billion of capital to operate during bankruptcy and following its exit from Chapter 11.

In April 2007, Delta emerged from Chapter 11 as a transformed airline with a strong position in its market. Delivering on its strategic plan, Delta improved its annualized operating cash flow run rate by approximately $3 billion, while eliminating more than $9 billion in debt and lease obligations. Delta's accomplishments also were recognized by the market—its equity market value upon exiting Chapter 11 was over $4 billion—the largest ever for a company emerging from bankruptcy.

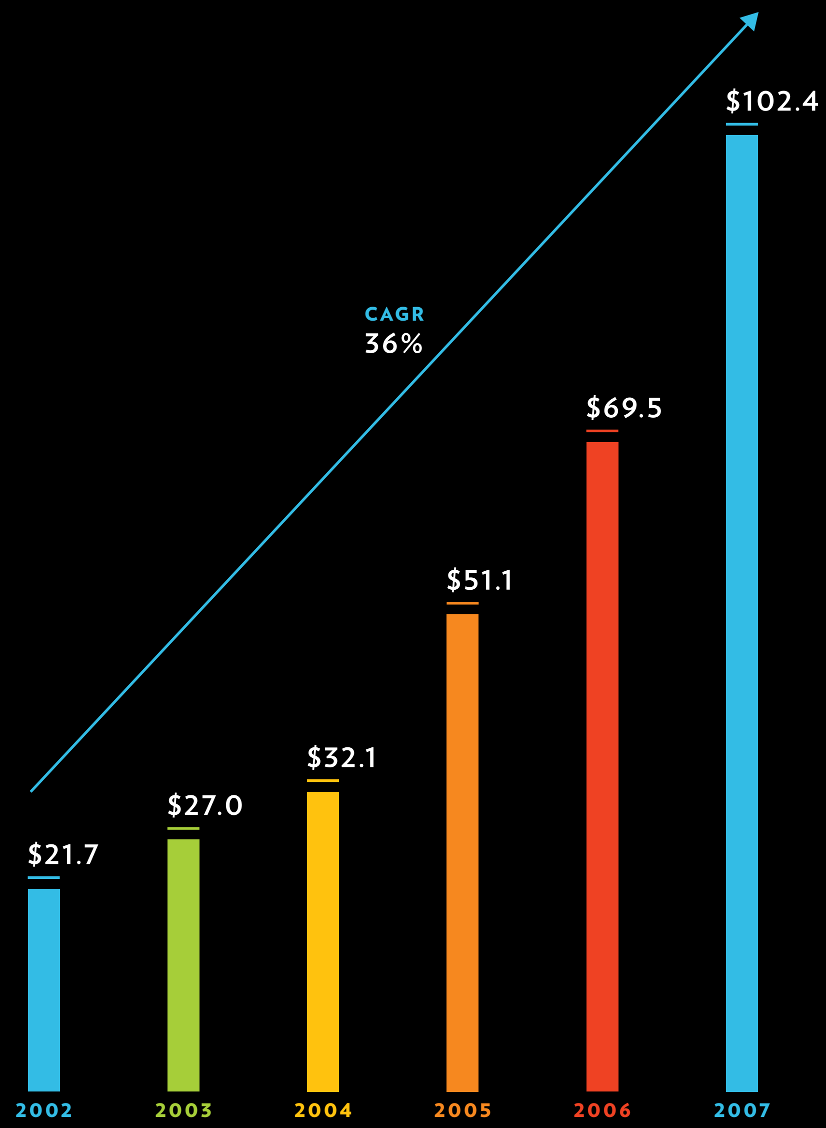
"The Blackstone team brought us senior-level attention, great business judgment and tremendous insight into the markets," said Ed Bastian, President and CFO of Delta Air Lines.

photo: *Delta's first 777 aircraft, christened* The Delta Spirit*, is a monumental symbol of the airline's 2007 recovery from bankruptcy.*


Delta

ASSETS UNDER MANAGEMENT

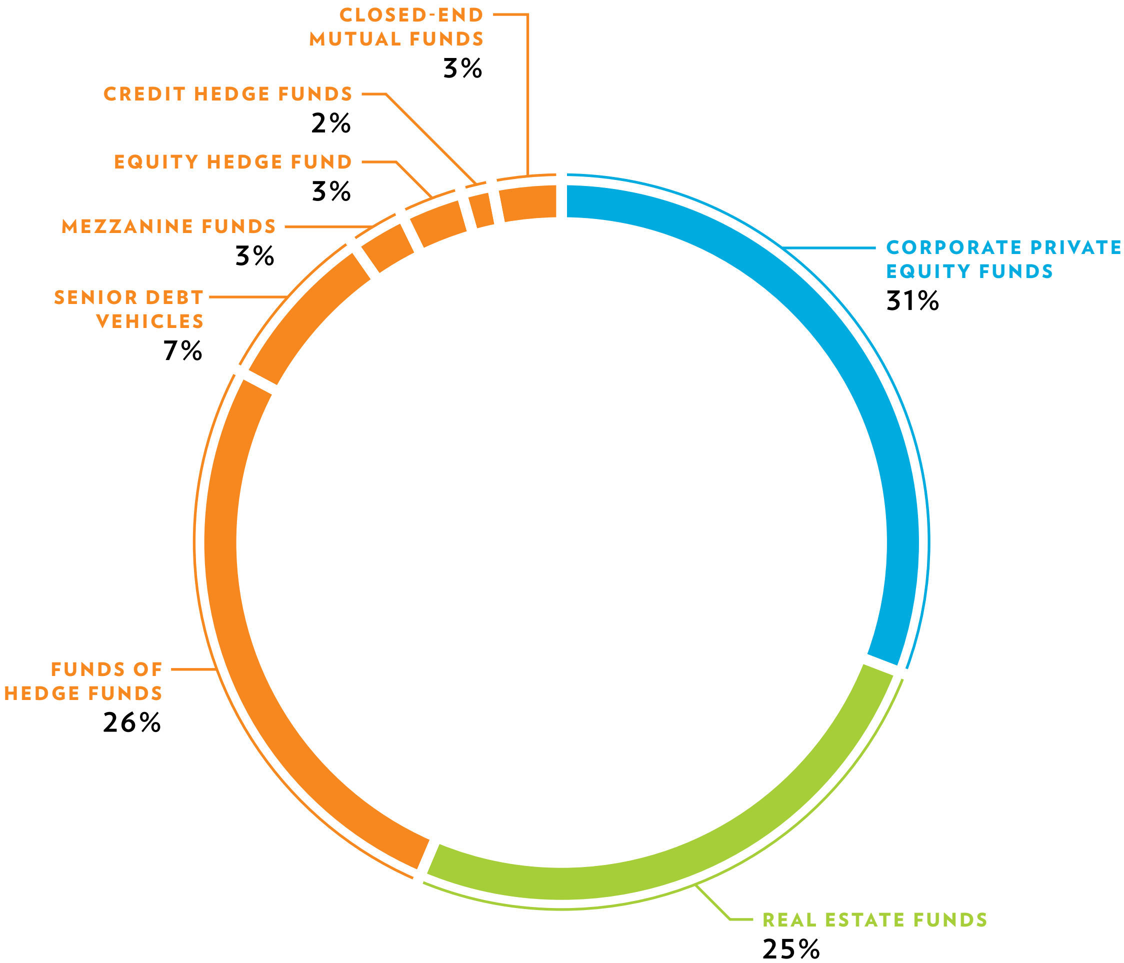
As of Year-End (Dollars in Billions)



BLACKSTONE IS ONE OF THE LARGEST independent alternative asset managers in the world, with assets under management of approximately $102 billion as of December 31, 2007. Assets under management have increased at a compound annual growth rate of 36% over the last five years. We believe increasing allocations to alternative assets industry-wide, coupled with our consistent track record of outperformance, positions us for continued success in raising new capital.

TOTAL ASSETS UNDER MANAGEMENT

Breakdown by Fund Category As a Percentage of $102 Billion Assets Under Management As of December 31, 2007 [1]



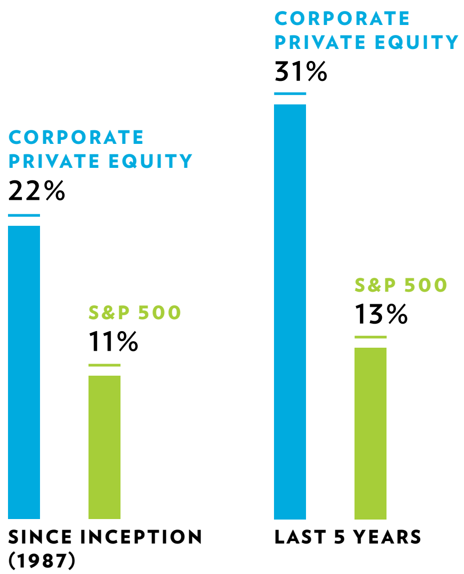
[1] *Does not include $10.0 billion of assets under management as of December 31, 2007, by GSO Capital Partners, which was acquired by Blackstone on March 3, 2008.*

BLACKSTONE'S ASSETS UNDER MANAGEMENT ARE DIVERSIFIED across multiple asset classes and regions. We benefit from substantial synergies across all of these businesses, enabling us to leverage the "library" of intellectual capital and to access relationships that reside throughout our firm. We believe the diversity of our asset mix and breadth of expertise have enabled us to outperform benchmarks and peers throughout economic cycles. Our ability to identify and successfully enter new growth areas remains a key growth engine.

ANNUALIZED RETURNS

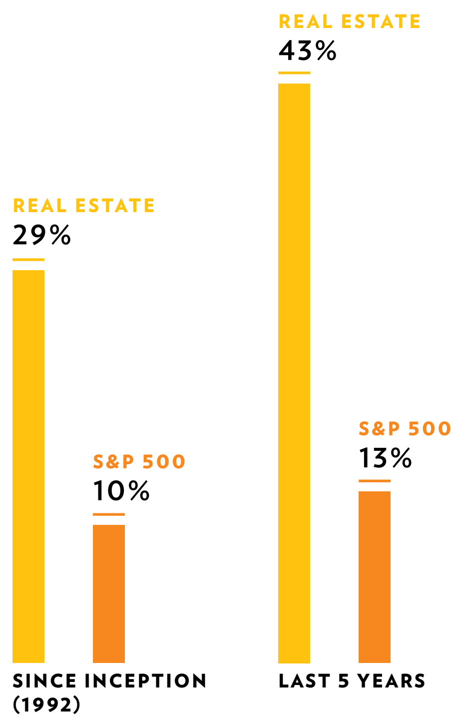
The information presented below with respect to investment performance is provided for illustrative purposes only. The historical investment performance presented is no guarantee of future performance and should not be viewed as indicative in any way of the future results that one may experience from an investment in our common units. These operations involve substantial risks. For example, our Corporate Private Equity and Real Estate operations make direct and indirect investments in companies that have a significant degree of leverage, including leverage incurred by the company in connection with the structuring of our businesses' investments in the company. In addition, the investment return profiles of our Corporate Private Equity and Real Estate operations are relatively volatile as compared to the S&P 500.

CORPORATE PRIVATE EQUITY
Net Annualized Returns[1] vs. S&P 500[2]



[1] *Through December 31, 2007. Our Corporate Private Equity operations commenced in 1987. Returns since inception calculated from October 15, 1987.*
[2] *Through December 31, 2007. Total annualized returns for the S&P 500 adjusted for dividends reinvested.*

REAL ESTATE
Net Annualized Returns[3] vs. S&P 500[4]



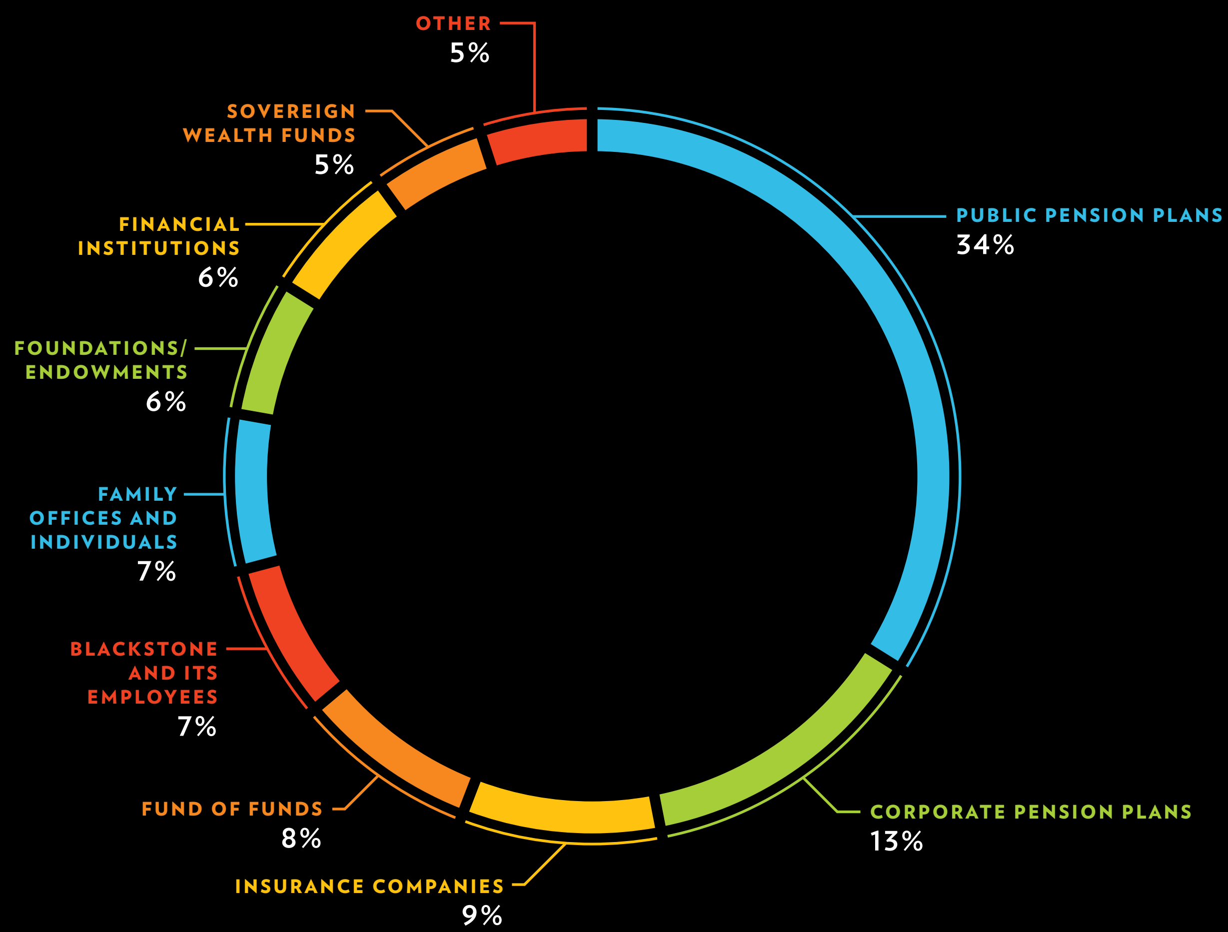
[3] *Through December 31, 2007. Our Real Estate operations commenced in 1992. Returns since inception calculated from January 1, 1992.*
[4] *Through December 31, 2007. Total annualized returns for the S&P 500 adjusted for dividends reinvested.*

WE BELIEVE THAT THE SUPERIOR INVESTMENT RETURNS we have generated in our investment businesses—across a broad and expanding range of alternative asset classes, through all types of economic conditions and all cycles of the equity and debt capital markets—are a key reason why we have been able to consistently grow our assets under management.

These charts compare the net annualized returns of our two largest businesses—Corporate Private Equity and Real Estate—since inception of those businesses in 1987 and 1992, respectively, and the five-year period from January 1, 2003 through December 31, 2007, against the S&P 500 for the comparable periods.

INVESTORS BY CATEGORY

As a Percentage of Total Committed Capital for Carry Funds Plus AUM for Hedge Funds
As of December 31, 2007.



BLACKSTONE HAS A LONG HISTORY OF MANAGING SIGNIFICANT INVESTMENTS GLOBALLY, across a broad range of asset classes. We believe the trend of increasing allocations to alternative asset classes, coupled with the loyalty of our institutional investors and our proven ability to achieve superior returns, will drive the continued growth of our assets under management.

Stephen A. Schwarzman outside Blackstone's New York Headquarters at 345 Park Avenue.

Dear Fellow Unitholders:

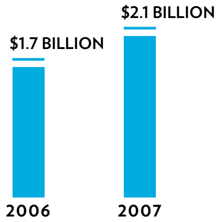
WELCOME TO BLACKSTONE. In our first annual report, I will share with you the vision that led us to create a different kind of company—one that is positioned to build long-term value for investors across all economic cycles. I also will provide a viewpoint on the opportunities ahead for the alternative asset management business and the strategies that will drive our growth and performance in the future.

First, a little history. Pete Peterson and I founded Blackstone in 1985. We had $400,000 in assets and a wealth of ideas about creating a new kind of investment business. We would be an entrepreneurial, nimble, sharply-focused firm in a world of financial giants. We would prize intellectual capital as a driving force in creating economic value—by finding, investing in and growing great businesses. At a time of increasingly hostile takeovers, we agreed that our principal investing would involve only friendly deals, in partnership with strong, capable management teams. We would commit significant amounts of the firm's capital and our own funds to each transaction, closely aligning Blackstone's interests with those of our investors. And we took a long-term perspective designed to optimize our investment performance over many years—not merely quarter-to-quarter. The outcome was far better than Pete or I could have imagined: what started as a "new kind of investment business" is now an established global financial brand, which stands with the best in our industry.

A GROUND-BREAKING IPO

We took a paradigm-changing step with our IPO in June 2007, gaining access to new capital, which will position Blackstone for even greater opportunities ahead. The equity raised will allow us to build expertise in new product areas and geographic regions, thus increasing the information flow and intellectual capital that drives our investment performance. We will have more capital to seed new teams and businesses, the ability to expand through selective acquisitions and a currency with which to establish strategic alliances. Additionally, our IPO has enhanced the global visibility of our brand.

ECONOMIC NET INCOME



GROWTH IN PRO FORMA ADJUSTED ECONOMIC NET INCOME 2006–2007

A DIVERSE PORTFOLIO OF LEADING BUSINESSES

By pursuing our vision relentlessly—and attracting smart, disciplined, principled, motivated people to help deliver on that vision—Blackstone today is the world's leading independent alternative asset management firm. We ended 2007 with assets under management of $102 billion and over 1,000 people operating in 13 offices globally.

Almost every one of our businesses is an acknowledged leader in its sector. These businesses are diverse, global and substantial in scale. They also benefit in a synergistic way from our industry and market expertise, strong relationships and the deep pool of intellectual capital, which has been a distinguishing strength of Blackstone for more than two decades.

A REPUTATION BUILT ON SUPERIOR RETURNS

Through the years, Blackstone has achieved a track record of superior investment returns across a broad range of asset classes. Our two largest businesses, Corporate Private Equity and Real Estate, have funds that have significantly outperformed the S&P 500 from inception through year-end 2007 and are among the best-performing funds in their sectors in the world. Our other investment businesses have delivered top performance as well. I believe that our ability to consistently deliver strong results, through a variety of economic and market cycles, derives directly from our culture of excellence, innovation and integrity, and the power that comes from sharing knowledge broadly across the firm.

Our exceptional year-on-year returns have earned the trust of many of the world's largest institutional investors. Blackstone was rated the #1 choice as an alternative asset manager in a recent survey conducted by Citigroup of chief investment officers of the major U.S. and European pension plans. Of the 50 largest corporate and public pension funds that employ alternative asset strategies, 72% have invested in our funds. The majority of our limited partners have entrusted us with ever-increasing levels of assets: 87% of our investors (as measured by the capital in our most recent carry funds) invest in multiple funds.

This brings me to an important point: serving the investors in our funds was our guiding principle as a private firm. It remains a bedrock commitment of Blackstone as a publicly-traded entity. I firmly believe that optimizing returns for limited partners—even if this results in quarter-to-quarter variability in earnings—is the key to creating long-term value for my fellow unitholders.

Finally in this time of market turmoil, it is useful to point out that Blackstone has a unique and different position, compared with most financial institutions. We have always run our firm conservatively. There is very little net debt within Blackstone itself. We think we are the best capitalized alternative asset manager. Our long/short hedge fund and distressed hedge fund do not have large net long or net short positions and they have only modest leverage.

The investors in our Corporate Private Equity and Real Estate funds are committed for the long-term—up to ten years—and thus we are not held hostage to the vagaries of short-term business cycles. Most of our portfolio companies do not have debt coming due for years and have a capital structure and a business plan designed in the anticipation of an economic downturn.

Because we are among the most diversified alternative asset managers, we have a very differentiated stream of revenues: fund management and monitoring fees; transaction fees from both the advisory business and the private equity and real estate investments; performance fees from our public market vehicles (such as our hedge funds); returns from our own capital invested in and alongside the funds; and finally, carried interest from our Corporate Private Equity and Real Estate funds. Although there is obviously some correlation among these revenue streams, they will perform differently at different times in the cycle.

2007 PERFORMANCE AND DISTRIBUTION TO UNITHOLDERS

While the economic environment for 2007 was mixed, I am pleased to report that The Blackstone Group L.P. still produced record overall revenues due in large part to the firm's unique and complementary business mix. Revenues were $3.05 billion and net income was $1.62 billion for 2007, compared with revenues of $2.62 billion and net income of $2.27 billion a year ago. Economic Net Income (ENI) was $2.12 billion on a pro forma adjusted basis for 2007, compared with $1.68 billion

OVER
$31 BILLION

AGGREGATE PROFITS PRODUCED FOR OUR LIMITED PARTNERS SINCE INCEPTION

left to right:
Kenneth Whitney
Robert L. Friedman
Joan Solotar
John Studzinski
Sylvia Moss
Jonathan Gray
Arthur Newman
Bennett Goodman

in 2006. We consider ENI, which represents net income before taxes and certain non-cash charges, to be a key measure of value creation.

Recognizing that we were a new type of company for equity investors, we made the decision to give our public unitholders a priority on cash distributions during the first two and a half years of being public. Until December 31, 2009, quarterly distributions of $0.30 per unit will be paid to our public unitholders before any cash distributions are paid to Blackstone personnel, who currently own about 70% of the equity interests in our firm. Our first distribution of $0.30 per unit was paid in December 2007.

A LONG-TERM VIEW

The turmoil in the global financial markets since the summer of 2007 has affected the performance of many investments, including our own common units. While this situation is hardly unique to Blackstone, the decline in our units since the IPO has been disappointing. Nonetheless, I continue to hold the view that the true measure of an investment management business like ours is how well it performs over an extended period of time, not quarter-to-quarter. And the lifeblood of our company, assets under management, continues to grow every quarter. Over the long term, I am extremely bullish on our ability to seize on opportunities in the marketplace to drive exceptional value for our fund investors and unitholders.

Our focus is, and has always been, on achieving the best long-term outcomes for our businesses and investments. We create value over time through a rigorous, patient and persistent application of sharp intellect, skilled management and strong resources. Maximizing returns—by enhancing a company's operations, investing in capital improvements, making accretive acquisitions or other strategic initiatives—doesn't happen overnight. In fact, our Corporate Private Equity funds typically hold businesses for five years or more. This time-tested approach has enabled Blackstone to produce over $31 billion in aggregate profits for the limited partners in our Corporate Private Equity and Real Estate funds since inception and to significantly outperform the S&P 500 over the past 22 years.

Blackstone's senior management team is no stranger to economic cycles. We have lived through major credit crises—and the opportunities they create—in 1975, 1982, 1987, 1990–91, 2001–02 and now 2007–08. We know that every cycle offers opportunities to acquire or sell assets advantageously. Our job is to apply our team's experience, insight and global perspective to the opportunities and challenges of a constantly changing financial climate. For example, in late 2006, we believed that heavy competition for deals and an abundant supply of credit had driven up asset prices to uneconomic levels. We shifted our focus to recession-resistant investments and held back our investors' equity, preferring to wait for more compelling valuations in later stages of the cycle.

In the present environment, we are redoubling our efforts to identify undervalued assets, wielding a sharp pencil on pricing and seeking transactions where we can leverage Blackstone's capabilities to our advantage. In corporate private equity, some investments may take the form of equity growth capital, others may be strategic acquisitions for current portfolio companies and some investments will use little leverage, with the capital structures to be reevaluated in times of greater credit availability. Other strategies may include the purchase of bank debt and bonds of creditworthy leveraged companies that can be bought with high cash yields, or the purchase of bank debt and bonds of distressed companies. We have also started several new hedge funds that will target opportunities created by the disruption in the global capital markets. In addition, we are seeking to expand into businesses that complement our alternative asset focus and balance our existing portfolio.

POSITIVE ECONOMIC IMPACT

PRIVATE EQUITY COMPANIES GROW ENTERPRISE VALUE, CREATE JOBS, INVEST IN R&D

For example, we recently acquired GSO Capital Partners. With $10 billion under management, GSO is a credit opportunity manager ideally positioned to capitalize on opportunities in today's troubled markets. Combined with our own debt businesses, the acquisition will create one of the largest platforms in the credit area, add a great management team and allow us to leverage our combined strengths to create new opportunities.

THE FUTURE OF ALTERNATIVE ASSET MANAGEMENT

As I look toward the future, I believe the opportunities ahead, despite the current dislocations of the credit crisis, will outstrip anything we have experienced to date—yielding exceptional growth for Blackstone and increasing value for our unitholders. The growth of our business is being driven by the powerful trends that have made private equity an increasingly important factor in the global economy. Private equity has not only delivered superior returns for investors (including the millions of beneficiaries of pension funds), but is a true positive economic catalyst. A recent study by Ernst & Young found that companies owned by private equity firms significantly outperformed their public peers in growth of enterprise value and EBITDA. At Blackstone, our portfolio companies have added 42,000 net new jobs in the last five years, while substantially increasing R&D expenditures and capital investment.

While alternative assets represent a growing portion of many institutions' portfolios, the vast majority of institutional assets remain in conventional investments. The average U.S. corporate or public pension plan today holds less than 5% of its investments in private equity, with even less representation among non-U.S. institutions. Thus, even though investment in private equity and other alternative classes rose 36% in 2006 according to a McKinsey & Co. study, there is enormous room for further increases in allocations to alternative assets. A survey by Citibank of major U.S. and European pension funds suggests that about $1 trillion of pension assets may be channeled to alternatives in the next three years. As a top-performing alternative asset manager, we believe Blackstone is well-positioned to capture a sizable share of these new funds.

International markets also offer dramatic growth potential for our business. The strong performance of many non-U.S. economies, especially in Asia, has created considerable wealth in both sovereign and private hands that will be deployed in alternative strategies. And the growth of businesses in those regions provides new avenues for our investment funds. In just the past year, Blackstone has made or contracted to make investments in a subsidiary of China's state-owned chemical company, a leading Indian construction company and India's largest apparel manufacturer and exporter.

In this regard, I wish to highlight the 9.3% equity interest in Blackstone purchased by the China Investment Company at the time of our IPO. We were the first company selected by China for investment by its new sovereign wealth fund. This is an important strategic relationship, with the potential to create mutually beneficial investment opportunities in China. We are deeply honored by the China Investment Company's support, and we are committed to producing the long-term value that they, and all of our investors, expect.

left to right:
Ben Jenkins, Co-Head of Asian Corporate Private Equity
Antony Leung, Chairman, Blackstone Greater China and Co-Head of Asian Corporate Private Equity

STRUCTURED FOR SUCCESS

I am confident that the qualities that have made Blackstone a unique company—and a leading global brand in investment management—will continue to propel our success going forward. As one of the largest alternative investment managers, we have the critical mass to participate in deals of significant size, scope and complexity. Our operations are diversified across multiple asset classes, investment strategies and regions, offering a wide range of opportunities. With our record of exceptional performance, and strong relationships with prominent institutional investors, we should continue to have ready access to

LONG-TERM FOCUS

OUR AVERAGE CORPORATE PRIVATE EQUITY INVESTMENT IS HELD FOR FIVE AND A HALF YEARS

left to right:
Hamilton E. James
Peter G. Peterson
Stephen A. Schwarzman
J. Tomilson Hill
Michael A. Puglisi

the capital needed to invest in future transactions and grow our business as constraints in the credit markets ease.

Looking toward the future, we are pursuing well-defined strategies to drive our growth:

- Continuing to deliver superior investment performance across our asset management platform;
- Growing the assets under management in our existing fund businesses;
- Expanding our business base by raising new investment funds;
- Geographic expansion of all our businesses internationally; and
- Entering into complementary new businesses.

Blackstone's team will continue to be critical to our success. Over the years, our firm has been a magnet for some of the most talented professionals in our industry—people who thrive in an entrepreneurial, "zero-defect" culture. We have structured the firm to align their interests with our limited partners and unitholders. Almost all of our employees are unitholders. The senior managing directors of the firm retain 85% of the equity in the firm they held before the IPO, and in almost all cases a meaningful proportion of their units vests over an 8-year period. The vast majority of our senior executives' compensation depends on the firm's performance. Simply stated, we are in this for the long term and every one of us has a powerful incentive to create value for Blackstone unitholders.

A principal reason for our growth and success has been our ability to attract and retain talented and experienced professionals across all of our businesses. In particular, Tony James, our President and Chief Operating Officer, has been a key partner in both running the firm and developing a strategy for the next stage of our growth. He joined us in 2002 after an outstanding career at Credit Suisse and Donaldson, Lufkin & Jenrette, where he had been in charge of major businesses comparable to those we now have at Blackstone. He manages our Corporate Private Equity business and oversees with me our other businesses. Tony is a person of extraordinary ability and vision and we are fortunate to have him here at the firm.

We are also creating value for the community at large through the Blackstone Charitable Foundation. Last June, to establish the Foundation, our senior managing directors pledged an amount of their personal Blackstone equity interests valued at $150 million in the IPO. The Foundation supports a wide range of educational, cultural and other non-profit organizations. The activities are in addition to the individual charitable activities of our 1,020 employees, who give generously of their resources, time and energy to support a host of worthwhile institutions and programs.

The management team and I greatly appreciate your interest in our firm. Unitholders can be assured that we are fully engaged in seeking to create long-term value. I am personally as excited about the opportunities that lie ahead as I have been at any time in Blackstone's history, and I look forward to sharing our continued success with you.

Sincerely,

Steve

STEPHEN A. SCHWARZMAN
Chairman, Chief Executive Officer and Co-Founder

ALTERNATIVE ASSET INDUSTRY EXPECTED TO REACH $1 TRILLION BY 2010

Blackstone's Core Beliefs

In 1985 Blackstone opened its doors with a staff of four, including the two founders, Peter G. Peterson and Stephen A. Schwarzman, and a balance sheet of $400,000. From these early beginnings, besides big dreams, the founders have held these core beliefs:

1.

In a world of giant organizations with a broad array of services, there was room for a specialized firm with the highest levels of professionalism and integrity, and senior-level attention to clients and relationships.

2.

In an environment of ever larger firms, the most gifted, entrepreneurial professionals would desire a more personal setting and would join Blackstone to create exciting new businesses in their fields of expertise.

3.

In contrast to the prevailing philosophy of "other people's money," the firm would always put significant amounts of its own money in the investments it made.

4.

In a world rife with conflicts of interest, there was a need for a firm that would provide entirely objective advice and counsel.

5.

We will consistently strive to achieve superior performance through innovation, uniqueness and excellence.

6.

Above all else our people—their creativity, imagination, dedication, teamwork and integrity—will be our key assets.

Our Strengths

THE UNIQUE STRENGTHS THAT HAVE MADE BLACKSTONE A GLOBAL BRAND in the financial markets have attracted many of the world's leading institutions to invest in our various investment funds. These qualities also define our value proposition as a publicly-traded company, and we think they will be the source of long-term growth for our common unitholders.

Leadership

Blackstone is one of the world's leading alternative asset managers. We pioneered many of the value-creation strategies that have led to the growth of the alternative asset industry, and have raised more than $70 billion of committed capital for our various discretionary private investment funds. We also manage approximately $27 billion in discretionary marketable alternative asset programs, approximately $4.3 billion in proprietary hedge funds, and approximately $2.9 billion in closed-end mutual funds.

Global Scope

Our Corporate Private Equity and Real Estate funds are among the largest such vehicles in the world, and our activities extend to North America, Europe, Asia and elsewhere. As a result, we have developed the expertise, access to resources and critical mass to take advantage of investment opportunities on a global scale.

Diversification

Our businesses are diversified across a spectrum of alternative asset classes, including corporate private equity funds, real estate funds, debt funds and hedge funds, as well as a financial advisory segment. We can provide a broad range of investment opportunities while benefiting from the substantial synergies among our businesses.

Performance

Blackstone funds have a consistent track record of superior risk-adjusted returns across all cycles of the equity and debt markets. This outperformance has allowed the firm to grow assets under management and maintain a position as an alternative asset manager of choice for many of the world's top institutions.

Relationships

The strength of our relationships with leading institutional investors is a significant advantage in raising capital for our institutional funds. At the same time, our relationships with investment banks, financial intermediaries, major corporations and global business leaders provide a competitive advantage in identifying transactions and maximizing investment opportunities.

Our People

The extensive experience, talent and accomplishments of the Blackstone team give us a base of intellectual capital that is second to none. Our 65 senior managing directors have an average of over twenty years of relevant experience, and our team possesses a broad range of expertise in investment banking, leveraged finance, private equity, real estate, M&A, restructuring and numerous other disciplines.

Alignment of Interests

From our earliest days, Blackstone has had a fundamental belief in aligning the interests of our professionals with those of our investors. Blackstone and its professionals have committed over $3.7 billion of their own capital to our carry funds, for example. Since the initial public offering of BX common units, we have worked to achieve the same alignment of interests with our unitholders; 65% of the equity ownership of Blackstone is held by our senior managing directors.

Growth

Blackstone has grown to become one of the largest independent asset managers in the world, reaching over $102 billion in assets under management as of December 31, 2007. Our assets under management have seen compounded annual growth of 36% over the past five years, which we believe has been driven by our consistently superior performance, as well as diversification into new alternative asset classes.

Innovation

An innovator in our investment approach, we leverage the intellectual capital within and across the organization to identify emerging trends and market opportunities, and direct our investment strategies accordingly. In addition, we have a long tradition of finding creative solutions to help our clients meet their objectives.

Consistency

Our performance is characterized by a track record of superior risk-adjusted returns across a broad and expanding range of asset classes and through all types of economic conditions. Blackstone's management team has maintained a consistent focus on long-term results, and has not been sidetracked by temporary market movements or quarterly pressures.

LEADERSHIP

STEPHEN A. SCHWARZMAN [1,2]
Chairman, CEO and Co-Founder

PETER G. PETERSON [1,2]
Senior Chairman and Co-Founder

HAMILTON E. JAMES [1,2]
President and Chief Operating Officer

J. TOMILSON HILL [1,2]
Vice Chairman and Head of MAAM

BUSINESSES

BRUCE AMLICKE
Chief Investment Officer—BAAM

TIMOTHY R. COLEMAN [2]
Co-Head, Restructuring

JOHN D. DIONNE
Head, Blackstone Distressed Debt

ROBERT L. FRIEDMAN [2]
Chief Legal Officer

BENNETT GOODMAN [2]
Head, Blackstone Debt Securities
Co-Founder, GSO Capital Partners

JONATHAN D. GRAY [2]
Co-Head, Real Estate

MANISH MITTAL
Head, Blackstone Kailix

GARRETT M. MORAN [2]
Chief Operating Officer, Private Equity

SYLVIA F. MOSS [2]
Head, Administration

MICHAEL NASH
Head, Real Estate Special Situations

ARTHUR B. NEWMAN [2]
Co-Head, Restructuring

AARON NIEMAN
Head, Blackstone Altius

DOUG OSTROVER
Co-Founder, GSO Capital Partners

CHAD R. PIKE [2]
Co-Head, Real Estate

DANIEL PRENDERGAST
Head, Park Hill Group

MICHAEL A. PUGLISI [2]
Chief Financial Officer

PUNITA KUMAR-SINHA
Head, Asia Tigers Fund and The India Fund

TRIPP SMITH
Co-Founder, GSO Capital Partners

JOAN SOLOTAR [2]
Head, Public Markets

JOHN STUDZINSKI [2]
Head, Corporate and Mergers and Acquisitions

KENNETH C. WHITNEY [2]
Head, Limited Partner Relations
and Fund Placement

COUNTRIES

AKHIL GUPTA
Chairman, Blackstone India

ANTONY LEUNG
Chairman, Blackstone Greater China

[1] *Member of the Management Committee*
[2] *Member of the Executive Committee*

PRO FORMA ADJUSTED ECONOMIC NET INCOME

Our Economic Net Income on a Pro Forma Adjusted basis for the years ended December 31, 2007 and 2006 was as follows:

(Dollars in Thousands)	Year Ended December 31, 2007	2006
	Pro Forma Adjusted	
Revenues		
Management Fees		
Base Management Fees	$1,160,773	$ 789,274
Transaction and Other Fees	536,843	350,573
Management Fee Offsets	(76,752)	(27,118)
Total Management Fees	1,620,864	1,112,729
Performance Fees and Allocations	1,093,988	1,057,040
Investment Income and Other	406,572	287,353
Total Segment Revenues	3,121,424	2,457,122
Expenses		
Compensation and Benefits	779,939	657,418
Other Operating Expenses	220,771	123,558
Total Segment Expenses	1,000,710	780,976
TOTAL ECONOMIC NET INCOME	$2,120,714	$1,676,146

Economic Net Income ("ENI") is a key performance measure used by management. Management considers ENI an important measure of value creation and benchmarks the firm's performance against ENI. Blackstone believes that ENI and Pro Forma Adjusted Economic Net Income are useful for investors as appropriate measures for evaluating its operating performance.

ENI represents segment net income excluding the impact of income taxes, non-cash charges associated with the vesting of transaction based equity-based compensation and the amortization of intangibles (collectively, "non-cash charges"). Revenues and expenses are presented on a basis that deconsolidates the investment funds we manage. ENI is used by management primarily in making resource deployment and compensation decisions across Blackstone's four segments.

Pro Forma Adjusted Economic Net Income adjusts Blackstone's ENI to (i) give pro forma effect to Blackstone's pre-IPO reorganization and IPO as if those events had occurred on January 1, 2006, (ii) eliminate the revenues and expenses of the businesses that were not contributed as part of the reorganization, (iii) reflect expenses related to certain employee compensation arrangements that were not effective prior to the reorganization, and (iv) eliminate interest expense.

OUR BUSINESS

OUR BUSINESS

Blackstone is one of the largest independent alternative asset managers in the world. We also provide a wide range of financial advisory services, including corporate and mergers and acquisitions advisory, restructuring and reorganization advisory and fund placement services.

Our business is organized into four business segments:

- **CORPORATE PRIVATE EQUITY.** We are a world leader in private equity investing, having managed five general private equity funds, as well as one specialized fund focusing on media and communications-related investments, since we established this business in 1987. Through our corporate private equity funds we pursue transactions throughout the world, including leveraged buyout acquisitions of seasoned companies, transactions involving start-up businesses in established industries, turnarounds, minority investments, corporate partnerships and industry consolidations.
- **REAL ESTATE.** Our Real Estate segment is diversified geographically and across a variety of sectors. We launched our first real estate fund in 1994 and currently manage six general real estate funds and two internationally focused real estate funds. Our real estate funds have made significant investments in lodging, major urban office buildings, distribution and warehousing centers and a variety of real estate operating companies.
- **MARKETABLE ALTERNATIVE ASSET MANAGEMENT.** Established in 1990, our marketable alternative asset management segment is comprised of our management of funds of hedge funds, mezzanine funds and senior debt vehicles, proprietary hedge funds and publicly-traded closed-end mutual funds. These products are intended to provide investors with greater levels of current income and for certain products, a greater level of liquidity.
- **FINANCIAL ADVISORY.** Our financial advisory segment serves a diverse and global group of clients with corporate and mergers and acquisitions advisory services, restructuring and reorganization advisory services and fund placement services for alternative investment funds.

We generate our revenue from fees earned pursuant to contractual arrangements with funds, fund investors and fund portfolio companies (including management, transaction and monitoring fees), and from corporate and mergers and acquisitions advisory services, restructuring and reorganization advisory services and fund placement services for alternative investment funds. We invest in the funds we manage and, in most cases, receive a preferred allocation of income (i.e., a "carried interest") or an incentive fee from an investment fund in the event that specified cumulative investment returns are achieved. The composition of our revenues will vary based on market conditions and cyclicality of the different businesses in which we operate. Net investment gains and resultant investment income generated by the Blackstone funds, principally private equity and real estate funds, are driven by value created by our strategic initiatives as well as overall market conditions. Our funds initially record fund investments at cost and then such investments are subsequently recorded at fair value. Fair values are affected by changes in the fundamentals of the portfolio company, the portfolio company's industry, the overall economy as well as other market conditions.

Our most significant expense is compensation and benefits. Prior to our initial public offering, all compensation to our senior managing directors and selected other individuals engaged in our businesses had been accounted for as partnership distributions rather than as employee compensation and benefits expense. Following the IPO, we have included all payments for services rendered by our senior managing directors as employee compensation and benefits expense. Currently, senior managing directors and certain other personnel share in profits based on their Blackstone Holdings Partnership Units as well as receive a portion of the carried interest income earned with respect to certain of the funds. Other employees receive cash compensation and own restricted deferred common units and phantom cash-settled awards.

BUSINESS ENVIRONMENT

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

The first half of 2007 was characterized by rising global stock markets and unusually strong debt markets. Beginning in the last week of June 2007, the U.S. experienced considerable turbulence in the housing and sub-prime mortgage markets, which had a significant negative impact on other fixed income markets. Equity markets came under pressure in the latter part of 2007 as concerns of an economic slowdown were factored into portfolio company valuations. As a result of reduced liquidity and greater volatility, several commercial and investment banks and hedge funds significantly reduced the carrying value of some of their fixed income holdings, threatening general market liquidity. The U.S. and other governments injected meaningful liquidity into the financial system and have lowered benchmark lending rates in an attempt to avoid a liquidity crisis and stabilize economies.

Beginning in July 2007, deteriorating conditions in fixed income markets has deterred lenders from committing to new senior loans and high yield debt. Debt underwriting declined meaningfully in the second half of 2007 and the backlog resulting from pending private equity-led transactions reached record levels. This backlog, coupled with other poor-performing fixed income securities, has materially hindered lenders' willingness to fund new, large-sized acquisitions. As a consequence of reduced borrowing ability, the volume of new private equity acquisitions declined significantly in the second half of 2007. Recently announced private equity-led acquisitions have mostly been smaller in size, with less leverage and less favorable terms for the debt provided, all of which has had a significant impact on several of our businesses. The duration of current conditions in the credit markets is unknown.

While it is unclear whether the U.S. economy is in a recession, economic indicators point to a slowdown. The slowdown of the U.S. economy could have negative implications for other global economies and markets. The duration of current economic conditions is unknown.

SIGNIFICANT TRANSACTIONS

REORGANIZATION

The Blackstone Group L.P. was formed as a Delaware limited partnership on March 12, 2007. The Blackstone Group L.P. 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 our founders.

Blackstone's business was historically conducted through a large number of entities as to which there was no single holding entity but which were separately owned by its predecessor owners. In order to facilitate the initial public offering, as described in further detail below, the predecessor owners completed a reorganization (the "Reorganization") as of the close of business on June 18, 2007 whereby, with certain limited exceptions, each of the operating entities of the predecessor organization and the intellectual property rights associated with the Blackstone name, were contributed to five newly-formed holding partnerships (Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and Blackstone Holdings V L.P. (collectively, "Blackstone Holdings")) or sold to wholly-owned subsidiaries of The Blackstone Group L.P. (which in turn contributed them to Blackstone Holdings). The Blackstone Group L.P., through wholly-owned subsidiaries, is the sole general partner of each of the Blackstone Holdings partnerships.

The Reorganization was accounted for as an exchange of entities under common control for the interests in the Contributed Businesses which were contributed by the founders and the other senior managing directors (collectively, the "Control Group") and as an acquisition of non-controlling interests using the purchase method of accounting for all the predecessor owners other than the Control Group pursuant to Statement of Financial Accounting Standard ("SFAS") No. 141, *Business Combinations* ("SFAS No. 141").

Blackstone also entered into an exchange agreement with holders of Blackstone Holdings Partnership Units (other than The Blackstone Group L.P.'s wholly-owned subsidiaries) so that these holders, subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings partnerships, may up to four times each year, exchange their Blackstone Holdings Partnership Units for our common units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. A Blackstone Holdings limited partner must exchange one partnership unit in each of the five Blackstone Holdings partnerships to effect an exchange for a common unit in Blackstone.

INITIAL PUBLIC OFFERING

On June 27, 2007, The Blackstone Group L.P. completed the initial public offering ("IPO") of its common units representing limited partner interests. Upon the completion of the IPO, public investors owned approximately 14.1% of Blackstone's equity. Concurrently with the IPO, The Blackstone Group L.P. completed the sale of non-voting common units, representing approximately 9.3% of Blackstone's equity, to Beijing Wonderful Investments, an investment vehicle established by the People's Republic of China with respect to its foreign exchange reserve. Beijing Wonderful Investments is restricted from purchasing additional common units in the future which would result in its equity interest in Blackstone exceeding 10%.

The Blackstone Group L.P. contributed the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to its wholly-owned subsidiaries, which in turn used these proceeds to (1) purchase interests in the Contributed Businesses from the predecessor owners (and contribute these interests to Blackstone Holdings in exchange for a number of newly-issued Blackstone Holdings Partnership Units) and (2) purchase a number of additional newly-issued Blackstone Holdings Partnership Units from Blackstone Holdings.

The net proceeds retained by Blackstone from the IPO, totaling approximately $2.93 billion, were used to repay $1.21 billion of indebtedness outstanding under Blackstone's revolving credit agreement, with the balance being invested and/or committed as general partner investments in Blackstone sponsored funds, including its corporate private equity funds, real estate funds, mezzanine funds, funds of hedge funds and proprietary hedge funds, and invested in temporary interest bearing investments.

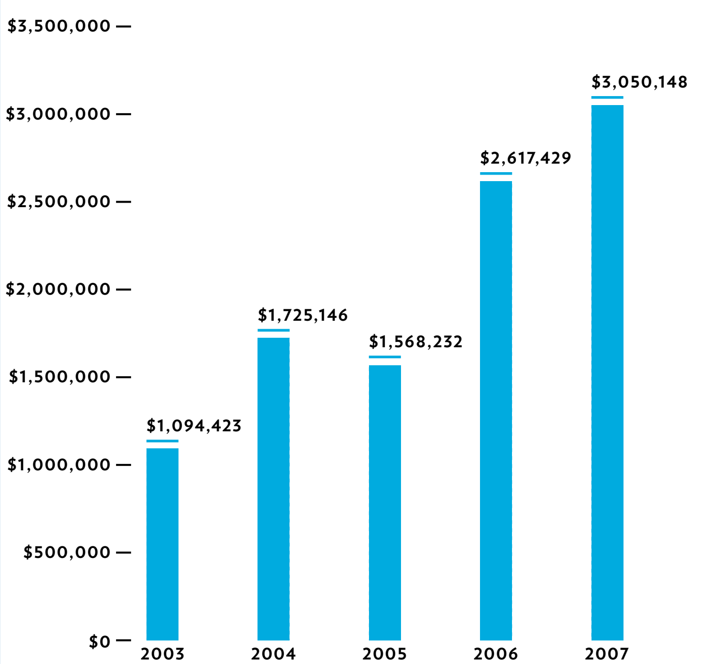
CONSOLIDATION AND DECONSOLIDATION OF BLACKSTONE FUNDS
In accordance with accounting principles generally accepted in the United States of America ("GAAP"), a number of the Blackstone funds were historically consolidated into Blackstone's combined financial statements.

Concurrently with the Reorganization, the Contributed Businesses that act as a general partner of a consolidated Blackstone fund (with the exception of Blackstone's proprietary hedge funds and five of the funds of hedge funds) took the necessary steps to grant rights to the unaffiliated investors in each respective fund to provide that a simple majority of the fund's unaffiliated investors will have the right, without cause, to remove the general partner of that fund or to accelerate the liquidation date of that fund in accordance with certain procedures. The granting of these rights resulted in the deconsolidation of such investment funds from the Partnership's consolidated financial statements and the accounting of Blackstone's interest in these funds under the equity method. With the exception of certain funds of hedge funds, these rights became effective on June 27, 2007 for all Blackstone funds where these rights were granted. The effective date of these rights for the applicable funds of hedge funds was July 1, 2007. The consolidated results of these funds have been reflected in the Partnership's consolidated and combined financial statements up to the effective date of these rights.

KEY FINANCIAL MEASURES AND INDICATORS

TOTAL REVENUES

CONSOLIDATED AND COMBINED TOTAL REVENUES
(Dollars in Thousands)



Revenues consist of management and advisory fees, performance fees and allocations and investment income and other.

MANAGEMENT AND ADVISORY FEES. Management and advisory fees consist of (1) fund management fees and (2) advisory fees.

(1) FUND MANAGEMENT FEES. Fund management fees are comprised of fees charged directly to funds, fund investors and fund portfolio companies (including management, transaction and monitoring fees). Such fees are based upon the contractual terms of investment advisory and related agreements and are recognized as earned over the specified contract period. Our investment advisory agreements generally require that the investment advisor share a portion of certain fees and expenses with the limited partners of the fund. These shared items ("management fee reductions") reduce the management fees received from the limited partners.

(2) ADVISORY FEES. Advisory fees consist of advisory retainer and transaction based fee arrangements related to mergers, acquisitions, restructurings, divestitures and fund placement services for alternative investment funds. Advisory retainer fees are recognized when services are rendered. Transaction fees are recognized when (i) there is evidence of an arrangement with a client, (ii) agreed upon services have been provided, (iii) fees are fixed or determinable and (iv) collection is reasonably assured. Fund placement services revenue is recognized as earned upon the acceptance by a fund of capital or capital commitments.

PERFORMANCE FEES AND ALLOCATIONS. Performance fees and allocations represent the preferential allocations of profits ("carried interest") which are a component of our general partnership interests in the corporate private equity, real estate and mezzanine funds. We are entitled to carried interest from an investment fund in the event investors in the fund achieve cumulative investment returns in excess of a specified rate. We record as revenue the amount that would be due to us pursuant to the fund agreements at each period end as if the fund agreements were terminated at that date. Additionally, in certain performance fee arrangements related to hedge funds in our marketable alternative asset management segment, we are entitled to receive performance fees and allocations when the return on assets under management exceeds certain benchmark returns or other performance targets. In such arrangements, performance fees and allocations are accrued monthly or quarterly based on measuring account/fund performance to date versus the performance benchmark stated in the investment management agreement.

INVESTMENT INCOME. Blackstone and its consolidated funds generate realized and unrealized gains from underlying principal investments in corporate private equity, real estate and marketable alternative asset management funds. Net gains (losses) from our principal investment activities and resultant Investment Income reflect a combination of internal and external factors. The external factors affecting the net gains associated with our investing activities vary by asset class but are broadly driven by the market considerations discussed above. The key external measures that we monitor for purposes of deriving our investment income include: price/earnings ratios and earnings before interest, taxes, depreciation and amortization ("EBITDA") multiples for benchmark public companies and comparable transactions and capitalization rates ("cap rates") for real estate property investments and corporate discounted cash flow analysis. These measures generally represent the relative value at which comparable entities have either been sold or at which they trade in the public marketplace. In addition, third-party hedge fund managers provide information regarding the valuation of hedge fund investments. Other than the information from our hedge fund managers, we refer to these measures generally as exit multiples. Internal factors that are managed and monitored include a variety of cash flow and operating performance measures, most commonly EBITDA and net operating income.

The funds' investments are diversified across a variety of industries and geographic locations, and as such we are broadly exposed to the market conditions and business environments referred to above. As a result, although our funds are exposed to market risks, we continuously seek to limit concentration of exposure in any particular sector.

EXPENSES

COMPENSATION AND BENEFITS EXPENSE. Prior to the IPO, our compensation and benefits expense reflected compensation (primarily salary and bonus) paid solely to our non-senior managing director employees. Subsequent to our IPO, compensation and benefits expense reflects (1) employee compensation and benefits expense paid to our employees, including our senior managing directors, (2) equity-based compensation associated with grants of unvested deferred restricted common units, phantom units and Blackstone Holdings Partnership Units awarded to senior managing directors, employees and selected other individuals engaged in our businesses and (3) profit sharing-based compensation payments for Blackstone personnel and profit sharing interests in carried interest.

(1) EMPLOYEE COMPENSATION AND BENEFITS. Our compensation costs reflect the increased investment in people as we expand geographically and create new products and businesses. Historically, all payments for services rendered by our senior managing directors and selected other individuals engaged in our businesses have been accounted for as partnership distributions rather than as employee compensation and benefits expense. As a result, our employee compensation and benefits expense had not reflected payments for services rendered by these individuals. Following the IPO, we have included all payments for services rendered by our senior managing directors in compensation and benefits expense.

(2) EQUITY-BASED COMPENSATION. This charge represents non-cash equity-based compensation expense associated with the issuance of unvested Blackstone Holdings Partnership Units received in the Reorganization by our senior managing directors and other individuals engaged in some of our businesses, and unvested deferred restricted common units and phantom units granted to our non-senior managing director professionals at the time of and subsequent to our IPO. As a result of the future vesting, we will continue to show significant non-cash compensation charges associated with these equity interests over their respective service periods. These non-cash charges are likely to result in GAAP net losses for the next 5 to 8 years depending upon the applicable service periods or useful lives, but will never have any impact on cash earnings.

(3) PROFIT SHARING ARRANGEMENTS. We have implemented profit-sharing arrangements for Blackstone personnel working in our businesses across our different operations designed to achieve a relationship between compensation levels and results that are appropriate for each operation given prevailing market conditions. In addition, Blackstone personnel working in our businesses, other professionals and selected other individuals who work on our carry funds have a profit sharing interest in the carried interest earned in relation to these funds in order to better align their interests with our own and with those of the investors in these funds. Departed partners are also entitled to their vested share of carried interest distributions received and possibly a recontribution of previously received carried interest from our carry funds and are also liable for their applicable share of losses on carry funds up to the amount of the after-tax carried interest distributions they received from a carry fund. Therefore, as our net revenues increase, our compensation costs also rise; as our net revenues decrease, our compensation costs may decrease.

GENERAL, ADMINISTRATIVE AND OTHER. The balance of our expenses include interest expense, occupancy and equipment expenses and general, administrative and other expenses, which consist of professional fees, public company costs, travel and related expenses, communications and information services, depreciation and amortization and other operating expenses. As part of the Reorganization, we acquired interests in our businesses from Blackstone personnel. We accounted for the acquisition of the interests from Blackstone personnel other than our Founders and other senior managing directors using the purchase method of accounting, and reflected the excess of the purchase price over the fair value of the tangible assets acquired and liabilities assumed as goodwill and intangible assets in our consolidated statement of financial condition. We have recorded in excess of $722.3 million of finite lived intangible assets (in addition to approximately $1.60 billion of goodwill). We have been amortizing these finite-lived intangibles over their estimated useful lives, which range between three and ten years, using the straight-line method. In addition, as part of the Reorganization, Blackstone personnel received 827,516,625 Blackstone Holdings Partnership Units, of which 439,711,537 were unvested. The grant date fair value of the unvested Blackstone Holdings Partnership Units (which is based on the initial public offering price per common unit of $31.00) is charged to expense as the Blackstone Holdings Partnership Units vest over the assumed service periods, which range up to eight years, on a straight-line basis. The amortization of these finite-lived intangible assets and of this non-cash equity-based compensation will increase our expenses substantially during the relevant periods and, as a result, we expect to record significant net losses for a number of years.

FUND EXPENSES. The expenses of our consolidated Blackstone funds consist primarily of interest expense, professional fees and other third-party expenses.

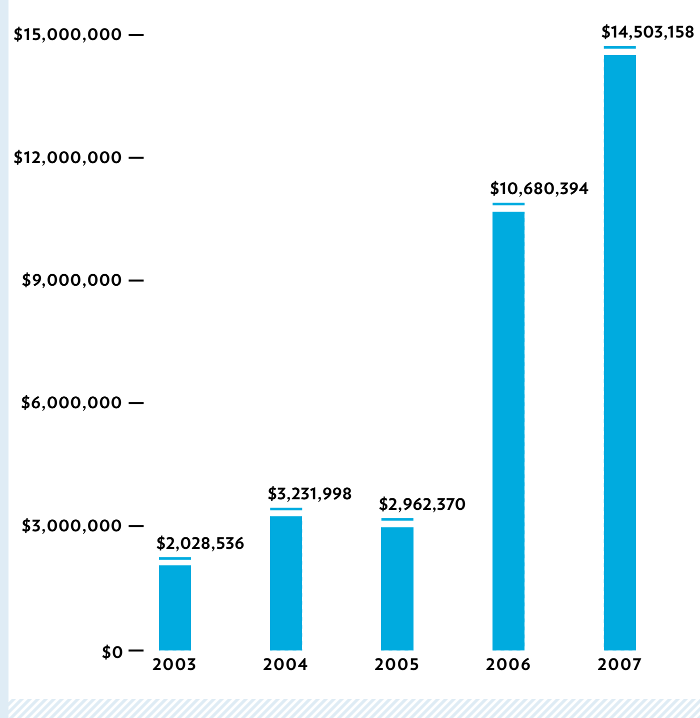
OPERATING METRICS

The alternative asset management business is a complex business that is unusual due to its ability to support rapid growth without requiring substantial capital investment. However, there also can be volatility associated with its earnings and cash flow. Since our inception, we have developed and used various key operating metrics to assess and monitor the operating performance of our various alternative asset management businesses in order to monitor the effectiveness of our value creating strategies.

ASSETS UNDER MANAGEMENT. Assets under management refers to the assets we manage. Our assets under management equal the sum of: (1) the fair value of the investments held by our carry funds plus the capital that we are entitled to call from investors in those funds pursuant to the terms of their capital commitments to those funds (plus the fair value of co-investments arranged by us that were made by limited partners in portfolio investments of our corporate private equity and real estate funds as to which we receive fees or a carried interest allocation); (2) the net asset value of our funds of hedge funds, proprietary hedge funds and closed-end mutual funds; and (3) the amount of capital raised for our senior debt funds. The assets under management measure also includes assets under management relating to our own and our employees' investments in funds for which we charge either no or nominal management fees. As a result of raising new funds with sizeable capital commitments, and increases in the net asset values of our funds and their retained profits, our assets under management have increased significantly over the periods presented.

LIMITED PARTNER CAPITAL INVESTED. Limited Partner capital invested represents the amount of Limited Partner capital commitments which were invested by our carry funds plus the capital invested through co-investments arranged by us that were made by limited partners in portfolio investments of our corporate private equity and real estate funds as to which we receive fees or a carried interest allocation.

LIMITED PARTNER CAPITAL INVESTED
(Dollars in Thousands)



Over our history we have earned aggregate multiples of invested capital for realized and partially realized investments of 2.6x and 2.5x in our corporate private equity and real estate businesses, respectively.

SEGMENT REVIEW

Discussed below are the key highlights of our results of operations for each of our reportable segments. The information presented is Pro Forma Adjusted Economic Net Income, which is the information utilized by our senior management to make operating decisions, assess performance and allocate resources. References to "our" sectors or investments refer to portfolio companies and investments included in the underlying funds that we manage.

CORPORATE PRIVATE EQUITY

Corporate Private Equity reported 2007 revenues of $821.3 million, down 18% from 2006 revenues of $999.4 million, largely driven by a decrease in Performance Fees and Allocations resulting from a lower increase in the net carrying value of underlying funds' portfolio investments as compared with 2006. Specifically, in 2007, the net value of the underlying portfolio investments increased by 16% as compared to an increase in net value of 30% in 2006. The 2007 weighted-average base on which this increase was calculated was approximately 57% greater than the comparable base in 2006. Most significantly, Blackstone reduced the value of its portfolio investment in Financial Guaranty Insurance Company, a monoline financial guarantor, which accounted for $122.2 million, or 69%, of the decline in revenues for the year. Additionally, Management Fees declined $36.4 million over the same period principally due to lower Transaction and Other Fees, a component of Management Fees, primarily resulting from less capital invested in transactions that generated fees.

Weighted-Average Fee-Earning Assets Under Management for the year totaled $23.73 billion compared with $20.07 billion in 2006, due mainly to additional funds raised for the Blackstone Capital Partners V fund.

Limited Partner ("LP") Capital deployed totaled $6.33 billion compared with $7.55 billion in 2006.

REAL ESTATE

Real Estate reported 2007 revenues of $1.30 billion, up 48% from 2006 revenues of $878.5 million, driven by growth in Management Fees of $306.6 million. This growth in Management Fees was attributable to increases in both Transaction and Other Fees and Base Management Fees. The increase in Transaction and Other Fees of $207.6 million was largely related to the acquisitions of Hilton Hotels and Equity Office Properties Trust during 2007. Base Management Fee growth of $101.3 million was principally attributable to $10.11 billion of third-party capital raised for Blackstone Real Estate Partners VI, a new fund which commenced in February 2007. Additionally, Performance Fees and Allocations increased $80.7 million due to increases in the value of underlying fund investments compared to the prior year, primarily from accretive sales from existing office portfolios. Overall, for 2007, the net value of the underlying portfolio investments increased by approximately 35% as compared to an increase in net value of approximately 85% in 2006. The 2007 weighted-average base on which this increase was calculated was approximately three times greater than the comparable base in 2006.

Weighted-Average Fee-Earning Assets Under Management for the year totaled $16.53 billion compared with $8.98 billion in 2006 due mainly to funds raised for the Blackstone Real Estate Partners VI fund.

LP capital deployed in 2007 totaled $8.17 billion, up from $3.13 billion from last year.

MARKETABLE ALTERNATIVE ASSET MANAGEMENT

Marketable Alternative Asset Management reported record 2007 revenues of $628.0 million, an increase of 97% from 2006 revenues of $318.8 million, reflecting growth in Management Fees, Performance Fees and Allocations and Investment Income and Other. The increase in Management fees was driven by a $14.89 billion or 61% increase in Fee-Earning Assets Under Management attributable to significant inflows from institutional investors on new and existing funds. The growth in Performance Fees and Allocations and Investment Income and Other was driven by net appreciation of the portfolio due to favorable investment performance.

FINANCIAL ADVISORY

Financial Advisory reported 2007 revenues of $367.7 million in 2007, an increase of 41% from 2006 revenues of $260.3 million, primarily reflecting continued growth in Blackstone's fund placement capital raising for alternative assets businesses as well as an increase in revenues in the restructuring and reorganization advisory business. Revenues in the corporate and mergers and acquisitions advisory business were lower than the prior year as transaction activity began to decline in the second half of 2007.

SEGMENT ECONOMIC NET INCOME AND PRO FORMA ADJUSTED ECONOMIC NET INCOME

The tables below detail Blackstone's Pro Forma Adjusted Economic Net Income, by segment, for each of the periods presented except for the quarters ended September 30, 2007 and December 31, 2007 which present Economic Net Income.

	Quarter Ended					Quarter Ended				
(Dollars in Thousands)	March 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	Full Year 2006	March 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007	Full Year 2007
	Pro Forma Adjusted									Pro Forma Adjusted
CORPORATE PRIVATE EQUITY SEGMENT										
Revenues										
Management Fees										
Base Management Fees	$ 50,374	$ 60,245	$ 58,188	$ 53,701	$222,508	$ 58,861	$ 62,857	$ 66,388	$ 66,735	$ 254,841
Transaction and Other Fees	33,605	51,950	29,627	84,271	199,453	9,129	56,044	48,711	64,188	178,072
Management Fee Offsets[(a)]	(5,549)	(4,040)	(4,038)	(4,040)	(17,667)	(8,231)	(12,634)	(20,892)	(23,278)	(65,035)
Total Management Fees	78,430	108,155	83,777	133,932	404,294	59,759	106,267	94,207	107,645	367,878
Performance Fees and Allocations	71,221	25,930	55,900	319,459	472,510	122,934	230,424	109,051	(124,461)	337,948
Investment Income and Other	33,143	(4,577)	13,628	80,433	122,627	26,212	63,782	24,032	1,429	115,455
Total Segment Revenues	182,794	129,508	153,305	533,824	999,431	208,905	400,473	227,290	(15,387)	821,281
Expenses										
Compensation and Benefits	35,434	43,217	42,521	102,165	223,337	33,383	44,782	56,319	(1,797)	132,687
Other Operating Expenses	6,266	10,170	12,820	12,161	41,417	8,778	14,792	22,798	23,603	69,971
Total Segment Expenses	41,700	53,387	55,341	114,326	264,754	42,161	59,574	79,117	21,806	202,658
Economic Net Income	$141,094	$ 76,121	$ 97,964	$419,498	$734,677	$166,744	$340,899	$148,173	$ (37,193)	$ 618,623
REAL ESTATE SEGMENT										
Revenues										
Management Fees										
Base Management Fees	$ 31,734	$ 33,622	$ 31,384	$ 31,301	$128,041	$ 37,450	$ 59,876	$ 70,964	$ 61,053	$ 229,343
Transaction and Other Fees	29,166	23,666	44,105	47,602	144,539	209,451	19,748	14,540	108,400	352,139
Management Fee Offsets	(3,452)	(3,442)	(2,557)	–	(9,451)	–	(693)	(9,281)	(1,743)	(11,717)
Total Management Fees	57,448	53,846	72,932	78,903	263,129	246,901	78,931	76,223	167,710	569,765
Performance Fees and Allocations	52,384	29,039	110,589	326,738	518,750	457,360	152,681	28,479	(39,062)	599,458
Investment Income and Other	18,994	7,164	15,192	55,294	96,644	62,511	83,501	4,398	(15,145)	135,265
Total Segment Revenues	128,826	90,049	198,713	460,935	878,523	766,772	315,113	109,100	113,503	1,304,488
Expenses										
Compensation and Benefits	28,715	26,576	43,292	72,234	170,817	98,523	36,486	39,325	65,416	239,750
Other Operating Expenses	5,637	6,510	(1,554)	12,676	23,269	4,735	5,539	12,639	27,577	50,490
Total Segment Expenses	34,352	33,086	41,738	84,910	194,086	103,258	42,025	51,964	92,993	290,240
Economic Net Income	$ 94,474	$ 56,963	$156,975	$376,025	$684,437	$663,514	$273,088	$ 57,136	$ 20,510	$1,014,248

(a) Primarily broken deal expenses.

continued

SEGMENT ECONOMIC NET INCOME AND PRO FORMA ADJUSTED ECONOMIC NET INCOME

(Dollars in Thousands)	Quarter Ended March 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	Full Year 2006	Quarter Ended March 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007	Full Year 2007
	Pro Forma Adjusted									Pro Forma Adjusted
MARKETABLE ALTERNATIVE ASSET MANAGEMENT SEGMENT										
Revenues										
Management Fees										
Base Management Fees	$ 38,644	$ 42,459	$ 42,054	$ 58,656	$ 181,813	$ 61,097	$ 74,413	$ 87,999	$ 92,795	$ 316,304
Transaction and Other Fees	1,743	931	1,161	2,746	6,581	1,872	1,189	1,695	1,876	6,632
Total Management Fees	40,387	43,390	43,215	61,402	188,394	62,969	75,602	89,694	94,671	322,936
Performance Fees and Allocations	24,246	(7,737)	7,729	41,542	65,780	68,061	61,906	2,521	24,094	156,582
Investment Income and Other	24,473	(3,181)	15,553	27,829	64,674	25,259	31,138	32,658	59,423	148,478
Total Segment Revenues	89,106	32,472	66,497	130,773	318,848	156,289	168,646	124,873	178,188	627,996
Expenses										
Compensation and Benefits	28,339	21,106	38,552	44,627	132,624	59,374	78,268	34,006	45,692	217,340
Other Operating Expenses	5,303	7,937	8,392	16,356	37,988	8,899	13,511	17,779	22,205	62,394
Total Segment Expenses	33,642	29,043	46,944	60,983	170,612	68,273	91,779	51,785	67,897	279,734
Economic Net Income	$ 55,464	$ 3,429	$ 19,553	$ 69,790	$ 148,236	$ 88,016	$ 76,867	$ 73,088	$ 110,291	$ 348,262
FINANCIAL ADVISORY SEGMENT										
Revenues										
Advisory Fees	$ 38,413	$ 83,005	$ 51,549	$ 83,945	$ 256,912	$ 92,528	$ 97,517	$ 81,910	$ 88,330	$ 360,285
Investment Income and Other	616	755	1,008	1,029	3,408	1,684	1,034	2,354	2,302	7,374
Total Segment Revenues	39,029	83,760	52,557	84,974	260,320	94,212	98,551	84,264	90,632	367,659
Expenses										
Compensation and Benefits	24,847	26,042	31,686	48,065	130,640	48,985	46,794	50,020	44,363	190,162
Other Operating Expenses	2,977	6,186	4,396	7,325	20,884	5,722	7,000	13,483	11,711	37,916
Total Segment Expenses	27,824	32,228	36,082	55,390	151,524	54,707	53,794	63,503	56,074	228,078
Economic Net Income	$ 11,205	$ 51,532	$ 16,475	$ 29,584	$ 108,796	$ 39,505	$ 44,757	$ 20,761	$ 34,558	$ 139,581
ECONOMIC NET INCOME RECAP										
Revenues										
Management Fees										
Base Management Fees	$159,165	$219,331	$183,175	$ 227,603	$ 789,274	$ 249,936	$ 294,663	$307,261	$ 308,913	$1,160,773
Transaction and Other Fees	64,514	76,547	74,893	134,619	350,573	220,452	76,981	64,946	174,464	536,843
Management Fee Offsets	(9,001)	(7,482)	(6,595)	(4,040)	(27,118)	(8,231)	(13,327)	(30,173)	(25,021)	(76,752)
Total Management Fees	214,678	288,396	251,473	358,182	1,112,729	462,157	358,317	342,034	458,356	1,620,864
Performance Fees and Allocations	147,851	47,232	174,218	687,739	1,057,040	648,355	445,011	140,051	(139,429)	1,093,988
Investment Income and Other	77,226	161	45,381	164,585	287,353	115,666	179,455	63,442	48,009	406,572
Total Segment Revenues	439,755	335,789	471,072	1,210,506	2,457,122	1,226,178	982,783	545,527	366,936	3,121,424
Expenses										
Compensation and Benefits	117,335	116,941	156,051	267,091	657,418	240,265	206,330	179,670	153,674	779,939
Other Operating Expenses	20,183	30,803	24,054	48,518	123,558	28,134	40,842	66,699	85,096	220,771
Total Segment Expenses	137,518	147,744	180,105	315,609	780,976	268,399	247,172	246,369	238,770	1,000,710
TOTAL ECONOMIC NET INCOME	$302,237	$188,045	$290,967	$ 894,897	$1,676,146	$ 957,779	$ 735,611	$299,158	$ 128,166	$2,120,714

The following table reconciles Pro Forma Adjusted Economic Net Income to Economic Net Income, Reportable Segments. The reconciliation of Economic Net Income, Total Reportable Segments to GAAP Income Before Provision for Taxes is included in the footnotes to Blackstone's audited financial statements for the years ended December 31, 2007 and 2006 included elsewhere in this Annual Report. The reconciliations of Economic Net Income, Reportable Segments for the quarterly periods ended March 31, 2007 and 2006 are included in the Registration Statement filed in connection with Blackstone's initial public offering. The reconciliations of Economic Net Income, Reportable Segments for the quarterly periods ended June 30, 2007 and 2006 and September 30, 2007 and 2006, respectively, are included in the Quarterly Reports filed on Form 10-Q with the SEC.

	Quarter Ended					Quarter Ended				
(Dollars in Thousands)	March 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	Full Year 2006	March 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007	Full Year 2007
	Pro Forma Adjusted									Pro Forma Adjusted
Economic Net Income	$302,237	$188,045	$290,967	$ 894,897	$1,676,146	$ 957,779	$735,611	$299,158	$128,166	$2,120,714
Pro Forma Adjustments:										
Addition of Non-contributed Entities(a)	133,791	(1,914)	3,711	114,820	250,408	38,332	30,774	–	–	69,106
Decrease in Compensation Expense(b)	64,486	60,274	94,698	187,893	407,351	161,057	94,369	–	–	255,426
Addition of Interest Expense(c)	(7,487)	(12,692)	(6,788)	(8,798)	(35,765)	(11,121)	(15,177)	–	–	(26,298)
ECONOMIC NET INCOME, REPORTABLE SEGMENTS	$493,027	$233,713	$382,588	$1,188,812	$2,298,140	$1,146,047	$845,577	$299,158	$128,166	$2,418,948

(a) Represent adjustments to add back revenues and expenses of the businesses that were not contributed as part of the reorganization.
(b) Represent adjustments to add back expenses related to employee compensation and profit sharing arrangements that were not effective prior to the reorganization.
(c) Represent adjustments to add back interest expense based on the assumption that the revolving credit facility was repaid in full from the proceeds of the offering as of January 1, 2006.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the General Partner and
Unitholders of
The Blackstone Group L.P.:

We have audited the accompanying consolidated and combined statements of financial condition of The Blackstone Group L.P. and subsidiaries ("Blackstone") as of December 31, 2007 and 2006, and the related consolidated and combined statements of income, changes in partners' capital and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of Blackstone's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Blackstone is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Blackstone's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated and combined financial statements present fairly, in all material respects, the financial position of The Blackstone Group L.P. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

New York, New York
March 11, 2008

(Dollars in Thousands, Except Unit Data)	December 31, 2007	2006
ASSETS		
Cash and Cash Equivalents	$ 868,629	$ 129,443
Cash Held by Blackstone Funds	163,696	810,725
Investments, at Fair Value	7,145,156	31,263,573
Accounts Receivable	213,086	594,498
Due from Brokers	812,250	398,196
Investment Subscriptions Paid in Advance	36,698	280,917
Due from Affiliates	855,854	318,892
Intangible Assets, Net	604,681	–
Goodwill	1,597,474	–
Other Assets	99,366	88,772
Deferred Tax Assets	777,310	6,028
TOTAL ASSETS	$13,174,200	$33,891,044
LIABILITIES AND PARTNERS' CAPITAL		
Loans Payable	$ 130,389	$ 975,981
Amounts Due to Non-Controlling Interest Holders	269,901	647,418
Securities Sold, Not Yet Purchased	1,196,858	422,788
Due to Affiliates	831,609	103,428
Accrued Compensation and Benefits	188,997	66,301
Accounts Payable, Accrued Expenses and Other Liabilities	250,445	157,355
TOTAL LIABILITIES	2,868,199	2,373,271
COMMITMENTS AND CONTINGENCIES		
NON-CONTROLLING INTERESTS IN CONSOLIDATED ENTITIES	6,079,156	28,794,894
PARTNERS' CAPITAL		
Partners' Capital (common units, 260,471,862 issued and 259,826,700 outstanding as of December 31, 2007)	4,226,500	2,712,605
Accumulated Other Comprehensive Income	345	10,274
TOTAL PARTNERS' CAPITAL	4,226,845	2,722,879
TOTAL LIABILITIES AND PARTNERS' CAPITAL	$13,174,200	$33,891,044

See notes to consolidated and combined financial statements.

CONSOLIDATED AND COMBINED STATEMENTS OF INCOME

(Dollars in Thousands, Except Unit and Per Unit Data)	Year Ended December 31, 2007	2006	2005
REVENUES			
Management and Advisory Fees	$1,566,047	$1,077,139	$ 478,908
Performance Fees and Allocations	1,125,053	1,267,764	880,906
Investment Income and Other	359,048	272,526	208,418
TOTAL REVENUES	3,050,148	2,617,429	1,568,232
EXPENSES			
Compensation and Benefits	2,256,647	250,067	182,604
Interest	32,080	36,932	23,830
General, Administrative and Other	324,200	122,395	87,413
Fund Expenses	151,917	143,695	67,972
TOTAL EXPENSES	2,764,844	553,089	361,819
OTHER INCOME			
Net Gains from Fund Investment Activities	5,423,132	6,090,145	4,071,046
INCOME BEFORE NON-CONTROLLING INTERESTS IN INCOME OF CONSOLIDATED ENTITIES AND PROVISION FOR TAXES	5,708,436	8,154,485	5,277,459
NON-CONTROLLING INTERESTS IN INCOME OF CONSOLIDATED ENTITIES	4,059,221	5,856,345	3,934,536
INCOME BEFORE PROVISION FOR TAXES	1,649,215	2,298,140	1,342,923
PROVISION FOR TAXES	25,978	31,934	12,260
NET INCOME	$1,623,237	$2,266,206	$1,330,663

	June 19, 2007 through December 31, 2007		
NET LOSS	$ (335,514)		
NET LOSS PER COMMON UNIT			
Basic	$ (1.29)		
Diluted	$ (1.29)		
WEIGHTED-AVERAGE COMMON UNITS			
Basic	259,979,606		
Diluted	259,979,606		
REVENUES EARNED FROM AFFILIATES			
Management and Advisory Fees	$ 594,967	$ 405,345	$ 140,994

See notes to consolidated and combined financial statements.

CONSOLIDATED AND COMBINED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

(Dollars in Thousands Except Unit Data)	Common Units	Partners' Capital	Accumulated Other Comprehensive Income (Loss)	Total Partners' Capital	Comprehensive Income
BALANCE AT DECEMBER 31, 2004	–	$ 1,936,013	$ 418	$ 1,936,431	$ –
Net Income		1,330,663		1,330,663	1,330,663
Currency Translation Adjustment			(2,045)	(2,045)	(2,045)
Net Unrealized Gain on Cash Flow Hedges			7,823	7,823	7,823
Capital Contributions		119,151		119,151	
Capital Distributions		(1,567,078)		(1,567,078)	
BALANCE AT DECEMBER 31, 2005	–	1,818,749	6,196	1,824,945	1,336,441
Net Income		2,266,206		2,266,206	2,266,206
Currency Translation Adjustment			4,098	4,098	4,098
Net Unrealized Loss on Cash Flow Hedges			(20)	(20)	(20)
Capital Contributions		212,594		212,594	
Capital Distributions		(1,584,944)		(1,584,944)	
BALANCE AT DECEMBER 31, 2006	–	2,712,605	10,274	2,722,879	2,270,284
Net Income		1,958,751		1,958,751	1,958,751
Currency Translation Adjustment			(191)	(191)	(191)
Net Unrealized Loss on Cash Flow Hedges			(6,930)	(6,930)	(6,930)
Capital Contributions		233,659		233,659	
Capital Distributions		(2,492,352)		(2,492,352)	
Elimination of Non-Contributed Entities		(161,103)	(2,803)	(163,906)	
Transfer of Non-Controlling Interests in Consolidated Entities		(2,216,284)		(2,216,284)	
BALANCE AT JUNE 18, 2007	–	35,276	350	35,626	1,951,630
BALANCE AT JUNE 19, 2007	–	35,276	350	35,626	1,951,630
Issuance of Units in Initial Public Offering, Net of Issuance Costs	153,333,334	4,501,240		4,501,240	
Issuance of Units to Beijing Wonderful Investments	101,334,234	3,000,000		3,000,000	
Purchase of Interests from Predecessor Owners		(4,570,756)		(4,570,756)	
Deferred Tax Effects Resulting from Acquisition of Ownership Interests		111,876		111,876	
Transfer of Non-Controlling Interests in Consolidated Entities		1,174,367		1,174,367	
Net Loss		(335,514)		(335,514)	(335,514)
Distribution to Unitholders		(78,794)		(78,794)	
Currency Translation Adjustment			(5)	(5)	(5)
Equity-Based Compensation		404,850		404,850	
Vested Deferred Restricted Common Units	5,804,294	–	–	–	–
Repurchase of Common Units	(645,162)	(16,045)		(16,045)	
BALANCE AT DECEMBER 31, 2007	259,826,700	$ 4,226,500	$ 345	$ 4,226,845	$1,616,111

See notes to consolidated and combined financial statements.

(Dollars in Thousands)	Year Ended December 31, 2007	2006	2005
OPERATING ACTIVITIES			
Net Income	$ 1,623,237	$ 2,266,206	$ 1,330,663
Adjustments to Reconcile Net Income to Net Cash (Used in) Provided by Operating Activities:			
Blackstone Funds Related:			
Non-Controlling Interests in Income of Consolidated Entities	1,521,303	3,950,664	3,631,179
Net Realized Gains on Investments	(3,800,137)	(5,054,995)	(4,918,364)
Changes in Unrealized (Gains) Losses on Investments Allocable to Blackstone Group	(13,630)	(585,555)	113,934
Non-Cash Performance Fees and Allocations	(187,070)	–	–
Equity-Based Compensation Expense	1,765,188	–	–
Intangible Amortization	117,607	–	–
Other Non-Cash Amounts Included in Net Income	11,221	(41,929)	(52,427)
Cash Flows Due to Changes in Operating Assets and Liabilities:			
Cash Held by Blackstone Funds	643,410	(447,068)	(81,527)
Cash Relinquished with Deconsolidation of Partnership	(884,480)	–	–
Cash Relinquished with Consolidation of Partnership	–	–	19,578
Due from Brokers	(414,053)	(398,196)	–
Accounts Receivable	337,824	(431,044)	150,215
Due from Affiliates	(969,055)	(76,700)	3,328
Other Assets	(53,602)	(21,252)	(9,143)
Accrued Compensation and Benefits	95,059	20,257	11,355
Accounts Payable, Accrued Expenses and Other Liabilities	242,969	38,470	(65,298)
Due to Affiliates	805,687	47,665	87
Amounts Due to Non-Controlling Interest Holders	7,659	113,188	(32,734)
Blackstone Funds Related:			
Investments Purchased	(33,655,862)	(14,638,659)	(5,791,376)
Cash Proceeds from Sale of Investments	31,956,429	10,862,334	8,399,788
Net Cash (Used in) Provided by Operating Activities	(850,296)	(4,396,614)	2,709,258
INVESTING ACTIVITIES			
Purchase of Furniture, Equipment and Leasehold Improvements	(32,307)	(24,190)	(7,353)
Elimination of Cash for Non-Contributed Entities	(23,292)	–	–
Net Cash Used in Investing Activities	(55,599)	(24,190)	(7,353)
FINANCING ACTIVITIES			
Issuance of Units in Initial Public Offering and to Beijing Wonderful Investments	7,501,240	–	–
Distributions to Non-Controlling Interest Holders in Consolidated Entities	(5,731,806)	(6,653,590)	(6,257,445)
Contributions from Non-Controlling Interest Holders in Consolidated Entities	7,132,074	12,321,339	5,040,610
Contributions from Predecessor Owners	583,773	212,594	119,151
Distributions to Predecessor Owners	(2,932,918)	(1,551,957)	(1,327,169)
Purchase of Interests from Predecessor Owners	(4,570,756)	–	–
Repurchase of Units	(16,045)	–	–
Proceeds from Loans Payable	5,254,787	7,634,786	2,623,231
Repayment of Loans Payable	(5,497,113)	(7,499,857)	(2,936,728)
Payment of Dividend	(78,794)	–	–
Net Cash Provided by (Used in) Financing Activities	1,644,442	4,463,315	(2,738,350)

See notes to consolidated and combined financial statements.

continued

(Dollars in Thousands)	Year Ended December 31, 2007	2006	2005
Effect of Exchange Rate Changes on Cash and Cash Equivalents	$ 639	$ 518	$ (2,832)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	739,186	43,029	(39,277)
Cash and Cash Equivalents, Beginning of Period	129,443	86,414	125,691
Cash and Cash Equivalents, End of Period	$ 868,629	$ 129,443	$ 86,414
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Payments for Interest	$ 60,326	$ 79,469	$ 30,761
Payments for Income Taxes	$ 75,899	$ 19,669	$ 18,726
SUPPLEMENTAL DISCLOSURE OF NON-CASH OPERATING ACTIVITIES			
Net Activities Related to Investment Transactions of Consolidated Blackstone Funds	$ –	$ 2,119,246	$ 1,752,904
SUPPLEMENTAL NON-CASH FINANCING ACTIVITIES			
Non-Cash Distributions to Non-Controlling Interest Holders	$ (22,169)	$ 138,967	$ 948,651
Non-Cash Distributions to Partners	$ 49,763	$ 32,987	$ 239,909
Net Activities Related to Capital Transactions of Consolidated Blackstone Funds	$ –	$ 2,241,660	$ 589,511
Elimination of Capital of Non-Contributed Entities	$ 118,947	$ –	$ –
Elimination of Non-Controlling Interests of Non-Contributed Entities	$ 163,906	$ –	$ –
Transfer of Partners' Capital to Non-Controlling Interests	$ 2,216,284	$ –	$ –
Distribution Payable to Predecessor Owners	$ 65,995	$ –	$ –
Reorganization of the Partnership:			
Goodwill as a Result of Reorganization	$ (1,597,474)	$ –	$ –
Intangibles as a Result of Reorganization	$ (722,288)	$ –	$ –
Accounts Payable, Accrued Expenses and Other Liabilities	$ 8,801	$ –	$ –
Due to Affiliates	$ 55,157	$ –	$ –
Non-Controlling Interest in Consolidated Entities	$ 2,255,804	$ –	$ –
Exchange of Founders and Senior Managing Directors' Interests in Blackstone Holdings:			
Deferred Tax Asset	$ (745,837)	$ –	$ –
Due to Affiliates	$ 633,961	$ –	$ –
Partners' Capital	$ 111,876	$ –	$ –

See notes to consolidated and combined financial statements.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

The Blackstone Group L.P. (the "Partnership"), together with its consolidated subsidiaries (collectively, "Blackstone"), is a leading global alternative asset manager and provider of financial advisory services based in New York. The alternative asset management businesses include the management of corporate private equity funds, real estate funds, funds of hedge funds, mezzanine funds, senior debt vehicles, proprietary hedge funds, closed-end mutual funds and related entities that invest in such funds, collectively referred to as the "Blackstone Funds." Blackstone also provides various financial advisory services, including corporate and mergers and acquisitions advisory, restructuring and reorganization advisory and fund placement services.

BASIS OF PRESENTATION. The accompanying consolidated and combined financial statements include (1) subsequent to the reorganization as described below, the consolidated accounts of Blackstone, and (2) prior to the reorganization the entities engaged in the above businesses under the common ownership of the two founders of Blackstone, Stephen A. Schwarzman and Peter G. Peterson (the "Founders"), Blackstone's other senior managing directors and selected other individuals engaged in some of Blackstone's businesses, personal planning vehicles beneficially owned by the families of these individuals and a subsidiary of American International Group, Inc. ("AIG"), collectively referred to as the "predecessor owners".

Certain of the Blackstone Funds are included in the consolidated and combined financial statements of the Partnership. Consequently, the consolidated and combined financial statements of the Partnership reflect the assets, liabilities, revenues, expenses and cash flows of these consolidated Blackstone Funds on a gross basis. The majority economic ownership interests in these funds are reflected as Non-Controlling Interests in Consolidated Entities in the consolidated and combined financial statements. The consolidation of these Blackstone Funds has no net effect on the Partnership's Net Income or Partners' Capital.

The Partnership's interest in Blackstone Holdings (see "Reorganization of the Partnership" below) is within the scope of the Emerging Issues Task Force ("EITF") Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ("EITF 04-5"). Although the Partnership has a minority economic interest in Blackstone Holdings, it has a majority voting interest and controls the management of Blackstone Holdings. Additionally, although the Blackstone Holdings' limited partners hold a majority economic interest in Blackstone Holdings, they do not have the right to dissolve the partnership or have substantive kick-out rights or participating rights that would overcome the presumption of control by the Partnership. Accordingly, the Partnership consolidates Blackstone Holdings and records non-controlling interest for the economic interests in Blackstone Holdings held directly by the Founders, the senior managing directors, selected other individuals engaged in some of Blackstone's businesses and AIG.

Certain prior period financial statement balances have been reclassified to conform to the current presentation.

REORGANIZATION OF THE PARTNERSHIP. The Partnership was formed as a Delaware limited partnership on March 12, 2007. The Partnership is managed and operated by its general partner, Blackstone Group Management L.L.C., which is in turn wholly-owned and controlled by Blackstone's senior managing directors and the Founders.

Blackstone's business was historically conducted through a large number of entities as to which there was no single holding entity but which were separately owned by its predecessor owners. In order to facilitate the initial public offering, as described in further detail below, the predecessor owners completed a reorganization as of the close of business on June 18, 2007 (the "Reorganization") whereby, with certain limited exceptions, each of the operating entities of the predecessor organization and the intellectual property rights associated with the Blackstone name, were contributed ("Contributed Businesses") to five newly-formed holding partnerships (Blackstone Holdings I L.P., Blackstone Holdings II L.P., Blackstone Holdings III L.P., Blackstone Holdings IV L.P. and Blackstone Holdings V L.P. (collectively, "Blackstone Holdings")) or sold to wholly-owned subsidiaries of the Partnership (which in turn contributed them to Blackstone Holdings). The Partnership, through wholly-owned subsidiaries, is the sole general partner of each of the Blackstone Holdings partnerships.

The Reorganization was accounted for as an exchange of entities under common control for the interests in the Contributed Businesses which were contributed by the Founders and the other senior managing directors (collectively, the "Control Group") and as an acquisition of non-controlling interests using the purchase method of accounting for all the predecessor owners other than the Control Group pursuant to Statement of Financial Accounting Standard ("SFAS") No. 141, *Business Combinations* ("SFAS No. 141").

Blackstone also entered into an exchange agreement with holders of partnership units in Blackstone Holdings (other than the Partnership's wholly-owned subsidiaries) so that these holders, subject to the vesting, minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings partnerships, may up to four times each year exchange their Blackstone Holdings Partnership Units for Blackstone Common Units on a one-for-one basis, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications.

A Blackstone Holdings limited partner must exchange one partnership unit in each of the five Blackstone Holdings partnerships to effect an exchange for one common unit in the Partnership. The terms "Blackstone Holdings Partnership Unit" or "partnership unit in/of Blackstone Holdings" refer collectively to a partnership unit in each of the Blackstone Holdings partnerships.

Undistributed earnings of the Contributed Businesses through the date of the Reorganization inured to the benefit of the predecessor owners. Such amounts totaled $840.1 million. The undistributed balance of $66.0 million as of December 31, 2007 has been recorded as a component of Due to Affiliates and was paid out in January 2008.

INITIAL PUBLIC OFFERING. On June 27, 2007, the Partnership completed the initial public offering ("IPO") of its common units representing limited partner interests in the Partnership. Upon the completion of the IPO, public investors indirectly owned approximately 14.1% of the equity in Blackstone. Concurrently with the IPO, the Partnership completed the sale of non-voting common units, representing approximately 9.3% of the equity in Blackstone, to Beijing Wonderful Investments, an investment vehicle established by the People's Republic of China with respect to its foreign exchange reserve. Beijing Wonderful Investments is restricted in the future from engaging in a purchase of Blackstone Common Units that would result in its equity interest in Blackstone exceeding 10%.

The Partnership contributed the proceeds from the IPO and the sale of non-voting common units to Beijing Wonderful Investments to its wholly-owned subsidiaries, which in turn used these proceeds to (1) purchase interests in the Contributed Businesses from the predecessor owners (which interests were then contributed to Blackstone Holdings in exchange for newly-issued Blackstone Holdings Partnership Units) and (2) purchase additional newly-issued Blackstone Holdings Partnership Units from Blackstone Holdings.

CONSOLIDATION AND DECONSOLIDATION OF BLACKSTONE FUNDS. In accordance with GAAP, a number of the Blackstone Funds were historically consolidated into Blackstone's combined financial statements.

Concurrently with the Reorganization, the Contributed Businesses that act as a general partner of a consolidated Blackstone fund (with the exception of Blackstone's proprietary hedge funds and four of the funds of hedge funds) took the necessary steps to grant rights to the unaffiliated investors in each respective fund to provide that a simple majority of the fund's unaffiliated investors will have the right, without cause, to remove the general partner of that fund or to accelerate the liquidation date of that fund in accordance with certain procedures. The granting of these rights resulted in the deconsolidation of such investment funds from the Partnership's consolidated financial statements and the accounting of Blackstone's interest in these funds under the equity method. With the exception of certain funds of hedge funds, these rights became effective on June 27, 2007 for all Blackstone funds where these rights were granted. The effective date of these rights for the applicable funds of hedge funds was July 1, 2007. The consolidated results of these funds have been reflected in the Partnership's consolidated and combined financial statements up to the effective date of these rights.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING. The consolidated and combined financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

PRINCIPLES OF CONSOLIDATION. The Partnership's policy is to combine, or consolidate, as appropriate, those entities in which it, through the Blackstone personnel, have control over significant operating, financial or investing decisions of the entity.

For Blackstone Funds that are determined to be variable interest entities ("VIE"), Blackstone consolidates those entities where it absorbs a majority of the expected losses or a majority of the expected residual returns, or both, of such entities pursuant to the requirements of Financial Accounting Standards Board ("FASB") Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities – an interpretation of ARB 51* ("FIN 46(R)"). In addition, Blackstone consolidates those entities it controls through a majority voting interest or otherwise, including those Blackstone Funds in which the general partner is presumed to have control over them pursuant to FASB Emerging Issues Task Force ("EITF") Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ("EITF 04-5"). The provisions under both FIN 46(R) and EITF 04-5 have been applied retrospectively to prior periods. Intercompany transactions and balances have been eliminated.

For operating entities over which the Partnership exercises significant influence but which do not meet the requirements for consolidation, the Partnership uses the equity method of accounting whereby it records its share of the underlying income or losses of these entities.

In those cases where the Partnership's investment is less than 20% (3% in the case of partnership interests), and significant influence does not exist, such investments are carried at fair value.

USE OF ESTIMATES. The preparation of the consolidated and combined financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated and combined financial statements and the reported amounts of revenues, expenses and other income during the reporting periods. Actual results could differ from those estimates and such differences could be material to the consolidated and combined financial statements.

CASH AND CASH EQUIVALENTS. The Partnership considers all highly liquid short term investments with original maturities of 90 days or less when purchased to be cash equivalents.

CASH HELD BY BLACKSTONE FUNDS. Cash Held by Blackstone Funds consists of cash and cash equivalents held by the Blackstone Funds which, although not legally restricted, is not available to fund the general liquidity needs of Blackstone.

INVESTMENTS, AT FAIR VALUE. The Blackstone Funds are, for GAAP purposes, investment companies under the AICPA Audit and Accounting Guide *Investment Companies.* Thus, such funds reflect their investments, including Securities Sold, Not Yet Purchased, on the Consolidated and Combined Statements of Financial Condition at fair value, with unrealized gains and losses resulting from changes in fair value reflected as a component of Net Gains from Fund Investment Activities in the Consolidated and Combined Statements of Income. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e., the exit price). Additionally, these funds do not consolidate their majority-owned and controlled investments (the "Portfolio Companies"). The Partnership has retained the specialized accounting for the Blackstone Funds pursuant to EITF Issue No. 85-12, *Retention of Specialized Accounting for Investments in Consolidation.*

The fair value of the Partnership's Investments and Securities Sold, Not Yet Purchased are based on observable market prices when available. Such prices are based on the last sales price on the measurement date, or, if no sales occurred on such date, at the "bid" price at the close of business on such date and if sold short, at the "ask" price at the close of business on such date. Futures and options contracts are valued based on closing market prices. Forward and swap contracts are valued based on market rates or prices obtained from recognized financial data service providers.

A significant number of the investments have been valued by the Partnership, in the absence of observable market prices, using the valuation methodologies described below. Additional information regarding these investments is provided in Note 4 to the consolidated and combined financial statements. 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. The Partnership estimates the fair value of investments when market prices are not observable as follows.

CORPORATE PRIVATE EQUITY, REAL ESTATE AND MEZZANINE INVESTMENTS. For investments for which observable market prices do not exist, such investments are reported at fair value as determined by the Partnership. Fair value is determined using valuation methodologies after giving consideration to a range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. These valuation methodologies involve a significant degree of management judgment.

FUNDS OF HEDGE FUNDS. Blackstone Funds' direct investments in hedge funds ("Investee Funds") are stated at fair value, based on the information provided by the Investee Funds which reflects the Partnership's share of the fair value of the net assets of the investment fund. If the Partnership determines, based on its own due diligence and investment procedures, that the valuation for any Investee Fund based on information provided by the Investee Fund's management does not represent fair value, the Partnership shall estimate the fair value of the Investee Fund in good faith and in a manner that it reasonably chooses.

Certain Blackstone Funds sell securities that they do not own, and will therefore be obligated to purchase such securities at a future date. The value of an open short position is recorded as a liability, and the fund records unrealized appreciation or depreciation to the extent of the difference between the proceeds received and the value of the open short position. The applicable Blackstone Fund records a realized gain or loss when a short position is closed. By entering into short sales, the applicable Blackstone Fund bears the market risk of increases in value of the security sold short. The unrealized appreciation or depreciation as well as the realized gain or loss associated with short positions are included in the Consolidated and Combined Statements of Income as Net Gains from Fund Investment Activities.

Securities transactions are recorded on a trade date basis.

EQUITY METHOD INVESTMENTS. Blackstone's general partner interests in the applicable Blackstone Funds are within the scope of EITF 04-5. Historically, Blackstone has consolidated its general partners' interests in the corporate private equity, real estate and mezzanine funds and certain funds of hedge funds that it manages. In conjunction with its IPO and as described in Note 1, Blackstone granted rights to unaffiliated limited partner fund investors to provide that a simple majority of the fund's investors will have the right, without cause, to remove the general partner of that fund or to accelerate the liquidation date of that fund in accordance with certain procedures. Consequently, these general partners no longer control, but retain significant influence over, the activities of certain of the funds and will account for these general partners' interests using the equity method of accounting pursuant to Accounting Principles Board ("APB") Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* ("APB 18"). Blackstone's equity in earnings (losses) from equity method investees is included in Investment Income and Other in the Consolidated and Combined Statements of Income as such investments represent an integral part of Blackstone's business.

Blackstone also invests in entities other than its managed funds. In such instances where Blackstone exerts significant influence, but not control, typically when its percentage voting interest in such investments is between 20% and 50%, the Partnership accounts for these investments using the equity method of accounting.

The Partnership evaluates for impairment its equity method investments, including any intangibles and goodwill related to the acquisition of such investments, whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable in accordance with APB 18. The difference between the carrying value of the equity method investment and its estimated fair value is recognized as an impairment when the loss in value is deemed other than temporary.

ACCOUNTS RECEIVABLE. Accounts Receivable consists primarily of amounts due to Blackstone's fund placement business, amounts relating to redemptions from the underlying hedge funds in Blackstone's funds of hedge funds, amounts due from limited partners for fund management fees, and receivables related to Advisory Fees and client expenses.

INVESTMENT SUBSCRIPTIONS PAID IN ADVANCE. Investment Subscriptions Paid in Advance by the Partnership represent cash paid prior to the effective date of an investment to facilitate the deployment of investment proceeds to affiliated and third party managers.

FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS. Furniture, equipment and leasehold improvements consist primarily of leasehold improvements, furniture, fixtures and equipment, computer hardware and software and are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the assets' estimated useful lives, which for leasehold improvements are the lesser of the lease terms or the life of the asset, generally 15 years, and three to seven years for other fixed assets. The Partnership evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

BUSINESS COMBINATIONS. The Partnership accounts for acquisitions using the purchase method of accounting in accordance with SFAS No. 141. The purchase price of the acquisition is allocated to the assets acquired and liabilities assumed using the fair values determined by management as of the acquisition date. The consolidated and combined financial statements of the Partnership for the periods presented does not reflect any business combinations. However, the acquisition of non-controlling interests described in Notes 1 and 3 is accounted for using the purchase method of accounting pursuant to SFAS No. 141.

GOODWILL AND INTANGIBLE ASSETS. SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"), does not permit the amortization of goodwill and indefinite-lived assets. Under SFAS No. 142, these assets must be reviewed annually for impairment or more frequently if circumstances indicate impairment may have occurred.

The following table outlines changes to the carrying amount of goodwill:

(Dollars in Thousands)	
Balance at December 31, 2006	$ –
Additions	1,551,175
Purchase price adjustments	46,299
Balance at December 31, 2007	$1,597,474

Identifiable finite-lived intangible assets are amortized over their estimated useful lives ranging from three to 10 years, which are periodically reevaluated for impairment or when circumstances indicate impairment may have occurred in accordance with SFAS No. 144. Our intangible assets consist of the contractual right to future fee income from management, advisory and incentive fee contracts and the contractual right to earn future carried interest from our corporate private equity, real estate and mezzanine funds. No goodwill or other intangible assets were impaired as of December 31, 2007.

NON-CONTROLLING INTERESTS IN CONSOLIDATED ENTITIES. Non-controlling interests related to the corporate private equity, real estate and mezzanine funds are subject to on-going realizations and distributions of proceeds therefrom during the life of a fund with a final distribution at the end of each respective fund's term, which could occur under certain circumstances in advance of or subsequent to that fund's scheduled termination date. Non-controlling interests related to funds of hedge funds and hedge funds are generally subject to annual, semi-annual or quarterly withdrawal or redemption by investors in such funds following the expiration of a specified period of time when capital may not be withdrawn (typically between one and three years). When redeemed amounts become legally payable to investors on a current basis, they are reclassified as a liability.

In many cases, the Partnership's general partner interests in the Blackstone Funds entitle the Partnership to an allocation of income (a "carried interest" or incentive fee) in the event that the fund achieves specified cumulative investment returns. The carried interest to the Partnership ranges from 10% to 20%. The incentive fees range from 5% to 20%. The Partnership records such allocations in the determination of the Non-Controlling Interests in Income of Consolidated Entities when the returns at the respective Blackstone Funds meet or exceed the cumulative investment returns to the limited partners established in the relevant agreements.

AMOUNTS DUE TO NON-CONTROLLING INTEREST HOLDERS. Amounts Due to Non-Controlling Interest Holders consist primarily of shareholder/investor redemptions and capital withdrawals payable by the Blackstone Funds.

DERIVATIVES AND HEDGING ACTIVITIES. The Partnership enters into derivative financial instruments for investment purposes and to manage interest rate and foreign exchange risk arising from certain assets and liabilities. All derivatives are recognized as either assets or liabilities in the Consolidated and Combined Statements of Financial Condition and measured at fair value. Derivatives used in connection with investment activities are recorded at fair value and changes in value are recorded in income currently.

CASH FLOW HEDGES. For qualifying cash flow hedges, the Partnership records the effective portion of changes in the fair value of derivatives designated as cash flow hedging instruments in Other Comprehensive Income, which is a component of Partners' Capital. Any ineffective portion of the cash flow hedges is included in current period income. The Partnership's hedging activities are immaterial to the consolidated and combined financial statements.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS. Non-U.S. dollar denominated assets and liabilities are translated at year-end rates of exchange, and the Consolidated and Combined Statements of Income accounts are translated at rates of exchange in effect throughout the year. Foreign currency gains and losses resulting from transactions outside of the functional currency of an entity, which are not significant, are included in Net Income.

COMPREHENSIVE INCOME. Comprehensive Income consists of Net Income and Other Comprehensive Income. The Partnership's Other Comprehensive Income is comprised of unrealized gains and losses on cash flow hedges and foreign currency cumulative translation adjustments.

MANAGEMENT AND ADVISORY FEES. The Partnership has reclassified into a single revenue component the amounts historically reported as Fund Management Fees and Advisory Fees. Historically, in certain management fee arrangements, Blackstone received a fee attributable to fund performance. Such amounts have been reclassified and included in Performance Fees and Allocations.

PERFORMANCE FEES AND ALLOCATIONS. Performance Fees and Allocations consist principally of the preferential allocations of profits ("carried interest") which are a component of the general partners' interests in the corporate private equity, real estate and mezzanine funds. Blackstone is entitled to carried interest from an investment fund when the fund achieves cumulative investment returns in excess of a specified rate. The Partnership records as revenue the amount that would be due pursuant to the fund agreements at each period end as if the fund agreements were terminated at that date. In certain performance fee arrangements related to hedge funds in the marketable alternative asset management segment, Blackstone is entitled to receive performance fees and allocations when the return on assets under management exceeds certain benchmark returns or other performance targets. In such arrangements, performance fees and allocations are accrued monthly or quarterly based on measuring account/fund performance to date versus the performance benchmark stated in the investment management agreement.

INVESTMENT INCOME AND OTHER. Investment Income and Other principally reflects the investment performance, realized and unrealized, of Blackstone's investments in the Blackstone Funds as well as Blackstone's equity in earnings (loss) from equity method investees.

COMPENSATION AND BENEFITS. Compensation includes salaries, bonuses (discretionary awards and guaranteed amounts), profit-sharing plans and the amortization of equity-based compensation as described below. Bonuses are accrued over the service period to which they relate. Benefits include both senior managing directors' and employees' benefit expense. Prior to the IPO, payments made to senior managing directors were accounted for as partnership distributions rather than as compensation.

EQUITY-BASED COMPENSATION. Equity-based compensation is accounted for under the provisions of SFAS No. 123(R), *Share-Based Payment* ("SFAS No. 123(R)"), which revises SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. Under SFAS No. 123(R), the cost of employee services received in exchange for an award of equity instruments is generally measured based on the grant-date fair value of the award. Equity-based awards that do not require future service (i.e., vested awards) are expensed immediately. Equity-based employee awards that require future service are recognized over the relevant service period. Further, as required under SFAS No. 123(R), the Partnership estimates forfeitures for equity-based awards that are not expected to vest.

PROFIT SHARING PLAN. The Partnership has implemented profit-sharing arrangements for Blackstone personnel working in its businesses, including the hedge fund related businesses, across its different operations designed to achieve a relationship between compensation levels and results that are appropriate for each operation given prevailing market conditions. A portion of the carried interest and Performance Fees and Allocations earned subsequent to the Reorganization with respect to certain funds is due to senior managing directors and employees. These amounts are accounted for by the Partnership as compensatory profit-sharing arrangements in conjunction with the related carried interest income and recorded as compensation expense. Currently, approximately 40% of the carried interest earned under these arrangements is paid to these individuals who work in the related operations. Departed partners are also entitled to their vested share of carried interest distributions received from our carry funds and are also liable for their applicable share of losses on carry funds up to the amount of the after-tax carried interest distributions they received from a carry fund.

NET INCOME (LOSS) PER COMMON UNIT. The Partnership computes Net Income (Loss) per Common Unit in accordance with SFAS No. 128, *Earnings Per Share*. Basic Net Income (Loss) per Common Unit is computed by dividing income (loss) available to common unitholders by the weighted-average number of common units outstanding for the period. Diluted Net Income (Loss) per Common Unit reflects the assumed conversion of all dilutive securities. Prior to the Reorganization, Blackstone's business was conducted through a large number of entities as to which there was no single holding entity but which were separately owned by Blackstone personnel. There was no single capital structure upon which to calculate historical earnings per unit information. Accordingly, earnings per unit information has not been presented for historical periods prior to the Reorganization.

INCOME TAXES. Blackstone has historically operated as a partnership or limited liability company for U.S. federal income tax purposes and mainly as a corporate entity in non-U.S. jurisdictions. As a result, income has not been subject to U.S. federal and state income taxes. Generally, the tax liability related to income earned by these entities represent obligations of the individual partners and members and have not been reflected in the historical combined financial statements. Income taxes shown on the Partnership's historical combined statements of income are attributable to the New York City unincorporated business tax and other income taxes on certain entities located in non-U.S. jurisdictions.

Blackstone uses the liability method to account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis using currently enacted tax rates. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all the deferred tax assets will not be realized.

Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining tax expense and in evaluating tax positions including evaluating uncertainties under FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*. Blackstone reviews its tax positions quarterly and adjusts its tax balances as new information becomes available.

Following the Reorganization, the Blackstone Holdings partnerships and certain of their subsidiaries continue to 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 continue to be subject to New York City unincorporated business taxes, or non-U.S. income taxes. In addition, certain of the wholly-owned subsidiaries of the Partnership and the Blackstone Holdings Partnerships will be subject to federal, state and local corporate income taxes at the entity level and the related tax provision attributable to the Partnership's share of this income is reflected in the consolidated financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS. In June 2006, the FASB issued Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 requires companies to recognize the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. The tax benefit recognized is the largest amount of benefit that is greater than 50 percent likelihood of being realized upon ultimate settlement. The Partnership adopted FIN 48 as of January 1, 2007. The adoption of FIN 48 did not have a material impact on the Partnership's consolidated and combined financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Partnership adopted SFAS No. 157 as of January 1, 2007. The adoption of SFAS No. 157 did not have a material impact on the Partnership's consolidated and combined financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value, with changes in fair value recognized in earnings. SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The Partnership adopted SFAS No. 159 as of January 1, 2008. The adoption of SFAS No. 159 is not expected to have a material impact on the Partnership's consolidated and combined financial statements.

In May 2007, the FASB issued FASB Staff Position No. FIN 46(R)-7, *Application of FASB Interpretation No. 46(R) to Investment Companies* ("FSP FIN 46(R)-7") which provides clarification on the applicability of FIN 46(R), as revised to the accounting for investments by entities that apply the accounting guidance in the AICPA Audit and Accounting Guide, *Investment Companies*. FSP FIN 46(R)-7 amends FIN 46(R), as revised to make permanent the temporary deferral of the application of FIN 46(R), as revised to entities within the scope of the guide under Statement of Position ("SOP") No. 07-1, *Clarification of the Scope of the Audit and Accounting Guide* Investment Companies *and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* ("SOP 07-1"). FSP FIN 46(R)-7 is effective upon adoption of SOP 07-1. The adoption of FSP FIN 46(R)-7 is not expected to have a material impact on the Partnership.

SOP 07-1, issued in June 2007, addresses whether the accounting principles of the AICPA Audit and Accounting Guide *Investment Companies* may be applied to an entity by clarifying the definition of an investment company and whether those accounting principles may be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. SOP 07-1, as originally issued, was to be effective for fiscal years beginning on or after December 15, 2007 with earlier adoption encouraged. In February 2008, the FASB issued FSP SOP 07-1-1, *Effective Date of AICPA Statement of Position 07-1*, to indefinitely defer the effective date of SOP 07-1. The Partnership intends to monitor future developments associated with this statement in order to assess the impact, if any, that may result.

In June 2007, the EITF reached consensus on Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* ("EITF 06-11"). EITF 06-11 requires that the tax benefit related to dividend equivalents paid on restricted stock units, which are expected to vest, be recorded as an increase to additional paid-in capital. EITF 06-11 is to be applied prospectively for tax benefits on dividends declared in fiscal years beginning after December 15, 2007. The adoption of EITF 06-11 as of January 1, 2008 is not expected to have a material impact on the Partnership's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS No. 141(R)"). SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets, liabilities, contractual contingencies and contingent consideration obtained in the transaction (whether for a full or partial acquisition); establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141(R) applies to all transactions or other events in which the Partnership obtains control of one or more businesses, including those sometimes referred to as "true mergers" or "mergers of equals" and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51* ("SFAS No. 160"). SFAS No. 160 requires reporting entities to present non-controlling (minority) interests as equity (as opposed to as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and non-controlling interests. SFAS No. 160 applies prospectively as of January 1, 2009, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented.

3. ACQUISITION OF NON-CONTROLLING INTERESTS

Pursuant to the Reorganization transaction described in Note 1, the Partnership acquired interests in the predecessor businesses from the predecessor owners. These interests were acquired, in part, through an exchange of Blackstone Holdings Partnership Units and, in part, through the payment of cash.

This transaction has been accounted for partially as a transfer of interests under common control and, partially, as an acquisition of non-controlling interests in accordance with SFAS No. 141. The vested Blackstone Holdings Partnership Units received by the Control Group in the Reorganization are reflected in the consolidated financial statements as non-controlling interests at the historical cost of the interests they contributed, as they are considered to be the Control Group of the predecessor organization. The vested Blackstone Holdings Partnership Units received by holders not included in the Control Group in the Reorganization are accounted for using the purchase method of accounting under SFAS No. 141 and reflected as non-controlling interests in the consolidated financial statements at the fair value of the interests contributed as these holders are not considered to have been in the group controlling Blackstone prior to the Reorganization. Additionally, ownership interests were purchased with proceeds from the IPO. The cash paid in excess of the cost basis of the interests acquired from members of the Control Group has been charged to equity. Cash payments related to the acquisition of interests from holders outside of the Control Group has been accounted for using the purchase method of accounting.

The total consideration paid to holders outside of the Control Group was $2.76 billion and reflected (1) 68,279,449 Blackstone Holdings Partnership Units issued in the exchange, the fair value of which was $2.12 billion based on the initial public offering price of $31.00 per common unit, and (2) cash of $643.3 million. Accordingly, the Partnership has reflected the acquired tangible assets at the fair value of the consideration paid. The excess of the purchase price over the fair value of the tangible assets acquired approximated $2.26 billion and has been included in the captions Goodwill and Intangible Assets in the Consolidated Statement of Financial Condition as of December 31, 2007. The finite-lived intangible assets related to the contractual right to future fee income from management, advisory and incentive fee contracts and the contractual right to earn future carried interest from the corporate private equity, real estate and mezzanine funds was $722.3 million. The residual amount representing the purchase price in excess of tangible and intangible assets (including other liabilities of $64.0 million) is $1.60 billion and has been recorded as Goodwill.

The Partnership is finalizing the purchase price allocation, including the determination of goodwill attributable to the reporting segments. To the extent that the estimates used in the preliminary purchase price allocation need to be adjusted further, the Partnership will do so upon making that determination but not later than one year from the date of acquisition.

(Dollars in Thousands)	
Purchase Price	$2,759,981
Goodwill	$1,597,474
Finite-Lived Intangible Assets/Contractual Rights	722,288
Other Liabilities	(63,958)
Increase to Non-Controlling Interests in Consolidated Entities	2,255,804
Net Assets Acquired, at Fair Value	504,177
Preliminary Purchase Price Allocation	$2,759,981

4. INVESTMENTS

INVESTMENTS

A condensed summary of Investments consist of the following:

	December 31,	
(Dollars in Thousands)	2007	2006
Investments of Consolidated Blackstone Funds	$3,951,293	$31,066,974
Equity Method Investments	1,971,228	133,335
Performance Fees and Allocations	1,150,264	–
Other Investments	72,371	63,264
	$7,145,156	$31,263,573

The decrease of Investments of Consolidated Blackstone Funds and the increase of Equity Method Investments and Performance Fees and Allocations was the result of the deconsolidation of Blackstone Funds as described in Note 1.

INVESTMENTS OF CONSOLIDATED BLACKSTONE FUNDS

The following table presents a condensed summary of the investments held by the consolidated Blackstone Funds that are reported at fair value. These investments are presented as a percentage of Investments of Consolidated Blackstone Funds:

Geographic Region / Instrument Type / Industry Description or Investment Strategy (Dollars in Thousands)	Fair Value December 31, 2007	Fair Value December 31, 2006	Percentage of Investments of Consolidated Blackstone Funds December 31, 2007	Percentage of Investments of Consolidated Blackstone Funds December 31, 2006
UNITED STATES AND CANADA				
Investment Funds, principally related to marketable alternative asset management funds				
Credit Driven	$ 905,049	$ 870,350	22.9%	2.8%
Diversified Investments	756,654	2,145,729	19.1%	6.9%
Equity	136,530	2,408,012	3.5%	7.8%
Other	2,193	473,908	0.1%	1.5%
Investment Funds Total (Cost: 2007 $1,547,297; 2006 $4,864,068)	1,800,426	5,897,999	45.6%	19.0%
Partnership and LLC Interests, principally related to corporate private equity and real estate funds				
Real Estate, including Consumer Business	216,406	7,323,918	5.5%	23.6%
Life Sciences, including Healthcare	51,682	1,818,875	1.3%	5.9%
Technology, Media and Telecommunications	36,789	2,119,259	0.9%	6.8%
Manufacturing	18,462	1,197,190	0.5%	3.9%
Energy	7,171	138,174	0.2%	0.4%
Other	14,131	64,699	0.4%	0.2%
Partnership and LLC Interests Total (Cost: 2007 $260,372; 2006 $8,169,518)	344,641	12,662,115	8.8%	40.8%
Equity Securities, principally related to marketable alternative asset management and corporate private equity funds				
Common Stock				
Manufacturing	383,937	1,858,483	9.5%	5.9%
Energy	144,783	240,170	3.7%	0.8%
Financial Services	100,719	1,055,661	2.5%	3.4%
Technology, Media and Telecommunications	67,116	2,104,697	1.7%	6.8%
Other	168,898	637,894	4.3%	2.1%
Common Stock Total (Cost: 2007 $833,898; 2006 $3,692,732)	865,453	5,896,905	21.7%	19.0%
Other, principally preferred stock and warrants (Cost: 2007 $10,099; 2006 $34,729)	13,987	63,856	0.4%	0.2%
Equity Securities Total (Cost: 2007 $843,997; 2006 $3,727,461)	879,440	5,960,761	22.1%	19.2%
Debt Instruments, principally related to marketable alternative asset management funds (Cost: 2007 $7,757; 2006 $394,805)	7,507	383,941	0.2%	1.2%
UNITED STATES AND CANADA TOTAL (COST: 2007 $2,659,423; 2006 $17,155,852)	3,032,014	24,904,816	76.7%	80.2%

continued

Geographic Region / Instrument Type / Industry Description or Investment Strategy *(Dollars in Thousands)*	Fair Value December 31, 2007	Fair Value December 31, 2006	Percentage of Investments of Consolidated Blackstone Funds December 31, 2007	Percentage of Investments of Consolidated Blackstone Funds December 31, 2006
EUROPE				
Partnership and LLC Interests, principally related to corporate private equity and real estate funds				
Real Estate, including Consumer Business	$ 38,602	$ 1,239,778	1.0%	4.0%
Technology, Media and Telecommunications	14,592	1,099,904	0.4%	3.5%
Other	894	–	–	–
Partnership and LLC Interests Total (Cost: 2007 $45,859; 2006 $1,966,987)	54,088	2,339,682	1.4%	7.5%
Equity Securities, principally related to corporate private equity funds				
Common Stock				
Manufacturing	302,524	–	7.7%	–
Technology, Media and Telecommunications	43,672	1,879,921	1.1%	6.1%
Other	14,655	1,437,567	0.4%	4.6%
Common Stock Total (Cost: 2007 $339,269; 2006 $2,595,354)	360,851	3,317,488	9.2%	10.7%
Preferred Stock, principally Real Estate including Consumer Business (Cost: 2007 $162,328; Cost: 2006 $188,618)	205,511	187,748	5.2%	0.6%
Other, principally interest rate swaps ($5,584; $ –)	4,733	708	0.1%	0.0%
Equity Securities Total (Cost: 2007 $507,181; 2006 $2,783,972)	571,095	3,505,944	14.5%	11.3%
Debt Instruments, principally related to marketable alternative asset management funds (Cost: 2007 $480; 2006 $44,774)	452	46,086	–	0.1%
EUROPE TOTAL (COST: 2007 $553,520; 2006 $4,795,733)	625,635	5,891,712	15.9%	18.9%
ASIA TOTAL (PRINCIPALLY RELATED TO CORPORATE PRIVATE EQUITY AND MARKETABLE ALTERNATIVE ASSET MANAGEMENT FUNDS) (COST: 2007 $104,452; 2006 $ –)	106,198	–	2.7%	–
OTHER TOTAL (PRINCIPALLY RELATED TO CORPORATE PRIVATE EQUITY AND MARKETABLE ALTERNATIVE ASSET MANAGEMENT FUNDS) (COST: 2007 $48,901; 2006 $210,927)	187,446	270,446	4.7%	0.9%
TOTAL INVESTMENTS OF CONSOLIDATED BLACKSTONE FUNDS (COST: 2007 $3,466,296; 2006 $22,162,512)	$3,951,293	$31,066,974	100.0%	100.0%

At December 31, 2007 and 2006, there were no individual investments, which includes consideration of derivative contracts, with fair values exceeding 5.0% of Blackstone's net assets. At December 31, 2007 and 2006, consideration was given as to whether any individual consolidated funds of hedge funds, feeder fund or any other affiliate exceeded 5.0% of Blackstone's net assets. At December 31, 2007, the Blackport Capital Fund Ltd., a consolidated feeder fund, had a fair value of $903,311 and was the sole feeder fund investment to exceed the 5.0% threshold. At December 31, 2006 there were no such investments.

SECURITIES SOLD, NOT YET PURCHASED. The following table presents the Partnership's Securities Sold, Not Yet Purchased held by the consolidated Blackstone Funds, which are principally held by certain of Blackstone's proprietary hedge funds. These investments are presented as a percentage of Securities Sold, Not Yet Purchased.

Geographic Region / Instrument Type / Industry Class (Dollars in Thousands)	Fair Value December 31, 2007	Fair Value December 31, 2006	Percentage of Securities Sold Not Yet Purchased December 31, 2007	Percentage of Securities Sold Not Yet Purchased December 31, 2006
UNITED STATES – Equity Instruments				
Utilities	$ 360,952	$119,363	30.2%	28.2%
Manufacturing	214,820	133,991	17.9%	31.7%
Financial Services	208,146	–	17.4%	–
Consumer Business	135,710	–	11.3%	0.1%
Technology, Media and Telecommunications	69,105	–	5.8%	–
Index Funds	–	51,313	–	12.1%
Pharmaceutical	–	27,911	–	6.6%
Other	26,255	–	2.2%	–
UNITED STATES TOTAL (PROCEEDS: 2007 $1,013,691; 2006 $330,605)	1,014,988	332,578	84.8%	78.7%
EUROPE – Equity Instruments				
Manufacturing	39,165	19,082	3.3%	4.5%
Utilities	–	34,331	–	8.1%
Other	26,398	–	2.2%	–
EUROPE TOTAL (PROCEEDS: 2007 $60,331; 2006 $50,358)	65,563	53,413	5.5%	12.6%
ALL OTHER REGIONS – Equity Instruments – Manufacturing (PROCEEDS: 2007 $122,167; 2006 $34,336)	116,307	36,797	9.7%	8.7%
TOTAL (PROCEEDS: 2007 $1,196,189; 2006 $415,299)	$1,196,858	$422,788	100.0%	100.0%

REALIZED AND NET CHANGE IN UNREALIZED GAINS (LOSSES) FROM BLACKSTONE FUNDS. Net Gains from Fund Investment Activities on the Consolidated and Combined Statements of Income include net realized gains (losses) from realizations and sales of investments and the net change in unrealized gains (losses) resulting from changes in fair value of the consolidated Blackstone Funds' investments. The following table presents the realized and net change in unrealized gains (losses) on investments held through the consolidated Blackstone Funds:

(Dollars in Thousands)	Year Ended December 31, 2007	2006	2005
Realized Gains	$3,509,318	$5,054,995	$4,918,364
Net Change in Unrealized Gains	2,796,235	2,491,236	189,422
	$6,305,553	$7,546,231	$5,107,786

INVESTMENTS IN VARIABLE INTEREST ENTITIES. Blackstone consolidates certain variable interest entities ("VIEs") in addition to those entities consolidated under EITF 04-5, when it is determined that Blackstone is the primary beneficiary, either directly or indirectly, through a consolidated entity or affiliate. The assets of the consolidated VIEs are classified within Investments. The liabilities of the consolidated VIEs are non-recourse to Blackstone's general credit.

At December 31, 2007, Blackstone was the primary beneficiary of VIEs whose gross assets were $1.33 billion, which is the carrying amount of such financial assets in the consolidated financial statements. The nature of these VIEs include investments in corporate private equity, real estate, mezzanine and funds of hedge funds assets.

Blackstone is also a significant variable interest holder in other VIEs which are not consolidated, as Blackstone is not the primary beneficiary. These VIEs represent certain Blackstone Funds that are funds of hedge funds. At December 31, 2007, gross assets of these entities were approximately $940.5 million. Blackstone's aggregate maximum exposure to loss was approximately $258.6 million as of December 31, 2007. Blackstone's involvement with these entities began on the dates that they were formed, which range from July 2002 to January 2006.

PERFORMANCE FEES AND ALLOCATIONS

Blackstone manages corporate private equity funds, real estate funds, mezzanine funds, funds of hedge funds and hedge funds that are not consolidated. The Partnership records as revenue the amount that would be due pursuant to the fund agreements at each period end as if the fund agreements were terminated at that date. In certain performance fee arrangements related to hedge funds in the marketable alternative asset management segment, Blackstone is entitled to receive performance fees and allocations when the return on assets under management exceeds certain benchmark returns or other performance targets. In such arrangements, performance fees and allocations are accrued monthly or quarterly based on measuring account/fund performance to date versus the performance benchmark stated in the investment management agreement.

EQUITY METHOD INVESTMENTS

Blackstone invests in corporate private equity funds, real estate funds, mezzanine funds, funds of hedge funds and hedge funds that are not consolidated. The Partnership accounts for these investments under the equity method of accounting. Blackstone's share of operating income generated by these investments is recorded as a component of Investment Income and Other. That amount reflects the fair value gains and losses of the associated funds' underlying investments as we retain the specialized investment company accounting of these funds pursuant to EITF 85-12.

A summary of Blackstone's equity method investments follows:

	Equity Held December 31,		Equity in Net Income Year Ended December 31,		
(Dollars in Thousands)	2007	2006	2007	2006	2005
Equity Method Investments	$1,971,228	$133,335	$163,495	$31,760	$20,387

The summarized financial information of the funds in which the Partnership has an equity method investment is as follows:

	December 31, 2007 and the Year Then Ended			
(Dollars in Thousands)	Corporate Private Equity	Real Estate	Marketable Alternative Asset Management	Total
Statement of Financial Condition				
Investments	$18,916,046	$16,328,161	$14,074,962	$49,319,169
Other Assets	223,452	281,972	1,250,053	1,755,477
Total Assets	$19,139,498	$16,610,133	$15,325,015	$51,074,646
Debt	27,359	432,319	377,388	837,066
Other Liabilities	218,017	98,476	851,359	1,167,852
Total Liabilities	$ 245,376	$ 530,795	$ 1,228,747	$ 2,004,918
Partners' Capital	$18,894,122	$16,079,338	$14,096,268	$49,069,728
Statement of Income				
Interest Income	$ 16,953	$ 12,644	$ 80,375	$ 109,972
Other Income	188,823	146,569	1,956	337,348
Interest Expense	(18,571)	(32,815)	(21,816)	(73,202)
Other Expenses	(132,080)	(25,966)	(80,806)	(238,852)
Net Realized and Unrealized Gain (Loss) from Investments	2,091,529	3,266,461	1,750,168	7,108,158
Net Income	$ 2,146,654	$ 3,366,893	$ 1,729,877	$ 7,243,424
Ownership Percentage Ranging Up To	4%	7%	17%	

OTHER INVESTMENTS

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

(Dollars in Thousands)	Year Ended December 31, 2007	2006	2005
Realized Gains	$10,050	$6,791	$8,309
Net Change in Unrealized Gains (Losses)	2,803	2,514	6,048
	$12,853	$9,305	$14,357

FAIR VALUE MEASUREMENTS

The Partnership adopted SFAS No. 157 as of January 1, 2007, which among other matters, requires enhanced disclosures about investments that are measured and reported at fair value. SFAS No. 157 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories.

Level I – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed derivatives. As required by SFAS No. 157, 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. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives.

Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include general and limited partnership interests in corporate private equity and real estate funds, mezzanine funds, funds of hedge funds, distressed debt and non-investment grade residual interests in securitizations and collateralized debt obligations.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy 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 investment.

The following table summarizes the valuation of Blackstone's investments by the above SFAS No. 157 fair value hierarchy levels as of December 31, 2007:

(Dollars in Thousands)	Total	Level I	Level II	Level III
Investments of Consolidated Blackstone Funds	$3,951,293	$1,603,519	$14,888	$2,332,886
Other Investments	72,371	36,858	5,857	29,656
Securities Sold, Not Yet Purchased	1,196,858	1,196,858	–	–

The following table summarizes the Level III investments by valuation methodology as of December 31, 2007:

Fair Value Based on	Corporate Private Equity	Real Estate	Marketable Alternative Asset Management	Total Investment Company Holdings
Third-Party Fund Managers	–	–	76.2%	76.2%
Public/Private Company Comparables	12.6%	9.6%	1.6%	23.8%
Total	12.6%	9.6%	77.8%	100.0%

The changes in investments measured at fair value for which the Partnership has used Level III inputs to determine fair value are as follows.

(Dollars in Thousands)	Year Ended December 31, 2007
Balance, December 31, 2006	$ 27,564,206
Transfers Out Due to Deconsolidation	(29,956,708)
Transfers Out Due to Reorganization	(1,892,802)
Transfers In Due to Reorganization	28,307
Transfers Out	(721,900)
Purchases (Sales), Net	1,848,732
Realized and Unrealized Gains (Losses), Net	5,492,707
Balance, December 31, 2007	$ 2,362,542
Changes in Unrealized Gains (Losses) Included in Earnings Related to Investments Still Held at Reporting Date	$ 7,054

Total realized and unrealized gains and losses recorded for Level III investments are reported in Net Gains from Fund Investment Activities in the Consolidated and Combined Statements of Income.

5. CREDIT RISK

Credit risk refers to the risk of loss arising from borrower or counterparty default when a borrower, counterparty or obligor does not meet its financial obligations. Certain Blackstone Funds and the Investee Funds are subject to certain inherent credit risks arising from their transactions involving futures, options and securities sold under agreements to repurchase by exposure through its investments.

Various entities of the Partnership invest substantially all of their excess cash in an open-end money market fund and a money market demand account, which are included in Cash and Cash Equivalents. The money market fund invests primarily in government securities and other short-term, highly liquid instruments with a low risk of loss. The Partnership continually monitors the fund's performance in order to manage any risk associated with these investments.

Certain entities of the Partnership hold derivative instruments that contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. The Partnership minimizes its risk exposure by limiting the counterparties with which it enters into contracts to banks and investment banks who meet established credit and capital guidelines. The Partnership does not expect any counterparty to default on its obligation and therefore does not expect to incur any loss due to counterparty default.

6. DUE FROM BROKERS

Certain Blackstone Funds conduct business with brokers for their investment activities. The clearing and custody operations for these investment activities are performed pursuant to agreements with prime brokers. The Due from Brokers balance represents cash balances at the brokers and net receivables and payables for unsettled security transactions. Blackstone met the criteria for netting under FASB Interpretation 39, *Offsetting of Amounts Related to Certain Contracts – an interpretation of APB Opinion No. 10 and FASB Statement No. 105*, as there was no cross netting of receivable and payable amounts between the prime brokers and the netting at each prime broker was deemed appropriate because Blackstone has a valid right of set off (due to a continuous net settlement arrangement) with each of the prime brokers. The applicable Blackstone Funds are required to maintain collateral with the brokers either in cash or securities equal to a certain percentage of the fair value of Securities Sold, Not Yet Purchased.

The applicable Blackstone Funds are subject to credit risk to the extent any broker with which the funds conduct business is unable to deliver cash balances or securities, or clear security transactions on their behalf. The Partnership monitors the financial conditions of the brokers with which these funds conduct business and believes the likelihood of loss under the aforementioned circumstances is remote.

7. GOODWILL AND INTANGIBLE ASSETS

The following is a summary of goodwill and intangible assets resulting from the Reorganization transaction as discussed in Note 3:

(Dollars in Thousands)	December 31, 2007
Finite-Lived Intangible Assets/Contractual Rights	$ 722,288
Less: Accumulated Amortization	(117,607)
Intangible Assets, Net	$ 604,681
Indefinite-Lived Intangible Assets:	
Goodwill	$1,597,474

Amortization expense associated with our intangible assets was $117.6 million for the year ended December 31, 2007, and is included in General, Administrative and Other in the accompanying Consolidated and Combined Statements of Income. Amortization of intangible assets held at December 31, 2007 is expected to be approximately $219.0 million, $219.0 million, $107.2 million, $10.8 million and $10.8 million in the years ended December 31, 2008, 2009, 2010, 2011 and 2012, respectively.

8. OTHER ASSETS

Other Assets consists of the following:

(Dollars in Thousands)	December 31, 2007	2006
Furniture, Equipment and Leasehold Improvements	$121,817	$ 90,558
Less: Accumulated Depreciation	(57,447)	(46,879)
Furniture, Equipment and Leasehold Improvements, Net	64,370	43,679
Deposits for Pending Investments	–	23,534
Prepaid Expense	26,326	15,776
Other Assets	8,670	5,783
	$ 99,366	$ 88,772

Depreciation expense of $11.2 million, $7.3 million and $8.5 million related to furniture, equipment and leasehold improvements for the years ended December 31, 2007, 2006 and 2005, respectively, is included in General, Administrative and Other in the accompanying Consolidated and Combined Statements of Income.

9. LOANS PAYABLE

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

The Partnership's credit facilities consist of the following:

	December 31, 2007			2006		
(Dollars in Thousands)	Credit Available	Borrowing Outstanding	Weighted-Average Interest Rate	Credit Available	Borrowing Outstanding	Weighted-Average Interest Rate
Revolving Credit Facility[(a)]	$1,000,000	$ –	–	$1,000,000	$340,000	6.13%
On-lending and Bridge Facilities[(b)]	162,000	105,069	5.50%	225,000	106,344	6.50%
Corporate Debt Credit Facilites[(c)]	90,000	3,750	7.75%	80,000	29,225	8.04%
	1,252,000	108,819	5.58%	1,305,000	475,569	6.33%
Blackstone Fund Facilities[(d)]	166,665	21,570	5.10%	2,109,000	500,412	6.13%
	$1,418,665	$130,389	5.50%	$3,414,000	$975,981	6.23%

(a) Represents short-term borrowings under a revolving credit facility with proceeds used to fund the operating and investing activities of entities of the Partnership. Borrowings bear interest at an adjusted LIBOR rate. Each drawdown has a rollover maturity of not longer than six months. Any open borrowings at June 20, 2008, the end date of the facility, are payable at that time. There is a commitment fee of 0.25% or 0.3% per annum, as defined, on the unused portion of this facility.

(b) Represents borrowings under a loan and security agreement as well as a bridge loan facility, each bearing interest at an adjusted rate below the lending bank's prime commercial rate. Borrowings are available for (1) the Partnership to provide partial financing to certain Blackstone employees to finance the purchase of their equity investments in certain Blackstone Funds and (2) to fund, on a temporary basis, Blackstone's general partner commitment and optional co-investment for investments made by the Blackstone Funds. The advances to Blackstone employees are secured by investor notes, paid back over a four-year period, and the related underlying investment, as well as full recourse to the employees' salaries, bonuses and returns from other Partnership investments.

(c) Represents short-term borrowings under credit facilities established to finance investments in debt securities. Borrowings were made at the time of each investment and are required to be repaid at the earlier of (1) the investment's disposition or (2) 120 days after the borrowing. Borrowings under the facilities bear interest at an adjusted LIBOR rate. Borrowings are secured by the investments acquired with the proceeds of such borrowings. In addition, such credit facilities are supported by letters of credit.

(d) Represents borrowing facilities for the various Blackstone Funds used to meet liquidity and investing needs. Certain borrowings under these facilities were used for bridge financing and general liquidity purposes. Other borrowings were used to finance the purchase of investments with the borrowing remaining in place until the disposition or refinancing event. Such borrowings have varying maturities and are rolled over until the disposition or a refinancing event. Due to the fact that the timing of such events is unknown and may occur in the near term, these borrowings are considered short-term in nature. Borrowings bear interest at spreads to market rates. Borrowings were secured according to the terms of each facility and are generally secured by the investment purchased with the proceeds of the borrowing and/or the uncalled capital commitment of each respective fund. Certain facilities have commitment fees. When a fund borrows, the proceeds are available only for use by that fund and are not available for the benefit of other funds. Collateral within each fund is also available only against the borrowings by that fund and not against the borrowings of other funds.

Scheduled principal payments for long-term borrowings at December 31, 2007 are as follows:

(Dollars in Thousands)	
2008	$ 19,979
2009	27,752
2010	26,719
2011	20,933
2012	9,538
Thereafter	–
Total	$104,921

10. INCOME TAXES

Prior to the Reorganization, Blackstone provided for New York City unincorporated business tax for certain entities based on a statutory rate of 4%. Following the Reorganization, the Blackstone Holdings Partnerships and certain of their subsidiaries will continue to 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 continue to be subject to the New York City unincorporated business tax 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. Blackstone's effective income tax rate was approximately 1.58%, 1.39% and 0.91% for the years ended December 31, 2007, 2006 and 2005, respectively.

The provision for income taxes consists of the following:

	Year Ended December 31,		
(Dollars in Thousands)	2007	2006	2005
CURRENT			
Federal Income Tax	$ 7,718	$ –	$ –
Foreign Income Tax	2,962	3,433	2,132
State and Local Income Tax	31,142	34,433	10,277
SUBTOTAL	41,822	37,866	12,409
DEFERRED			
Federal Income Tax	(10,038)	–	–
State and Local Income Tax	(5,806)	(5,932)	(149)
Foreign Income Tax	–	–	–
SUBTOTAL	(15,844)	(5,932)	(149)
Total Provision for Taxes	$ 25,978	$31,934	$12,260

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

	December 31,	
(Dollars in Thousands)	2007	2006
DEFERRED TAX ASSETS		
Fund Management Fees	$ 13,499	$5,834
Equity-based Compensation	34,320	–
Depreciation and Amortization	729,491	139
Other	–	55
TOTAL DEFERRED TAX ASSETS	$777,310	$6,028
DEFERRED TAX LIABILITIES		
Depreciation and Amortization	10,253	–
Unrealized Gains from Investments	12,906	235
TOTAL DEFERRED TAX LIABILITIES	$ 23,159	$ 235

Deferred Tax Liabilities are included within Accounts Payable, Accrued Expense and Other Liabilities in the accompanying Consolidated and Combined Statements of Financial Position.

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

	2007	2006	2005
Statutory U.S. Federal Income Tax Rate	35.00%	35.00%	35.00%
Income Passed Through to Common Unit Holders and Predecessor Owners[a]	(38.39)%	(35.00)%	(35.00)%
Interest Expense	(0.33)%	–	–
Foreign Income Taxes	0.11%	0.15%	0.16%
State and Local Income Taxes	1.50%	1.24%	0.75%
Equity-based Compensation	3.69%	–	–
Effective Income Tax Rate	1.58%	1.39%	0.91%

(a) *For 2007 (as well as for 2006 and 2005) includes income that primarily arose prior to our IPO that is not taxable to the Partnership and its subsidiaries. Such income was earned by the Partnership's pre-IPO owners and any U.S. federal, state or local income tax related to this income is paid directly by these individuals.*

Currently, Blackstone does not believe it meets the indefinite reversal criteria of APB Opinion No. 23, *Accounting for Income Taxes – Special Areas.* Accordingly, where applicable, Blackstone will record a deferred tax liability for a taxable outside basis difference of an investment in a foreign subsidiary.

As discussed in Note 2, Blackstone adopted the provisions of FIN 48, which clarifies the accounting and disclosure for uncertainty in tax positions, as defined, on January 1, 2007.

Blackstone analyzed its tax filing positions in all of the federal, state and foreign tax jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. Based on this review, no reserves for uncertain income tax positions were required to have been recorded pursuant to FIN 48. In addition, Blackstone determined that it did not need to record a cumulative effect adjustment related to the adoption of FIN 48.

Blackstone recognizes accrued interest and penalties related to uncertain tax positions in operating expenses in the consolidated and combined statements of income, which is consistent with the recognition of these items in prior reporting periods. As of December 31, 2007, Blackstone did not have a liability recorded for payment of interest and penalties associated with uncertain tax positions.

Blackstone files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, Blackstone is subject to examination by federal and certain state, local and foreign tax regulators. As of January 1, 2008, the predecessor entities' U.S. federal income tax returns for the years 2004 through 2007 are open under the normal three-year statute of limitations and therefore subject to examination. State and local tax returns are generally subject to audit from 2001 through 2007. Currently, the City of New York is examining certain subsidiaries' tax returns for the years 2001 through 2006. In addition, HM Revenue and Customs in the U.K. is examining certain U.K. subsidiaries' tax returns for the years 2004 through 2006. Blackstone does not believe that the outcome of these examinations will require it to record reserves for uncertain tax positions pursuant to FIN 48 or that the outcome will have a material impact on the consolidated and combined financial statements. Blackstone does not believe that it has any tax positions for which it is reasonably possible that it will be required to record significant amounts of unrecognized tax benefits within the next twelve months.

11. NET LOSS PER COMMON UNIT

The Weighted-Average Common Units Outstanding, Basic and Diluted, are calculated as follows:

	June 19, 2007 Through December 31, 2007 Basic	Diluted
The Blackstone Group L.P. Weighted-Average Common Units Outstanding	259,979,606	259,979,606
Total Weighted-Average Common Units Outstanding	259,979,606	259,979,606

For purposes of calculating diluted earnings (loss) per unit, the Partnership applies the treasury stock method to account for its outstanding deferred restricted common unit awards.

Holders of Blackstone Holdings Partnership Units (other than the Partnership's wholly-owned subsidiaries), subject to the vesting requirements and transfer restrictions set forth in the partnership agreements of the Blackstone Holdings partnerships, may up to four times each year (subject to the terms of the exchange agreement) exchange their Blackstone Holdings Partnership Units for common units of the Partnership ("Blackstone Common Units") on a one-for-one basis. A Blackstone Holdings limited partner must exchange one partnership unit in each of the five Blackstone Holdings partnerships to effect an exchange for one Blackstone Common Unit. Consequently, the Partnership applies the "if converted method" to determine the dilutive effect, if any, that the exchange of all Blackstone Holdings Partnership Units would have on basic earnings per common unit. The assumed exchange of Blackstone Holdings Partnership Units includes an assumed tax effect resulting from the increased income (loss) allocated to the Partnership on the exchange of the Blackstone Holdings Partnership Units.

Basic and diluted net loss per common unit are calculated as follows:

(Dollars in Thousands, Except Unit and Per Unit Data)	June 19, 2007 Through December 31, 2007 Basic	Diluted
Net Loss Available to Common Unit Holders	$(335,514)	$(335,514)
Weighted-Average Common Units Outstanding	259,979,606	259,979,606
Net Loss per Common Unit	$ (1.29)	$ (1.29)

For the period June 19, 2007 through December 31, 2007, a total of 34,108,113 deferred restricted common units and 827,151,349 Blackstone Holdings Partnership Units were anti-dilutive and as such have been excluded from the calculation of diluted earnings per unit.

In the third quarter of 2007, Blackstone repurchased 645,162 Common Units in the open market for an aggregate purchase price of $16.0 million. These units are being held as treasury units and therefore not included in the total Common Units outstanding as of December 31, 2007. These units will be used in the fulfillment of awards vesting in the future.

12. EQUITY-BASED COMPENSATION

In conjunction with the IPO, the Partnership granted equity-based compensation awards to Blackstone's senior managing directors, non-partner professionals, non-professionals and selected external advisors under the Partnership's 2007 Equity Incentive Plan (the "Equity Plan"), which is described below. The Equity Plan is designed to promote the long-term financial interests and growth of the Partnership. Under the terms of the Equity Plan, the Partnership initially had the ability to grant up to 163,000,000 Blackstone Common Units or Blackstone Holdings Partnership Units. Additionally, the total number of units subject to the Equity Plan may be increased annually. 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).

For the period June 19, 2007 through December 31, 2007, the Partnership recorded compensation expense of $1.77 billion in relation to its equity-based awards and a corresponding tax benefit of $31.2 million. As of December 31, 2007, there was $11.94 billion of estimated unrecognized compensation expense related to non-vested equity-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 5.8 years. The total fair value of the vested portion of deferred restricted common units granted to non-senior managing directors and selected external advisors at the IPO date vested was $179.4 million and represents a portion of the initial awards.

Total vested and unvested outstanding units, including Blackstone Common Units, Blackstone Holdings Partnership Units and deferred restricted common units, were 1,122,769,040 as of December 31, 2007. Total outstanding unvested phantom units were 967,923 as of December 31, 2007.

A summary of the status of the Partnership's non-vested equity-based awards as of December 31, 2007 and a summary of changes during the period June 19, 2007 through December 31, 2007, are 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	Weighted-Average Grant Date Fair Value	Phantom Units	Weighted-Average Grant Date Fair Value
Balance, June 19, 2007	439,711,537	$31.00	–	$ –	–	$ –
Granted	1,102,441	20.43	40,369,951	26.86	1,001,696	27.27
Vested(a)	(1,102,441)	20.43	(6,199,427)	30.30	(16,661)	29.27
Exchanged	(557,555)	31.00	735,345	22.51	8,064	29.13
Forfeited	–	–	(170,999)	27.60	(25,176)	27.35
Balance, December 31, 2007	439,153,982	31.00	34,734,870	26.65	967,923	27.23

(a) A total of 1,102,441 Blackstone Partnership Holdings Partnership Units and 395,133 deferred restricted common units are considered vested under SFAS No. 123(R).

Therefore, the associated fair value of the award was recognized as an expense in the year ended December 31, 2007. The units will be transferred to the grantee ratably over a three-year period assuming the grantee does not violate certain covenants specified in the award agreement. Additionally, the units are not eligible for dividend distributions until officially transferred to the grantee.

UNITS EXPECTED TO VEST

The following unvested units, as of December 31, 2007, are expected to vest:

	Units	Weighted-Average Service Period in Years
Blackstone Holdings Partnership Units	406,288,212	5.6
Deferred Restricted Common Units	27,262,827	6.2
Total Equity Settled Awards	433,551,039	5.6
Phantom Units	783,658	2.1

The Partnership is in the process of evaluating how it will fund future unit issuances.

IPO DATE EQUITY AWARDS

On June 27, 2007, the date of the consummation of the IPO, the Partnership granted 39,067,034 deferred restricted common units to the non-senior managing director professionals, analysts and senior finance and administrative personnel and selected external advisors (of which 5,804,294 vested upon completion of the IPO), and 974,190 phantom units (deferred restricted cash settled equity-based awards) (of which 16,661 vested upon completion of the IPO) to the other non-senior managing director employees. Holders of deferred restricted common units and phantom units are not entitled to any voting rights. Only phantom units are to be settled in cash. Fair values have been derived based on the IPO price of $31 per unit, multiplied by the number of unvested awards, expensed over the assumed service period, which ranges from 1 to 8 years. Additionally, the calculation of the compensation expense assumes forfeiture rates based upon historical turnover rates, ranging from 1% to 18% annually by employee class, and a per unit discount, ranging from $0.58 to $9.83 as a majority of these unvested awards do not contain distribution participation rights.

EQUITY SETTLED AWARDS. Subject to a non-senior managing director professional's continued employment with Blackstone, the unvested deferred restricted common units granted to the non-senior managing director professional as part of the IPO Date Equity Award will vest, and the underlying Blackstone Common Units will be delivered, in one or more installments over a period of up to eight years following the IPO, predominantly five years, provided that a specified percentage of the Blackstone Common Units which would otherwise be delivered on each such vesting date will be retained, and delivery further deferred, until specified dates, subject to the non-senior managing director professional's compliance with the restrictive covenants that are applicable to such non-senior managing director professional. The first such scheduled delivery date will occur on or after the first anniversary of the IPO.

The Partnership will not make any distributions with respect to unvested deferred restricted common units granted to its non-senior managing director professionals in connection with the IPO Date Award.

Unless otherwise determined by the Partnership, upon the termination of a non-senior managing director professional's employment, for any reason, all unvested deferred restricted common units granted to the non-senior managing director professional as part of the IPO Date Equity Award and then held by the non-senior managing director professional will be immediately forfeited without any payment or consideration; provided that (1) if such termination is due to death or permanent disability, 100% of the unvested deferred units will become vested, or (2) if such termination occurs in connection with a qualified retirement, 50% of the unvested deferred units will become vested, and the underlying common units will be delivered in connection with such termination. In the event that a non-senior managing director professional breaches his or her restrictive covenants or is terminated for cause, all deferred restricted common units (whether vested or unvested), and any Blackstone Common Units then held by the non-senior managing director professional in respect of previously delivered deferred restricted common units, will be forfeited. Additionally, in connection with certain change of control events, any deferred restricted common units that are unvested will automatically be deemed vested as of immediately prior to such change in control and their delivery may be accelerated.

CASH-SETTLED AWARDS. Subject to a non-senior managing director employee's continued employment with Blackstone, the phantom deferred cash settled equity-based awards granted to the non-senior managing director employee as part of the IPO Date Award will vest in equal installments on each of the first, second and third anniversaries of the IPO or, in the case of certain term analysts, in a single installment on the date that the employee completes his or her current contract period with Blackstone. On each such vesting date, Blackstone will deliver cash to the non-senior managing employees in an amount equal to the number of phantom cash settled equity-based awards held by each such non-senior managing employee that will vest on such date multiplied by the then fair market value of the Blackstone Common Units on such date. Blackstone is accounting for these cash settled awards as a liability calculated in accordance with the provisions of SFAS No. 123(R).

Blackstone paid $0.5 million to non-senior managing director employees in settlement of phantom cash settled equity-based awards related to the period June 19 through December 31, 2007.

EXCHANGE UNITS

At the time of the Reorganization, Blackstone's predecessor owners and selected advisors received 827,516,625 Blackstone Holdings Partnership Units, of which 387,805,088 were vested and 439,711,537 are to vest over a period of up to 8 years from the IPO date. The Partnership is accounting for the unvested Blackstone Holdings Partnership Units as compensation expense in accordance with SFAS No. 123(R). The unvested Blackstone Holdings Partnership Units are charged to compensation expense as the Blackstone Holdings Partnership Units vest over the service period on a straight-line basis. Compensation expense has been calculated based on the IPO value of $31.00 per unvested Blackstone Holdings Partnership Unit (based on the initial public offering price per Blackstone Common Unit), amortized to compensation expense over the service period, which ranges from 2 to 8 years. Additionally, the calculation of the compensation expense assumes a forfeiture rate of up to 16%, based on historical experience.

Generally, upon the termination of a senior managing director's employment, for any reason, all unvested Blackstone Holdings Partnership Units received by the senior managing director as part of the Reorganization and then held by the senior managing director will be immediately forfeited without any payment or consideration; provided that (1) if such termination is due to death or permanent disability, 100% of the unvested Blackstone Holdings Partnership Units will become vested, or (2) if such termination occurs in connection with a qualified retirement, 50% of the unvested Blackstone Holdings Partnership Units will become vested. In the event that a senior managing director breaches his or her restrictive covenants or is terminated for cause, all Blackstone Holdings Partnership Units (whether vested or unvested), and any Blackstone Common Units then held by the senior managing director in respect of previously delivered unvested Blackstone Holdings Partnership Units, will be forfeited. Additionally, in connection with certain change of control events, any unvested Blackstone Holdings Partnership Units will automatically be deemed vested as of immediately prior to such change in control and their delivery may be accelerated.

PERFORMANCE AWARDS

The Partnership has also granted performance-based awards. These awards are based on the performance of certain businesses over the five-year period beginning January 2008, relative to a predetermined threshold. At this time, the Partnership has determined that there is too much uncertainty in the probability that the threshold will be exceeded, and as such the Partnership has not recorded any expense related to these awards in the current period. The Partnership will continue to review the performance of these businesses, and, if necessary, will record an expense over the corresponding service period based on the most probable level of anticipated performance. This award will be accounted for as a liability under the guidance provided in SFAS No. 123(R) and SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, as the number of units to be granted in 2012 is dependent upon variations in something other than the fair value of the issuer's equity shares, i.e., the businesses' five-year profitability.

13. RELATED PARTY TRANSACTIONS

AFFILIATE RECEIVABLES AND PAYABLES

Blackstone Group considers its Founders, senior managing directors, employees, the Blackstone Funds and the Portfolio Companies to be affiliates. As of December 31, 2007, Due from Affiliates and Due to Affiliates were comprised of the following:

(Dollars in Thousands)	December 31, 2007	December 31, 2006
DUE FROM AFFILIATES		
Payments Made on Behalf of Predecessor Owners and Blackstone Employees for Investments in Blackstone Funds	$143,849	$189,373
Payments Made on Behalf of Non-Consolidated Entities	204,701	17,683
Investments Redeemed in Non-Consolidated Funds of Funds	363,176	10,000
Management and Performance Fees Due from Non-Consolidated Funds of Funds	90,696	46,174
Amounts Due from Portfolio Companies	43,683	47,006
Advances Made to Predecessor Owners and Blackstone Employees	9,749	8,656
	$855,854	$318,892
DUE TO AFFILIATES		
Due to Predecessor Owners in Connection with the Tax Receivable Agreement	$689,119	$ –
Distributions Received on Behalf of Predecessor Owners and Blackstone Employees	71,065	47,732
Due to Predecessor Owners in Connection with Reorganization	65,995	–
Distributions Received on Behalf of Non-Consolidated Entities	3,315	54,911
Payments Made by Non-Consolidated Entities	2,115	785
	$831,609	$103,428

INTERESTS OF THE FOUNDERS, SENIOR MANAGING DIRECTORS AND EMPLOYEES

In addition, the Founders, senior managing directors and employees invest on a discretionary basis in the Blackstone Funds both directly and through consolidated entities. Their investments may be subject to preferential management fee arrangements. As of December 31, 2007 and 2006, the Founders, senior managing directors and employees' investments aggregated $1.27 billion and $2.06 billion, respectively, and the Founders, senior managing directors and employees' share of the Non-Controlling Interests in Income of Consolidated Entities aggregated $279.7 million, $398.7 million and $236.3 million for the years ended December 31, 2007, 2006 and 2005, respectively.

REVENUES FROM AFFILIATES

Management and Advisory Fees earned from affiliates totaled $595.0 million, $405.3 million and 141.0 million for the years ended December 31, 2007, 2006 and 2005, respectively. Fees relate primarily to transaction and monitoring fees which are made in the ordinary course of business and under terms that would have been obtained from unaffiliated third parties.

LOANS TO AFFILIATES

Loans to affiliates consist of interest-bearing advances to certain Blackstone individuals to finance their investments in certain Blackstone Funds. These loans earn interest at Blackstone's cost of borrowing and such interest totaled $6.5 million, $7.0 million, and $2.3 million for the years ended December 31, 2007, 2006 and 2005, respectively. No such loans that were outstanding as of December 31, 2007 were made to any director or executive officer of Blackstone since March 22, 2007, the date of Blackstone's initial filing with the Securities and Exchange Commission of a registration statement relating to its initial public offering.

CONTINGENT REPAYMENT GUARANTEE

Blackstone personnel who have received carried interest distributions have guaranteed payment on a several basis (subject to a cap), to the corporate private equity, real estate and mezzanine funds of any contingent repayment (clawback) obligation with respect to the excess carried interest allocated to the general partners of such funds and indirectly received thereby to the extent that Blackstone fails to fulfill its clawback obligation, if any.

AIRCRAFT AND OTHER SERVICES

In the normal course of business, Blackstone personnel have made use of aircraft owned as personal assets of the Founders ("Personal Aircraft"). In addition, on occasion, the Founders and their families have made use of an aircraft in which Blackstone owns a fractional interest, as well as other assets of Blackstone. The Founders paid for their respective purchases of the aircraft themselves and bear all operating, personnel and maintenance costs associated with their operation. In addition, the Founders are charged for their and their families' personal use of Blackstone assets based on market rates and usage. Payment by Blackstone for the use of the Personal Aircraft and among other existing owners and Blackstone for their and their families' personal use of the Blackstone resources are made at market rates. The transactions described herein are not material to the consolidated and combined financial statements.

TAX RECEIVABLE AGREEMENT

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 partnership units in Blackstone Holdings (other than wholly-owned subsidiaries of Blackstone), subject to vesting requirements and transfer restrictions, may up to four times each year (subject to the terms of the exchange agreement) 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 that otherwise would not have been available. These increases in tax basis may increase (for tax purposes) depreciation and amortization and therefore reduce the amount of tax that Blackstone's wholly-owned subsidiaries that are taxable as corporations for U.S. federal income purposes would otherwise be required to pay in the future.

Certain subsidiaries of the Partnership which are corporate taxpayers have entered into a tax receivable agreement with each of the predecessor owners and all other persons in which the corporate taxpayers acquired a partnership interest, member interest or similar interest after the effective date of the consummation of our reorganization, that provides for the payment by the corporate taxpayers 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 (or are deemed to realize in the case of an early termination payment by the corporate taxpayers or a change in control, as discussed below) as a result of the aforementioned increases in tax basis and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. This payment obligation is an obligation of the corporate taxpayers and not of Blackstone Holdings. The corporate taxpayers expect to benefit from the remaining 15.0% of cash savings, if any, in income tax that they realize. For purposes of the tax receivable agreement, 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 agreement.

Assuming no material changes in the relevant tax law and that the corporate taxpayers earn sufficient taxable income to realize the full tax benefit of the increased amortization of the assets, the expected future payments under the tax receivable agreement (which are taxable to the recipients) in respect of the purchase will aggregate $690.6 million over the next 15 years. The present value of these estimated payments totals $180.3 million assuming a 15% discount rate and using an estimate of timing of the benefit to be received. Future payments under the tax receivable agreement in respect of subsequent exchanges would be in addition to these amounts. The payments under the tax receivable agreement are not conditioned upon continued ownership of Blackstone equity interests by the predecessor owners and the other persons mentioned above.

TAX DISTRIBUTIONS

In accordance with the Blackstone Holding Partnership agreements, tax distributions of $88.6 million were made to their partners during the quarter ended September 30, 2007.

OTHER

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

14. COMMITMENTS AND CONTINGENCIES

GUARANTEES. Blackstone had approximately $6.0 million of letters of credit outstanding to provide collateral support related to a credit facility at December 31, 2007.

Certain real estate funds guarantee payments to third parties in connection with the on-going business activities and/or acquisitions of their Portfolio Companies. At December 31, 2007, such guarantees amounted to $33.0 million.

DEBT COVENANTS. Blackstone's debt obligations contain various customary loan covenants. In management's opinion, these covenants do not materially restrict Blackstone's investment or financing strategy. Blackstone was in compliance with all of its loan covenants as of December 31, 2007.

INVESTMENT COMMITMENTS. The general partners of the Blackstone Funds had unfunded commitments to each of their respective funds totaling $980.6 million as of December 31, 2007.

Certain of Blackstone's funds of hedge funds not consolidated in these financial statements, have unfunded investment commitments to unaffiliated hedge funds of $3.08 billion as of December 31, 2007. The funds of hedge funds consolidated in these financial statements may, but are not required to, allocate assets to these funds. Additionally, one of Blackstone's consolidated funds of hedge funds had an unfunded commitment of $4.2 million as of December 31, 2007 to an unaffiliated hedge fund.

CONTINGENT OBLIGATIONS (CLAWBACK). Included within Net Gains from Fund Investment Activities in the Consolidated and Combined Statements of Income are gains from Blackstone Fund investments. The portion of net gains attributable to non-controlling interest holders is included within Non-Controlling Interests in Income of Consolidated Entities. Net gains attributable to non-controlling interest holders are net of carried interest earned by Blackstone. Carried interest is subject to clawback to the extent that the carried interest recorded to date exceeds the amount due to Blackstone based on cumulative results. If, at December 31, 2007, all of the investments held by the carry funds, which are at fair value, were deemed worthless, a possibility that management views as remote, the amount of carried interest subject to potential clawback would be $1.79 billion, on an after-tax basis, at an assumed tax rate of 35.0%. As of December 31, 2007, Blackstone did not have any clawback obligation based upon the performance of the Blackstone Funds.

CONTINGENT PERFORMANCE FEES AND ALLOCATIONS. Performance fees and allocations related to marketable alternative asset management funds for year the ended December 31, 2007 included $0.1 million attributable to arrangements where the measurement period has not ended.

LITIGATION. From time to time, Blackstone is named as a defendant in legal actions relating to transactions conducted in the ordinary course of business. After consultation with legal counsel, management believes the ultimate liability arising from such actions that existed as of December 31, 2007, if any, will not materially affect Blackstone's results of operations, financial position or cash flows.

OPERATING LEASES. The Partnership leases office space under non-cancelable lease and sublease agreements, which expire on various dates through 2024. Occupancy lease agreements, in addition to base rentals, generally are subject to escalation provisions based on certain costs incurred by the landlord, and are recognized on a straight-line basis over the term of the lease agreement. Rent expense for the years ended December 31, 2007, 2006 and 2005, was $30.2 million, $23.9 million and $18.0 million, respectively. At December 31, 2007 and 2006, the Partnership maintained irrevocable standby letters of credit cash deposits as security for the leases of $7.3 million and $2.8 million, respectively. As of December 31, 2007, the approximate aggregate minimum future payments, net of sublease income, required on the operating leases are as follows:

(Dollars in Thousands)	
2008	$ 24,944
2009	35,280
2010	44,089
2011	42,200
2012	40,988
Thereafter	370,964
Total	$558,465

15. SEGMENT REPORTING

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

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

- Corporate Private Equity – Blackstone's Corporate Private Equity segment comprises its management of corporate private equity funds.
- Real Estate – Blackstone's Real Estate segment comprises its management of general real estate funds and internationally focused real estate funds.
- Marketable Alternative Asset Management – Blackstone's Marketable Alternative Asset Management segment whose consistent focus is current earnings is comprised of its management of funds of hedge funds, mezzanine funds, senior debt vehicles, proprietary hedge funds and publicly-traded closed-end mutual funds.
- Financial Advisory – Blackstone's Financial Advisory segment comprises its corporate and mergers and acquisitions advisory services, restructuring and reorganization advisory services and Park Hill Group, which provides fund placement services for alternative investment funds.

These business segments are differentiated by their various sources of income, with the Corporate Private Equity, Real Estate and Marketable Alternative Asset Management segments primarily earning their income from management fees and investment returns on assets under management, while the financial advisory segment primarily earns its income from fees related to investment banking services and advice and fund placement services.

Economic Net Income ("ENI") is a key performance measure used by management. ENI represents Net Income excluding the impact of income taxes, non-cash charges associated with the vesting of transaction related equity-based compensation and the amortization of intangibles. However, the historical combined financial statements prior to the IPO do not include non-cash charges nor do such financial statements reflect compensation expenses including profit-sharing arrangements associated with our senior managing directors, departed partners and other selected employees which were accounted for as partnership distributions prior to the IPO but are now included as a component of compensation and benefits expense. Therefore, ENI is equivalent to Income (Loss) Before Provision for Taxes in the historical combined financial statements prior to the IPO. ENI is used by the management of Blackstone's segments in making resource deployment and compensation decisions.

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

The following table presents the financial data for Blackstone's four reportable segments as of and for the year ended December 31, 2007:

	December 31, 2007 and the Year then Ended				
(Dollars in Thousands)	Corporate Private Equity	Real Estate	Marketable Alternative Asset Management	Financial Advisory	Total Reportable Segments
Segment Revenues					
Management and Advisory Fees	$ 367,879	$ 569,765	$ 322,934	$360,284	$1,620,862
Performance Fees and Allocations	379,479	623,200	156,583	–	1,159,262
Investment Income and Other	117,971	136,578	148,479	7,374	410,402
Total Revenues	865,329	1,329,543	627,996	367,658	3,190,526
Expenses					
Compensation and Benefits	96,402	145,146	150,330	132,633	524,511
Other Operating Expenses	78,473	54,829	74,728	39,037	247,067
Total Expenses	174,875	199,975	225,058	171,670	771,578
Economic Net Income	$ 690,454	$1,129,568	$ 402,938	$195,988	$2,418,948
Segment Assets	$2,680,692	$3,281,587	$3,041,008	$584,568	$9,587,855

The following table reconciles the Total Reportable Segments to Blackstone's Income Before Provision for Taxes and Total Assets as of and for the year ended December 31, 2007:

	December 31, 2007 and the Year then Ended		
(Dollars in Thousands)	**Total Reportable Segments**	**Consolidation Adjustments**	**Blackstone Consolidated and Combined**
Revenues	$3,190,526	$ (140,378)[(a)]	$ 3,050,148
Expenses	$ 771,578	$1,993,266[(b)]	$ 2,764,844
Other Income	$ –	$5,423,132[(c)]	$ 5,423,132
Economic Net Income	$2,418,948	$ (769,733)[(d)]	$ 1,649,215
Total Assets	$9,587,855	$3,586,345[(e)]	$13,174,200

(a) *The Revenues adjustment principally represents management and performance fees and allocations earned from Blackstone Funds to arrive at Blackstone consolidated and combined revenues which were eliminated in consolidation.*

(b) *The Expenses adjustment represents the addition of expenses of the consolidated Blackstone Funds to the Blackstone unconsolidated expenses, amortization of intangibles and expenses related to equity-based compensation to arrive at Blackstone consolidated and combined expenses.*

(c) *The Other Income adjustment results from the following:*

(Dollars in Thousands)	**Year Ended December 31, 2007**
Fund Management Fees and Performance Fees and Allocations Eliminated in Consolidation	$ 140,378
Intersegment Elimination	(8,398)
Fund Expenses Added in Consolidation	151,917
Non-Controlling Interests in Income of Consolidated Entities	5,139,235
Total Consolidation Adjustments	$5,423,132

(d) *The reconciliation of Economic Net Income to Income (Loss) Before Provision for Taxes as reported in the Consolidated and Combined Statements of Income consists of the following:*

(Dollars in Thousands)	**Year Ended December 31, 2007**
Economic Net Income	$ 2,418,948
Consolidation Adjustments	
Amortization of Intangibles	(117,607)
Expenses Related to Equity-Based Compensation	(1,732,134)
Decrease in Loss Associated with Non-Controlling Interests in Income of Consolidated Entities Primarily Relating to the Blackstone Holdings Partnership Units Held by Blackstone Holdings Limited Partners	1,080,008
Total Adjustments	(769,733)
Income Before Provision for Taxes	$ 1,649,215

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

The following table presents financial data for Blackstone's four reportable segments as of and for the year ended December 31, 2006:

(Dollars in Thousands)	December 31, 2006 and the Year then Ended				
	Corporate Private Equity	**Real Estate**	**Marketable Alternative Asset Management**	**Financial Advisory**	**Total Reportable Segments**
Segment Revenues					
Management and Advisory Fees	$ 404,296	$ 263,130	$188,393	$256,914	$1,112,733
Performance Fees and Allocations	594,494	633,596	67,322	–	1,295,412
Investment Income and Other	128,787	102,444	64,751	3,408	299,390
Total Revenues	1,127,577	999,170	320,466	260,322	2,707,535
Expenses					
Compensation and Benefits	61,882	67,767	74,855	45,563	250,067
Other Operating Expenses	55,841	28,659	53,942	20,886	159,328
Total Expenses	117,723	96,426	128,797	66,449	409,395
Economic Net Income	$1,009,854	$ 902,744	$191,669	$193,873	$2,298,140
Segment Assets	$2,260,475	$1,309,788	$746,612	$157,214	$4,474,089

The following table reconciles the Total Reportable Segments to Blackstone's Income Before Provision for Taxes as of and for the year ended December 31, 2006:

(Dollars in Thousands)	December 31, 2006 and the Year then Ended		
	Total Reportable Segments	**Consolidation Adjustments**	**Blackstone Consolidated and Combined**
Revenues	$2,707,535	$ (90,106)(a)	$ 2,617,429
Expenses	$ 409,395	$ 143,694(b)	$ 553,089
Other Income	$ –	$ 6,090,145(c)	$ 6,090,145
Economic Net Income	$2,298,140	$ –	$ 2,298,140
Total Assets	$4,474,089	$29,416,955(d)	$33,891,044

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

(b) The Expenses adjustment represents the addition of expenses of the consolidated Blackstone Funds to the Blackstone unconsolidated expenses to arrive at Blackstone consolidated and combined expenses.

(c) The Other Income adjustment results from the following:

(Dollars in Thousands)	**Year Ended December 31, 2006**
Fund Management Fees and Allocations Eliminated in Consolidation	$ 90,106
Fund Expenses Added in Consolidation	143,694
Non-Controlling Interests in Income of Consolidated Entities	5,856,345
Total Consolidation Adjustments	$6,090,145

(d) The Total Assets adjustment represents the addition of assets of the consolidated Blackstone Funds to the Blackstone unconsolidated assets to arrive at Blackstone consolidated and combined assets.

The following table presents financial data for Blackstone's four reportable segments for the year ended December 31, 2005:

(Dollars in Thousands)	Corporate Private Equity	Real Estate	Marketable Alternative Asset Management	Financial Advisory	Total Reportable Segments
	Year then Ended December 31, 2005				
Segment Revenues					
Management and Advisory Fees	$175,772	$100,073	$117,834	$120,138	$ 513,817
Performance Fees and Allocations	607,509	242,462	44,666	–	894,637
Investment Income and Other	131,663	50,878	44,439	1,337	228,317
Total Revenues	914,944	393,413	206,939	121,475	1,636,771
Expenses					
Compensation and Benefits	42,861	47,215	55,923	36,606	182,605
Other Operating Expenses	35,386	21,213	36,886	17,758	111,243
Total Expenses	78,247	68,428	92,809	54,364	293,848
Economic Net Income	$836,697	$324,985	$114,130	$ 67,111	$1,342,923

The following table reconciles the Total Reportable Segments to Blackstone's Income Before Provision for Taxes for the year ended December 31, 2005:

(Dollars in Thousands)	Total Reportable Segments	Consolidation Adjustments	Blackstone Consolidated and Combined
	Year then Ended December 31, 2005		
Revenues	$1,636,771	$ (68,539)[(a)]	$1,568,232
Expenses	$ 293,848	$ 67,971[(b)]	$ 361,819
Other Income	$ –	$4,071,046[(c)]	$4,071,046
Economic Net Income	$1,342,923	$ –	$1,342,923

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

(b) *The Expenses adjustment represents the addition of expenses of the consolidated Blackstone Funds to the Blackstone unconsolidated expenses to arrive at Blackstone consolidated and combined expenses.*

(c) *The Other Income adjustment results from the following:*

(Dollars in Thousands)	Year Ended December 31, 2005
Fund Management Fees and Performance Fees and Allocations Eliminated in Consolidation	$ 68,539
Fund Expenses Added in Consolidation	67,971
Non-Controlling Interests in Income of Consolidated Entities	3,934,536
Total Consolidation Adjustments	$4,071,046

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

	Three Months Ended			
(Dollars in Thousands, Except Per Unit Data)	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
Revenues	$1,226,368	$ 952,128	$ 526,686	$ 344,966
Expenses	172,149	476,970	1,050,995	1,064,730
Other Income	3,036,482	2,360,343	9,884	16,423
Income (Loss) Before Non-Controlling Interests in Income of Consolidated Entities and Provision for Taxes	4,090,701	2,835,501	(514,425)	(703,341)
Income (Loss) Before Provision for Taxes	$1,146,045	$ 771,942	$ (107,349)	$ (161,423)
Net Income (Loss)	$1,132,077	$ 774,351	$ (113,190)	$ (170,000)
Net Income (Loss) Attributable to Common Unit Holders[(1)]	N/A	$ (52,324)	$ (113,190)	$ (170,000)
Net Loss Per Common Unit				
Basic	N/A	$ (0.20)	$ (0.44)	$ (0.65)
Diluted	N/A	$ (0.20)	$ (0.44)	$ (0.65)
Dividends Declared and Paid	N/A	N/A	N/A	$ 0.30

	Three Months Ended			
(Dollars in Thousands, Except Per Unit Data)	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006
Revenues	$ 555,497	$ 324,566	$ 461,530	$1,275,836
Expenses	98,596	138,858	132,775	182,860
Other Income	1,351,873	55,500	815,172	3,867,600
Income Before Non-Controlling Interests in Income of Consolidated Entities and Provision for Taxes	1,808,774	241,208	1,143,927	4,960,576
Income Before Provision for Taxes	$ 493,028	$ 233,710	$ 382,589	$1,188,813
Net Income	$ 487,155	$ 224,063	$ 372,548	$1,182,440
Net Loss Per Common Unit				
Basic	N/A	N/A	N/A	N/A
Diluted	N/A	N/A	N/A	N/A
Dividends Declared and Paid	N/A	N/A	N/A	N/A

(1) Refer to "Reorganization of the Partnership" in Note 1 for further discussion.

17. EMPLOYEE BENEFIT PLANS

The Partnership provides a 401(k) plan (the "Plan") for eligible employees in the United States. For certain finance and administrative professionals who are participants in the Plan, the Partnership contributes 2% of such professional's pretax annual compensation up to a maximum of one thousand six hundred dollars. In addition, the Partnership will contribute 50% of the first 4% of pretax annual compensation contributed by such professional participants with a maximum matching contribution of one thousand six hundred dollars. For the years ended December 31, 2007, 2006 and 2005, the Partnership incurred expenses of $0.9 million, $0.6 million and $0.5 million in connection with such Plan.

The Partnership provides a defined contribution plan for eligible employees in the United Kingdom ("UK Plan"). All United Kingdom employees are eligible to contribute to the UK Plan after three months of qualifying service. The Partnership contributes a percentage of an employee's annual salary, subject to United Kingdom statutory restrictions, on a monthly basis for administrative employees of the Partnership based upon the age of the employee. For the years ended December 31, 2007, 2006 and 2005, the Partnership incurred expenses of $0.3 million, $0.2 million and $0.1 million in connection with the UK Plan.

18. REGULATED ENTITIES

The Partnership has certain entities that are registered broker-dealers which are subject to the minimum net capital requirements of the Securities and Exchange Commission ("SEC"). The Partnership has continuously operated in excess of these requirements. The Partnership also has an entity based in London which is subject to the capital requirements of the U.K. Financial Services Authority. This entity has continuously operated in excess of its regulatory capital requirements.

Certain other U.S. and non-U.S. entities are subject to various securities commodity pool and trader regulations. This includes a number of U.S. entities which are Registered Investment Advisors under the rules and authority of the SEC.

The regulatory capital requirements referred to above may restrict the Partnership's ability to withdraw capital from its entities. At December 31, 2007, approximately $34.0 million of net assets of consolidated entities may be restricted as to the payment of cash dividends and advances to the Partnership.

19. SUBSEQUENT EVENTS

ACQUISITIONS. On March 3, 2008 Blackstone acquired GSO Capital Partners LP and certain of its affiliates ("GSO"). GSO is a credit focused alternative asset manager with $10 billion of assets under management as of December 31, 2007. It manages a multi-strategy credit opportunity fund, a mezzanine fund, a senior debt fund and various senior debt vehicles. The purchase price, subject to certain closing adjustments, paid by Blackstone consists of cash and Blackstone Holdings Partnership Units currently valued at $635 million in the aggregate, plus up to an additional $310 million to be paid over the next five years contingent upon the realization of specified earnings targets over that period. Additionally, profit sharing and other compensatory payments subject to performance and vesting may be paid to the GSO personnel.

UNIT REPURCHASE PROGRAM. On January 10, 2008, Blackstone announced that the Board of Directors of its general partner, Blackstone Group Management L.L.C., has authorized the repurchase of up to $500 million of Blackstone Common Units and Blackstone Holdings Partnership Units. Under this unit repurchase program, units may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of Blackstone Common Units and Blackstone Holdings Partnership Units repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions. This unit repurchase program may be suspended or discontinued at any time and does not have a specified expiration date. Approximately $300 million of the authorization is currently intended to offset the issuance of units as part of the consideration in the GSO acquisition.

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ADDITIONAL FINANCIAL INFORMATION

Please visit *www.blackstone.com* for our complete 2007 Annual Report on Form 10-K and the other documents we have filed or furnished with the SEC, including our Current Report on Form 8-K containing our press release reporting on our fiscal 2007 financial results.

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NYSE SYMBOL

BX

COMMON UNIT PRICE

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

	Sales Price	
2007	High	Low
First Quarter	N/A	N/A
Second Quarter	$38.00	$28.75
Third Quarter	$31.99	$21.30
Fourth Quarter	$29.75	$20.40

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

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