

The global
economy
needs...

Blackstone

Annual Review 2011



Solutions.

In the current economy, challenges abound.
It is our job to provide capital and advice that
deliver solutions.

- Fuel the growth of businesses and communities.
- Renew aging industries and properties.
- Preserve retirees' assets.
- Stabilize struggling companies.
- Invest in emerging markets.
- Nurture entrepreneurs.

We believe that challenges can be opportunities.

THE GLOBAL ECONOMY NEEDS

Growth Capital



Left to Right:
Greg Blank
Principal, Private Equity

Daphne Tong
Associate, Private Equity

Doug Logigian
Managing Director,
GSO Capital Partners

At Blackstone, we play a vital role in providing businesses with the capital to realize their growth potential. This capital helped our portfolio companies

12,000
JOBS

**PROVIDING GROWTH AND
MAINTENANCE CAPITAL TO A
CRITICAL HOSPITAL SYSTEM
EMPLOYING 12,000 PEOPLE AND
SERVING 1.4 MILLION
PATIENT VISITS ANNUALLY**

launch new business initiatives, make game-changing acquisitions and upgrade operations to support their long-term plans. When we help our portfolio companies grow, the momentum carries through to job opportunities and community development. In 2011, portfolio companies in which Blackstone holds majority ownership had 4.6% job growth in the U.S. compared with overall U.S. job growth of only 1.1%.

INVESTING IN COMMUNITY CARE

Vanguard Health Systems, in which Blackstone holds a major stake, purchased the Detroit Medical Center (DMC), marking the largest investment in Detroit history and a major commitment to local healthcare. DMC, with eight hospitals, needed new resources to ensure best-in-class care in a struggling community.

Vanguard's purchase included some vital commitments: to invest \$850 million in new and upgraded facilities, maintain DMC's policies of caring for economically disadvantaged patients, and preserve retiree benefit plans. Construction has begun on the state-of-the-art Children's Hospital of Michigan Specialty Center and the partnership will support additional care initiatives in the future.

GROWING THE LEADING HOTEL CHAIN

Since acquiring Hilton Hotels in 2007, we have invested in the growth of the leading global hospitality chain. Hilton's worldwide system has grown by nearly 30% since the acquisition, and now totals 633,000 rooms. The system added 20,000 rooms in 2011 alone, with non-U.S. rooms



INVESTED OR
COMMITTED IN
START-UPS
IN THE
LAST 5 YEARS

4.6%

YEAR-OVER-YEAR
ORGANIC JOB
GROWTH OF U.S.
PORTFOLIO
WITH MAJORITY
OWNERSHIP

accounting for over half that total. The company should continue to exhibit strong growth, with its pipeline at 149,000 rooms, an all time high.

**FINANCING OFFSHORE
WIND POWER**

In Germany, we are providing the financing to WindMW in its development of Meerwind, one of the country's largest offshore wind farm projects. Equity capital provided by Blackstone funds was a key element of the €1.2 billion project. WindMW can now move ahead with the installation of 80 wind turbines to be located off the German coast in the North Sea, producing enough clean, renewable power to serve some 400,000 homes and eliminating approximately 1 million tons of carbon emissions per year.

**Project Finance
International named
Blackstone Financial
Sponsor of the Year
for 2011 for
WindMW/Meerwind**

**BUILDING A VACATION VILLAGE AND
JOB OPPORTUNITY**

In the U.K., we are financing a vacation resort in Woburn, Bedfordshire, being developed by Center Parcs, a Blackstone portfolio company. Center Parcs Woburn Forest, which will include 625 forest lodges,

a hotel/spa, and sports and leisure facilities, is expected to create 2,700 construction and permanent jobs and inject over £250 million into the British economy.

**\$16.5
BILLION**

**CAPITAL DEPLOYED OR
COMMITTED IN 2011**

BRINGING A SHUTTERED REFINERY BACK TO LIFE

DELAWARE CITY REFINERY

Blackstone's PBF management team was formed in 2008 with a visionary strategy to build and grow a strong, independent U.S. refining enterprise by buying and improving underutilized refinery assets. PBF bought the Delaware City refinery as its first acquisition in early 2010.

When the Delaware City refinery closed in December 2009, hundreds of workers lost their jobs and surrounding businesses suffered. PBF and Blackstone were able to bring a fresh perspective to the refinery — and fresh capital to realize its full potential. The result was a unique partnership among private equity, organized labor and government agencies, all of which worked hand-in-hand to create a framework for refurbishing and restarting the facility.

Blackstone and its partners invested \$670 million, providing the resources for PBF to purchase, upgrade and restart the refinery in a safe and environmentally responsible manner. The result was the creation of 500 full-time jobs, up to 400 contract jobs, the opportunity for 2,000 more, and the revitalization of a community that depended on the refinery for its economic well-being. In full production, the refinery will add 190,000 barrels of oil per day to the region's production of refined petroleum products, reducing the need for expensive imported gasoline while also producing incremental tax revenues for the state.





The reopened Delaware City refinery employs 500 full-time workers and up to 400 contractors.

THE GLOBAL ECONOMY NEEDS

Renewal

9%

EBITDA
Growth

**PRIVATE EQUITY
PORTFOLIO COMPANY
REVENUE & EBITDA
GROWTH IN 2011**

11%

Revenue
Growth

Around the world, underperforming assets are waiting to be transformed into more productive uses. In many cases, Blackstone is providing the financing, operating exper-

\$2.6

BILLION

**INVESTED IN U.S. INDUSTRY
IN 2011**

tise and vision to revitalize these assets. Our capital, along with the ideas and energy of our people and proven management

teams, is reviving aging real estate across the globe, repurposing and reenergizing manufacturing plants, and looking at other older assets in new ways. With \$33 billion in dry powder across our real estate, private equity, hedge fund solutions and credit businesses, we are well positioned to make good investments on behalf of our investors, while renewing assets that create jobs and restore economic life to communities.

SEEING OPPORTUNITY IN OFFICE DEMAND

Capital provided by Blackstone is rejuvenating the former New York Times Building, an iconic property anchoring the Times Square district. Prior plans for retail, condominium and hotel development of the property had been abandoned. With

\$33

BILLION

**DRY POWDER AVAILABLE
TO INVEST**

very few office buildings in development, we reimagined the potential of the building for office use. We purchased the top 11 floors of the building in 2011, and will be investing in improvements that will allow the formerly vacant space to attract commercial tenants. Once renovated, the building will add 480,000 square feet of office space to a dynamic urban neighborhood.



Left to Right:
Jacob Werner
Principal, Real Estate

Boris Michev
Associate, Real Estate

Alicia Corbin
Principal, Park Hill Group

Renewing these assets creates jobs, restores economic life to communities, and drives value for investors

EXPANDING ENGINEERED PRODUCTS

Polymer Group, Inc. (PGI) is a leader in engineered, nonwoven fabrics for hygiene, medical, wipes and industrial applications. In 2010, PGI's Board of Directors determined that realization of the company's long-term strategic plan required an investor willing to inject substantial growth capital. Blackstone, on behalf of our investors, acquired PGI in late 2010 and has supported the company's

expansion since that time. In 2011, PGI commercialized new state-of-the-art lines in Waynesboro, Virginia, and Suzhou, China, and announced broader plans to invest in growth in emerging markets such as Brazil and southern China. Also in 2011, PGI launched an innovative submicron technology for nonwovens called Arium™. Under Blackstone's ownership, PGI increased its research and development by 15% over the prior year.

STABILIZING GLOBAL REAL ESTATE

Our acquisition of Valad Property Group, a leading Australia-based real estate company, reflects Blackstone's investment in a growing range of global markets. Valad owns office and industrial buildings in seven regions, with concentrations in

Australia and Europe. Our capital and expertise have helped Valad stabilize a balance sheet that had become over-weighted with debt prior to the economic downturn. With its financial future stabilized, the company has increased occupancy rates in many markets.

\$7.6
BILLION

**DEPLOYED OR COMMITTED
GLOBALLY, MOSTLY TO DISTRESSED
REAL ESTATE ASSETS IN 2011**

REINVIGORATING COMMUNITY SHOPPING CENTERS

BRIXMOR

With 585 retail properties in 39 states, Brixmor Property Group Inc. is the second-largest owner of neighborhood shopping centers in the U.S. Blackstone real estate funds purchased the company, then known as Centro Properties Group US, in 2011. We are now providing capital to Brixmor to redevelop many properties and to lease vacant space — thus improving Brixmor's property portfolio and reenergizing surrounding communities.

An aggressive acquisition strategy had left the shopping center company with a heavy debt burden just as the national and global economies turned downward. Vacancies rose as Centro lacked capital to fund maintenance expenditures and tenant improvements.

Our investment gave the company a new start — and a new name: Brixmor. Management can now refocus on what matters: refreshing its properties and reinvesting in growth. In the next several years, with funding provided by Blackstone, Brixmor is committed to invest some \$300 million in redeveloping its shopping centers. That's good news for local communities that rely on the supermarkets, drugstore chains, discount retailers and thousands of small stores and businesses that populate the Brixmor centers.





*One of Brixmor's 585 U.S. retail properties,
which serves as an anchor for the community.*

THE GLOBAL ECONOMY NEEDS

Retirement Security



Left to Right:
Rashmi Madan
Managing Director,
GSO Capital Partners

Ian Morris
Managing Director, Blackstone
Alternative Asset Management

David Andrews
Senior Vice President, Finance

At Blackstone, we never forget that the financial security of people around the world depends on the decisions we make. We manage investments for half

the retirees in the U.S., on behalf of major public and private pension funds. Our investors also include academic, charitable and cultural institutions, central banks, sovereign wealth funds, insurance companies and others.

Across all of our investing businesses, private equity, real estate, hedge fund solutions and credit, we have rigorous processes in place to anticipate and manage risk. We rely on the intellect, experience and judgment of exceptional teams to steer a steady course.

STRONG, CONSISTENT PERFORMANCE

Over the years, our funds have helped to preserve our investors' principal while generating returns that have virtually always been in the top quartile versus

\$9

BILLION

**RETURNED TO
INVESTORS IN 2011**

our peers. For example, our BCP funds have outperformed the S&P 500 by 1,100 basis points annually since inception. Our real estate funds have produced net IRR of 16% since inception, outperforming the 3% returned by the real estate index over the same period. We also have a track record of no material losses in our real estate funds,

88%

**OF INVESTORS REINVEST
IN SUCCESSIVE
BLACKSTONE FUNDS AS OF
JANUARY 31, 2012**



**GLOBAL PENSIONERS
HAVE PENSION
BENEFITS INVESTED IN
BLACKSTONE FUNDS**

despite operating in a marketplace that has seen extreme volatility in recent years. The net historical composite return for our BAAM funds as of December 31, 2011, was 6% compared to 1% for the S&P Total Return Index. Its volatility was 5%, in contrast to the S&P Total Return Index volatility of 16%. Our flagship GSO mezzanine funds have never experienced a down year, and have produced a net IRR of 17% since inception in 2007.*

Our approach has enabled Blackstone to preserve assets for investors during a period of significant discontinuity in the global markets. We are proud of our track record of exceeding clients' expectations for more than 25 years.



**INFLOWS TO OUR HEDGE FUND
SOLUTIONS BUSINESS IN 2011**

* Please see page 27 for important disclosure regarding performance information.

PROTECTING THE INVESTMENTS INSTITUTIONS DEPEND ON

BLACKSTONE ALTERNATIVE ASSET MANAGEMENT (BAAM)

Institutional investors turn to our BAAM hedge fund solutions business for the potential to achieve attractive risk-adjusted returns, while preserving capital and providing liquidity. Increasingly, clients are also asking us to help them transition out of underperforming hedge fund investments into portfolios better suited to their objectives.

Following the financial crisis of 2008, many institutions began to rethink their choice of investment managers. They expressed concerns about underperforming investments, a lack of liquidity, and potential exposure to fraud by some advisors. As such, they faced daunting complexities of documenting and analyzing a wide range of positions, managing the orderly exit from multiple vehicles, and reallocating portfolios to new investments.

This led BAAM to launch Hedge Fund Transition Management Services. BAAM assumes responsibility for obtaining transaction histories and legal documentation on portfolios, assesses existing manager positions, and seeks to maximize liquidity from the underlying investments. The cash generated is then returned to the client or reinvested in new positions that we have custom-tailored to the client's needs. Often, we will assist an institution in making direct investments in hedge funds, helping the client establish the necessary internal controls, processes and reporting systems.

Transition Management is helping clients meet their investment objectives, mitigate program risks, and build a more robust hedge fund investment program.

THE GLOBAL ECONOMY NEEDS

Stronger Companies

\$495
BILLION

**ADVISED ON
DEALS WITH
AGGREGATE VALUE
OF OVER
\$495 BILLION**

\$1.1
TRILLION

**ADVISED ON
RESTRUCTURINGS
INVOLVING OVER
\$1 TRILLION
OF LIABILITIES**

Across our businesses, Blackstone commits capital and expertise to help companies through a tough stage of the economic cycle. Even good companies can find themselves in difficulty due to high debt levels, business reversals, recessionary pressures, or a tightening of credit. Our efforts have allowed many companies to regain their financial health, become more competitive, preserve and create jobs, and contribute to the economy.

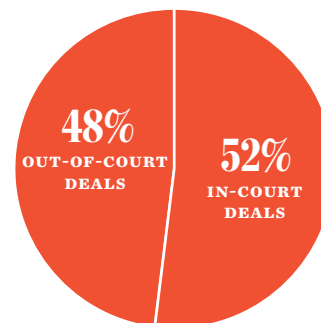
STRATEGIC REAL ESTATE INVESTMENTS

Investments by Blackstone funds have helped companies strengthen their capital structures and pursue strategic goals. Our real estate funds purchased a portfolio of 80 suburban office properties from Duke Realty Corp. This transaction added

attractively valued suburban office assets to our portfolio, while enabling Duke to pay down corporate debt and reinvest in industrial and medical office acquisitions. We also participated in a restructuring of Highland Hospitality Corp., which owns hotels such as the Crowne Plaza in Atlanta, in a move that kept Highland out of bankruptcy, reduced its debt and stabilized ownership.

RESTRUCTURING AND RENEWAL

Blackstone provides a source of advice that has enabled companies to reorganize and adopt more stable capital structures. For example, we are representing the L.A. Dodgers as the legendary baseball team seeks to emerge from bankruptcy court with new owners. In the case of Station Casinos, which owns and operates 17 casinos primarily serving the Las Vegas local



**52% OF RESTRUCTURING
REVENUES FROM IN-COURT
DEALS AND 48% FROM
OUT-OF-COURT DEALS IN 2011**

Left to Right:

Zoé Fabian
Analyst, Blackstone
Advisory Partners LP

John Singh
Associate, Restructuring
& Reorganization



market, our advice helped the company's lenders and the founding family reach a consensual restructuring and emerge from bankruptcy — continuing a 35-year legacy and helping to preserve 13,000 jobs. We also served as an advisor to a working group of creditors in the Lehman Brothers bankruptcy, representing a group of creditors at one of its largest operating subsidiaries. In this case, our efforts to analyze the potential for claims recovery, assess complex legal issues, and negotiate with multiple parties contributed to Lehman's reorganization plan that was confirmed in December 2011. Additionally, Lee Enterprises, a newspaper publisher, retained us to address issues caused by a high level of debt as well as by the overall challenges of the newspaper industry. Our plan of action included a prepackaged

Chapter 11 filing that allowed Lee to stabilize its capital structure, gaining financial and operating flexibility with no impact on vendors or customers and minimal equity dilution.

STRENGTHENING BUSINESSES

To unlock the power of the Martha Stewart brand, Blackstone worked with Martha Stewart Living Omnimedia (MSLO) on a transaction that resulted in J.C. Penney buying a stake in MSLO and entering into a significant new commercial agreement with the company.

Our credit business, GSO, helped structure the financing for the acquisition of a major oilfield service business by NANA Development Corporation, an Alaska Native Corporation. This \$435 million financing enabled NANA to diversify its

asset base away from finite-lived natural resources and to maintain financial distributions to 12,500 members of the Inupiat community.



**RAISED FOR SECOND
MEZZANINE FUND**

FUNDING DEVELOPMENT OF NEW ENERGY SOURCES

CHESAPEAKE UTICA, L.L.C.

Chesapeake Energy Corp. is the second-largest producer of natural gas, a top producer of oil, and the most active driller of new wells in the U.S. The company is a pioneer in developing natural gas production from shale, which provides the potential to supply the U.S. with abundant, cost-effective fossil fuel. When Chesapeake needed financing to more aggressively develop the Utica Shale play in eastern Ohio, GSO and other investors helped provide a solution.

GSO and other investors purchased perpetual preferred shares in a Chesapeake subsidiary, which directly owns the majority of the company's interests in the Utica Shale play. The total raised in two share offerings was \$1.25 billion. GSO's relationship with Chesapeake, experience in the shale plays and understanding of the energy industry allowed it to quickly meet Chesapeake's needs in terms of the structure, size and timing of the financing. In addition to owning preferred shares in the newly formed entity, GSO and the other investors also benefit from a royalty interest in the first 1,500 wells drilled by Chesapeake in this promising new play.

As the Utica Shale is developed over the next several years, it will provide a significant revenue opportunity for Chesapeake and its public shareholders. More importantly, the "shale revolution" led by companies such as Chesapeake is helping to reduce America's dependence on imported oil and lowering the cost of natural gas. The project will also have broad economic benefits in this region, including the creation of jobs and an increase in economic activity in local communities due to an influx of new workers and investment.





The Utica Shale is helping to reduce U.S. dependence on imported oil and lower the cost of natural gas.

SHORING UP A FINANCIAL SERVICES LEADER

BANK OF AMERICA

In August 2011, Bank of America Corporation's Chief Executive Officer, Brian Moynihan, received an unexpected call from investor Warren Buffett, Chairman and Chief Executive Officer of Berkshire Hathaway, Inc. In a strong expression of confidence, Mr. Buffett said he wanted to invest in Bank of America.

While Bank of America had made substantial strides in moving beyond the financial crisis, and had the capital and liquidity needed to run its business, the offer from one of the world's most respected investors merited serious consideration. Because of the significance of the transaction and the high profile of those involved, it was essential that the right deal happen quickly.

Bank of America engaged Blackstone to analyze the transaction, assess the likely market reaction and provide views on the proposed terms — in less than 24 hours. Given Blackstone's role as one of the largest global investment firms, we also provided a unique investor viewpoint. Our Chairman and Chief Executive Officer, Stephen Schwarzman, was personally involved in the team's discussions during the all-night session.

After a thorough analysis of the transaction, the Board voted unanimously in favor of the deal. The result was a \$5 billion investment by Berkshire Hathaway in Bank of America cumulative perpetual preferred stock and warrants.





Blackstone Advisory Partners helped Bank of America's board analyze a high-profile investment offer.

THE GLOBAL ECONOMY NEEDS

Emerging Economy Growth



Left to Right:
Sean Klimczak
Managing Director,
Private Equity

Michael Biehl
Associate,
Private Equity

Robin Wynn
Managing Director,
Human Resources

Blackstone has made significant investments in emerging countries, helping to fund essential infrastructure and production capacity needed to serve their population, maintain their growth and compete in international markets.

INVESTING IN INDIA

We have invested or committed \$2 billion in India, with a focus on supporting the development of real estate, energy and financial systems to extend the country's economic progress. Our investments include a minority stake in FINO Limited, which brings savings accounts, loans, insurance and other financial services to India's lower-income households that are not served by conventional banking channels. The company now serves over 40 million customers. Blackstone

purchased a substantial stake in Manyata Business Park in Bangalore, which is India's second-largest office park and the largest operational special economic zone with marquee multinational tenants. Once fully operational at 12.9 million

\$2

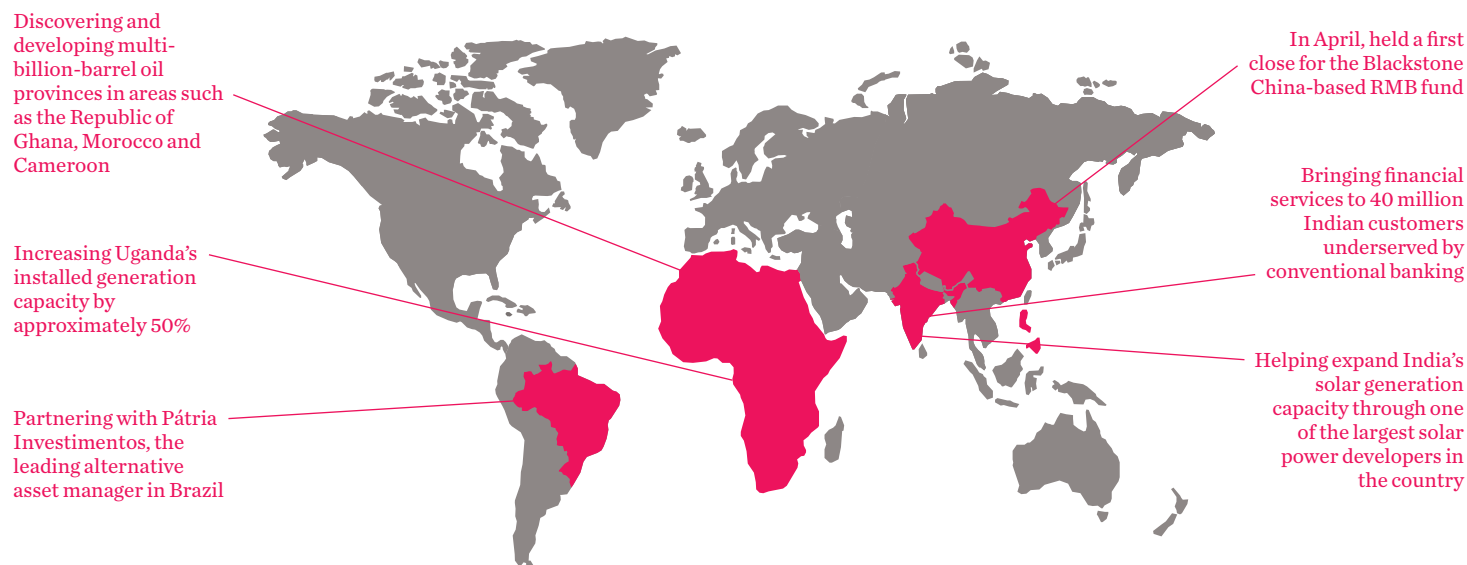
BILLION

**INVESTED OR COMMITTED
CAPITAL IN INDIA**

square feet, Manyata will house close to 150,000 professionals.

PARTNERING IN BRAZIL

In Brazil, we have formed a partnership with Pátria Investimentos, the leading alternative asset manager. Our purchase in 2010 of a 40% stake in Pátria cemented an already close relationship between our firms. Brazil's dynamic growth is creating demand for investment in infrastructure, as well as corporate expansion and asset management. Blackstone and Pátria have the opportunity to serve these needs through financial advisory services and private equity funds, real estate, credit and hedge funds. Benefitting from our partnership, as of December 31, 2011, Pátria's assets under management were \$5.8 billion, a 36% increase over last year.



Investing to power 15 million households in India

POWERING GROWING ECONOMIES

Private equity provides risk capital and operational skills to build green-field energy assets vital to high-growth economies. Our investment approach is differentiated by deep industry expertise, local teams with experience in key regions, and access to Blackstone's global

resources. We are helping Moser Baer, one of India's largest power generation companies, to develop thermal, solar and hydroelectric plants that will power approximately 15 million households by 2016. Capital provided by Blackstone and other partners is helping Kosmos Energy, an international oil and gas exploration and production company, to develop the Jubilee Field, a major oil discovery off the coast of the Republic of Ghana. In Uganda, a Blackstone portfolio company is developing, designing and supervising construction of the Bujagali Project, a public-private partnership to build a hydroelectric power station on the Nile River that is expected to increase Uganda's installed generation capacity by approximately 50%. We also are investing in the development and construction of

\$7

BILLION

**TOTAL ENTERPRISE VALUE
AT THE TIME OF
KOSMOS ENERGY'S IPO**

an efficient, low-cost power generation project in the Philippines to replace higher cost power generation sources.

SUPPORTING AGRICULTURAL PRODUCTION IN INDIA

NUZIVEEDU SEEDS

As the largest hybrid seed company in India, Nuziveedu Seeds plays a major role in improving the lives of millions of cotton farmers, feeding the country's growing population and supporting innovation in the agricultural economy. The company is the market leader in hybrid cotton seeds and also produces seed for corn, rice, sunflower, sorghum and other crops. Its integrated operations include R&D, production, marketing and distribution of seeds.

To realize its goals of furthering India's agricultural advances and creating a world-class bio-agri franchise, Nuziveedu Seeds partnered with Blackstone in late 2008. Along with its investment of capital, Blackstone is providing advice on organizational structure, industry partnerships and corporate strategies. Working together, Nuziveedu and Blackstone will help India's agricultural sector — and farmers across the nation — to support the demands of growth.

For the last decade, Nuziveedu has been at the forefront of cutting-edge research in hybrid seeds. By utilizing Monsanto's Bt-technology with its own proprietary germplasm, Nuziveedu has produced hybrid cotton seeds with insect-resistant properties suitable for local conditions. These seeds not only increase crop yields, but also lower pesticide use, which benefits the environment and reduces costs for farmers. Nuziveedu sources seeds from a network of small family farms. By participating in the network, farmers receive training in improved growing practices — which not only helps meet demand for the seeds, but can also significantly improve the farmers' incomes.





*Nuziveedu Seeds is sustaining millions of small farmers
and feeding India's growing population.*

THE GLOBAL ECONOMY NEEDS

Entrepreneurship



Left to Right:
Josh Schertzer
 Vice President,
 Information Technology Group

Hana Ayoub
 Coordinator, Blackstone
 Alternative Asset Management

Young companies create nearly two-thirds of the new jobs in America, and launch innovations that keep our country competitive in the global marketplace. As a

firm built upon a platform of entrepreneurship, Blackstone believes strongly in investing in new enterprises that have the potential to become tomorrow's great businesses, to stimulate economic opportunity and to deliver enduring value.

In the last five years, we have invested or committed over \$3 billion in start-ups — an amount that would make us one of the largest venture capital firms in the world. We also foster entrepreneurship through The Blackstone Charitable Foundation, established in 2007 at the time of the firm's IPO. In 2010, The Foundation announced its Entrepreneurship Initiative, a \$50 million commitment to developing and supporting innovative projects with meaningful potential to create high-growth businesses and industries that are the engines of economic growth. Of the

programs that we have committed to thus far under this initiative, we expect to start or support 450 businesses and impact the creation of over 30,000 new American jobs over the next five years.

Among its recent activities, our Foundation committed \$3.2 million, in partnership with The Burton D. Morgan Foundation, to extend the Blackstone LaunchPad program to the campuses of Baldwin-Wallace College, Case Western Reserve University, Kent State University, and Lorain County Community College in Northeast Ohio. Blackstone LaunchPad, based on an initiative pioneered at the University of Miami, provides training in business practices, mentoring and networking to help aspiring entrepreneurs transform their ideas into thriving enterprises.



**DEDICATED TO FOSTERING
 ENTREPRENEURSHIP THROUGH
 CHARITABLE CONTRIBUTIONS**



450

**BUSINESSES PLANNED
TO BE STARTED OR
SUPPORTED**

We also committed \$3 million to create Blackstone Accelerates Growth, an initiative in Maine designed to foster innovation, spur economic growth and help the state transition from a resource based economy to an innovation economy. The initiative will create regional hubs of innovation and entrepreneurship that target training, coaching and mentoring services to the state's most promising businesses.

MassChallenge, the world's largest global start-up competition, is another initiative that has our solid support. The competition received submissions from more than 700 entries in 24 countries and 34 states. Judges selected from among these entries and awarded the winning entrepreneurs prizes totaling \$1 million to launch innovative start-up concepts.

BUILDING AN ECOSYSTEM TO NURTURE HIGH-POTENTIAL COMPANIES

THE BLACKSTONE ENTREPRENEURS NETWORK, NORTH CAROLINA

The Blackstone Entrepreneurs Network, launched in 2011, focuses on accelerating the growth trajectory of promising start-ups in the Research Triangle Park area of North Carolina. We funded the Network, as part of our entrepreneurship initiative, with a \$3.63 million grant from The Blackstone Charitable Foundation, and are working in close collaboration with the region's major universities — Duke University, North Carolina Central University, North Carolina State University and the University of North Carolina at Chapel Hill — as well as the Durham-based Council for Entrepreneurial Development.

The Network is similar to programs that have been successful in Silicon Valley and the Boston Corridor. It draws upon veteran “master entrepreneurs” to identify marketable innovations emanating from area universities and regional start-ups, looking for those with the greatest potential to become high-growth companies. The master entrepreneurs then mentor these local entrepreneurs in company-building. Aspiring entrepreneurs also have access to the broader Blackstone Entrepreneurs Network, which includes sector experts, venture coaches, angel investors, and administrative and marketing support.

The Blackstone Entrepreneurs Network program aims to identify and mentor 30 start-up teams each year, for a total of 150 over its five-year span, to unleash the region's innovation potential through growth entrepreneurship.

MESSAGE FROM THE CHAIRMAN



I believe the true test of any firm is how well it performs in periods of uncertainty and market dislocation. While 2011 globally was characterized by these challenges, our performance was defined by industry leadership, unusual growth, and institutional stability. In short, we had a very good year, and I believe we are one of the few financial firms able to say that.

SOLVING PROBLEMS, SUPPORTING PROGRESS

In this economic cycle, challenges often seem to outnumber solutions: Businesses require capital and strategic partnership. Workers and retirees want and deserve secure financial futures. Emerging and established markets need sustainable growth.

Faced with significant unmet needs in the global economy, we've drawn upon our deep and diverse set of core competencies to deliver solutions:

- Providing growth capital to support businesses and communities.
- Working to revitalize American industry.

- Supporting, rejuvenating and strengthening global real estate assets.
- Preserving savings to help pension funds provide millions of people with a secure retirement.
- Offering capital solutions and advice to help companies through challenging times.
- Investing in emerging markets that are helping to drive the global economy.
- And, enabling entrepreneurs to realize their vision and create jobs.

By taking this solution-oriented approach, we delivered solid returns for our investors, providing the financial security that pension funds, academic institutions, non-profit organizations and

others depend on to fulfill their missions. Our investors reaffirmed their confidence in us with net inflows across all of our investment businesses. Total assets under management reached a record \$166 billion. Our performance at the corporate level was also favorable: record total revenues of \$3.3 billion; economic net income of \$1.6 billion; and distributable earnings of nearly \$700 million.

INVESTING IN GROWTH, JOBS AND COMMUNITIES

In 2011 we invested or committed to invest \$16.5 billion — a near record level. Putting this capital to work is helping to grow great businesses, create jobs and support communities, while sowing the seeds of strong future returns for our investors.

Because of our focus on partnering with our portfolio companies to drive growth and operational improvements, their aggregate revenues increased 11% and their EBITDA rose 9% from the prior year. Collectively, they increased employment by 4.6% in the U.S. last year. That's an admirable record, considering that job growth for the U.S. economy overall was only 1.1%.

AN UNPARALLELED PLATFORM

We are able to continually produce strong results for the firm because of our unique platform: diverse, complementary businesses that perform well across economic and market cycles. Our breadth and scale are unmatched by any of our peers, and each of our businesses continues to outperform and build on its leadership position.

Today, our real estate business is considered the preeminent real estate opportunistic investor. Our private equity business is one of the largest in the world, and has historically substantially outperformed the S&P 500. Our hedge fund

solutions business is the largest allocator of discretionary assets to hedge funds globally. GSO, our credit platform, is the leading manager of below-investment grade debt and has become the world's largest leveraged loan investor. Our restructuring advisory, M&A advisory and fund placement businesses are recognized leaders in their respective industries and are repeatedly called on to navigate the most challenging situations.

Our investment and advisory platform gives us access to a wide range of asset classes, revenue streams and geographies, while balancing our exposure to market volatility. By sharing insights among our various teams, we also develop a viewpoint on the opportunities and risks of the global marketplace. This ability to “see around corners” informs our decisions and makes us better investors, advisors and managers.

ENTREPRENEURSHIP AND EXCELLENCE

We have always believed that intellectual capital is as important as financial capital, and we insist on having the best people in place to lead each business. A deeply rooted entrepreneurial culture gives our teams the freedom to pursue innovative ideas.

We see ourselves as partners with our investors, advisory clients, portfolio companies and communities. In particular, investors know that our interests are closely aligned with theirs. We're often the largest investors in our own funds, and we protect our investors' capital as we would our own — with a rigorous approach to identifying and managing risk.

STRENGTH AND SOLUTIONS

Looking ahead, we are in an exceptional position to continue our growth and performance — and to apply our talent, energy

and capital to help strengthen companies, create jobs, secure retirees' pensions, and support economic progress.

Each of the businesses that make up Blackstone is thriving. Together they make a great firm — giving us access to a wide range of largely proprietary investment opportunities.

We benefit from a strong financial foundation, with significant capital strength at the corporate level.

Across all of our businesses, we have \$33 billion in dry powder available for future investments, along with the ability to deploy that capital on a global scale.

Finally, we enjoy excellent relationships with our investors and clients and have earned their confidence through our strength, integrity and unwavering commitment to serving their needs.

I am proud of our industry leadership, our track record, and our trusted role among investors and clients. We will continue to use our strengths to serve our investors, grow businesses and jobs, provide strategic advice, and deliver favorable performance. I look forward to sharing our future success with you.

Sincerely,



Stephen A. Schwarzman
Chairman, Chief Executive Officer
and Co-Founder

BOARD OF DIRECTORS

Stephen A. Schwarzman
Chairman, CEO and Co-Founder,
The Blackstone Group

Hamilton E. James
President and
Chief Operating Officer,
The Blackstone Group

J. Tomilson Hill
Vice Chairman and
Head of Blackstone
Alternative Asset Management,
The Blackstone Group

Jonathan D. Gray
Global Head of Real Estate,
The Blackstone Group

Richard Jenrette
Retired Chairman and CEO,
The Equitable
Life Assurance Society

Jay O. Light
Dean Emeritus,
Harvard Business School

**The Right Honorable
Brian Mulroney**
Former Prime Minister of Canada

William G. Parrett
Retired CEO and Senior Partner,
Deloitte Touche Tohmatsu

FINANCIAL HIGHLIGHTS

\$3.3

BILLION

TOTAL 2011 REVENUES

\$166

BILLION

IN TOTAL AUM AS OF DECEMBER 31, 2011

28%

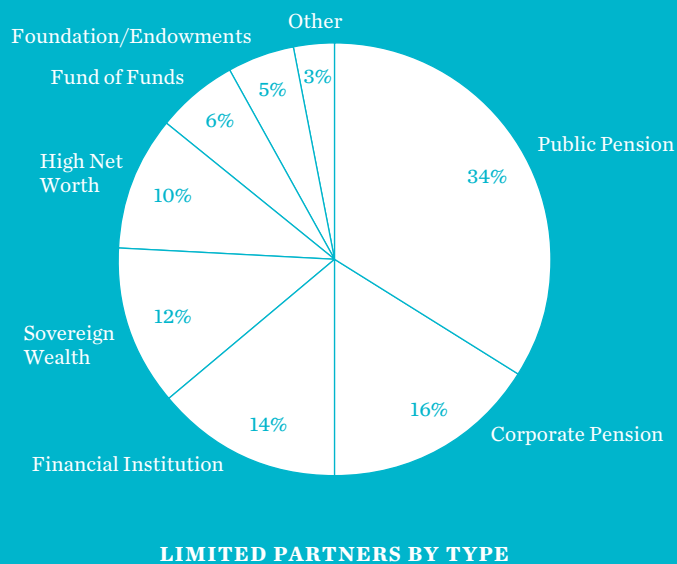
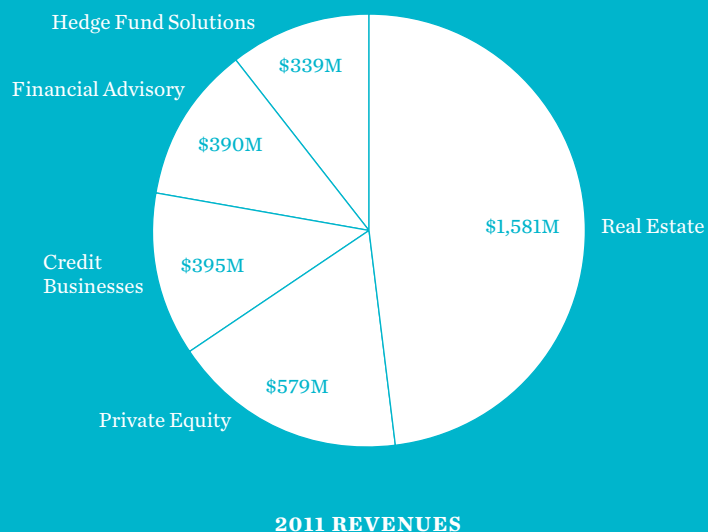
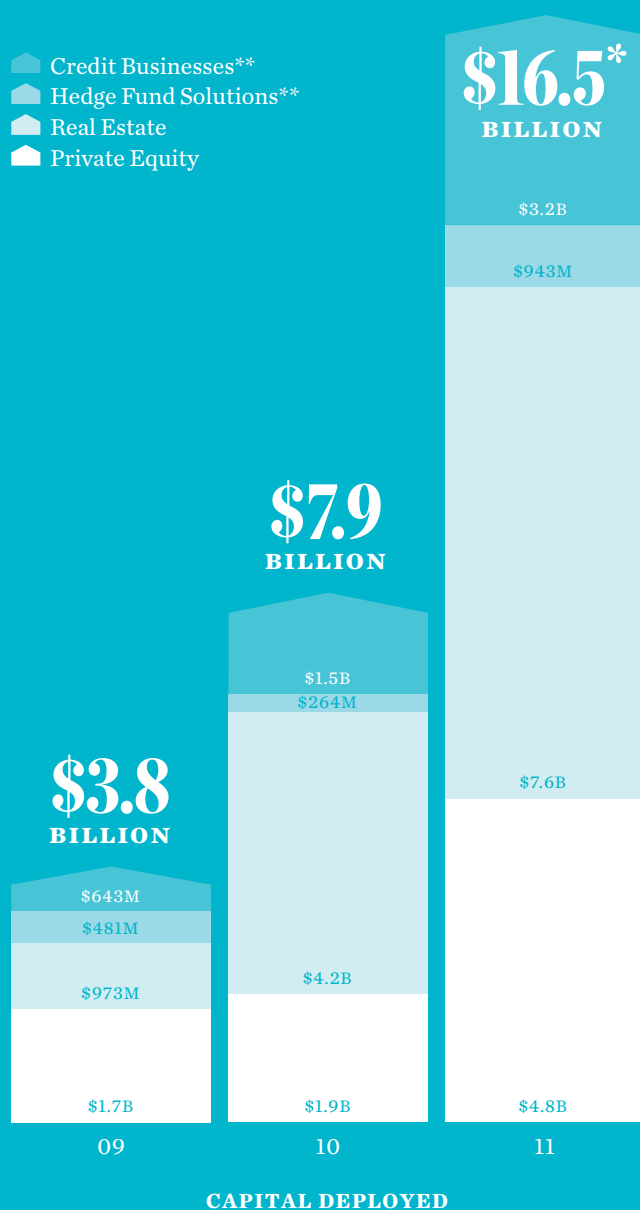
COMPOUND ANNUAL GROWTH RATE

BLACKSTONE PERFORMANCE



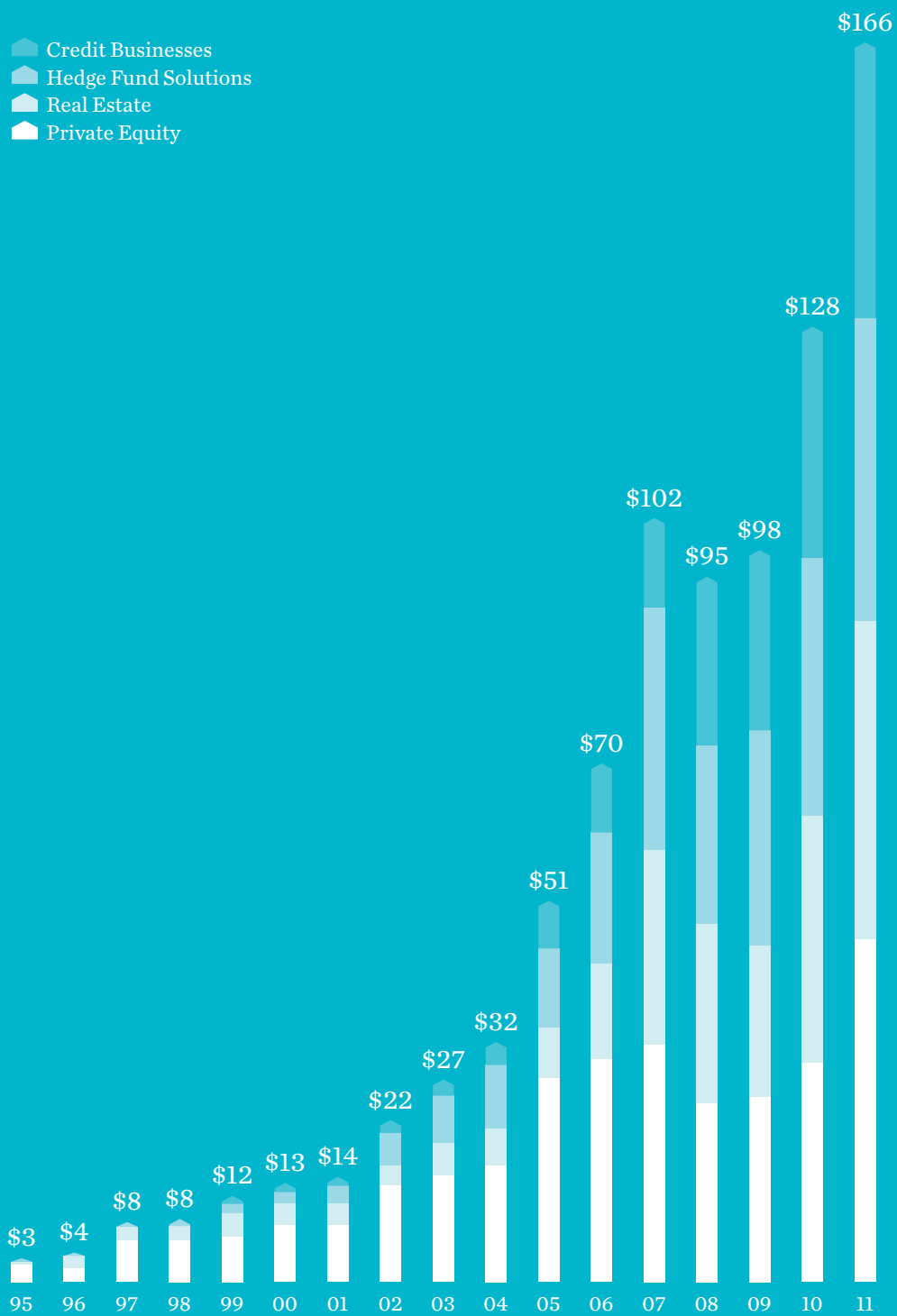
Past performance is not indicative of future results and there is no assurance that any Blackstone fund will achieve its objectives or avoid significant losses. Real Estate net returns shown for global funds, from inception of the business in January 1992 through present. NCREIF refers to the National Council of Real Estate Investment Fiduciaries Fund Index — Open End Diversified Core Equity. Private Equity net returns shown for all funds, from inception of the business in October 1987 through present. The BAAM net composite covers the period from January 2000 to present, although BAAM's inception date is September 1990. The BAAM net composite is the asset-weighted performance of BAAM's investments net of all fees and does not include BAAM's commodities platform, long-only platform, strategic opportunities funds, seed funds, and advisory relationships. Credit mezzanine funds' net return reflects combined net IRRs of the GSO Capital Opportunities Fund and GSO Capital Opportunities Fund II, from inception of the first fund in July 2007 through present. The performance of each index presented is disclosed to provide a comparison to a well-known and widely recognized index, and is not necessarily the index that would be presented if the sole purpose were to select a benchmark against which to compare the performance of the respective funds.

FINANCIAL HIGHLIGHTS



*Includes aggregate outstanding amounts committed but not deployed as of 12/31/2011

**Includes drawdown funds only



BLACKSTONE AUM GROWTH, DOLLARS IN BILLIONS

MANAGEMENT COMMITTEE

Left to Right:

J. Tomilson Hill, Hamilton E. James, Joan Solotar, Stephen A. Schwarzman,
Laurence A. Tosi, Jonathan D. Gray, Bennett Goodman



THE PETER G. PETERSON AWARD



CHRISTINE VESCHI
PRINCIPAL
INVESTOR RELATIONS AND
BUSINESS DEVELOPMENT

The 2011 recipient of the Peter G. Peterson Award for Excellence in Business and Community Service was Christine Veschi, a Principal in our Investor Relations and Business Development Group. Christine is a pillar of her group, selflessly sharing her knowledge and energy, and always has the firm's and our clients' best interests in mind. Her work with worthy organizations has been a life-long passion, from serving with the Peace Corps in Slovakia and teaching in West Africa to helping run a soup kitchen and distributing food, clothing and hope to homeless people and seniors in New York City. Christine has also mentored adults and struggling youth.

The Peterson Award honors the many contributions of our co-founder, Peter G. Peterson, who retired in 2008, and is given annually to an employee who has shown a deep commitment to excellence inside and outside the firm. Recipients are nominated by their peers and chosen by our Executive Committee.

OUR GUIDING PRINCIPLES

1

ACCOUNTABILITY

Our capital and reputation are
always on the line

2

EXCELLENCE

Nothing less is ever acceptable

3

INTEGRITY

Leadership demands responsibility

4

TEAMWORK

Always makes us better

5

ENTREPRENEURSHIP

Using creativity to find opportunities
others overlook

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

For information about Blackstone's business, including risks and financial information, please refer to our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission.

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