
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended November 26, 1999

Commission File Number: 001-14965

The Goldman Sachs Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-4019460
(I.R.S. employer
identification no.)

85 Broad Street
New York, N.Y.
(Address of principal executive offices)

10004
(Zip Code)

(212) 902-1000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class:</u>	<u>Name of each exchange on which registered:</u>
Common stock, par value \$.01 per share, and attached Shareholder Protection Rights	New York Stock Exchange
Index-Linked Notes due 2002 (Linked to the Nikkei 225 Index)	American Stock Exchange
Medium-Term Notes, Series B, 2.00% Exchangeable Notes due 2006 (Exchangeable for Common Stock of Wells Fargo & Company); 7.35% Notes due 2009	New York Stock Exchange
Medium-Term Notes, Series B, Callable Index-Linked Notes due 2003 (Linked to the GSTI TM Internet Index)	Chicago Board Options Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K: ☐

As of January 21, 2000, there were 441,429,384 shares of the registrant's common stock outstanding and 7,440,362 shares of the registrant's nonvoting common stock outstanding.

As of January 21, 2000, the aggregate market value of the common stock and nonvoting common stock of the registrant held by non-affiliates of the registrant was approximately \$33.6 billion.

Documents incorporated by reference: Portions of The Goldman Sachs Group, Inc.'s 1999 Annual Report to Shareholders are incorporated by reference in this Form 10-K in response to Part II, Items 5, 7, 7A and 8, and Part IV, Item 14. Portions of The Goldman Sachs Group, Inc.'s Proxy Statement for its 2000 Annual Meeting of Shareholders, dated February 14, 2000, are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12 and 13.

The Goldman Sachs Group, Inc.
Annual Report on Form 10-K for the Fiscal Year Ended November 26, 1999

Page No.

Form 10-K Item Number:

PART I

Item 1:	Business	2
Item 2:	Properties	17
Item 3:	Legal Proceedings	18
Item 4:	Matters Submitted to a Vote of Security Holders	21

PART II

Item 5:	Market for Registrant's Common Equity and Related Stockholder Matters ...	24
Item 6:	Selected Financial Data	25
Item 7:	Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Item 7A:	Quantitative and Qualitative Disclosures about Market Risk	26
Item 8:	Financial Statements and Supplementary Data	26
Item 9:	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	26

PART III

Item 10:	Directors and Executive Officers of the Registrant	27
Item 11:	Executive Compensation	27
Item 12:	Security Ownership of Certain Beneficial Owners and Management	27
Item 13:	Certain Relationships and Related Transactions	27

PART IV

Item 14:	Exhibits, Financial Statement Schedule, and Reports on Form 8-K	27
	Index to Financial Statements and Financial Statement Schedule	F-1
	Signatures	II-1

PART I

Item 1. *Business*

Overview

Goldman Sachs is a leading global investment banking and securities firm that provides a wide range of services worldwide to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals. As of November 26, 1999, we operated offices in over 20 countries and 37% of our 15,361 employees were based outside the United States.

Goldman Sachs is the successor to a commercial paper business founded in 1869 by Marcus Goldman. Since then, we have expanded our business as a participant and intermediary in securities and other financial activities to become one of the leading firms in the industry.

In 1989, The Goldman Sachs Group, L.P. was formed to serve as the parent company of the Goldman Sachs organization. On May 7, 1999, The Goldman Sachs Group, Inc. succeeded to the business of The Goldman Sachs Group, L.P. and completed an initial public offering of its common stock.

All references to 1999, 1998 and 1997 refer to our fiscal year ended, or the date, as the context requires, November 26, 1999, November 27, 1998 and November 28, 1997, respectively.

When we use the terms “Goldman Sachs”, “we” and “our”, we mean, prior to our conversion to corporate form, The Goldman Sachs Group, L.P., a Delaware limited partnership, and its consolidated subsidiaries and, after our conversion to corporate form, The Goldman Sachs Group, Inc., a Delaware corporation, and its consolidated subsidiaries.

Financial information concerning our business segments and geographic regions for each of 1999, 1998 and 1997 is set forth in the consolidated financial statements and the notes thereto in our 1999 Annual Report to Shareholders, which are incorporated by reference in Part II, Item 8 of this Annual Report on Form 10-K.

Business Segments

Our activities are divided into two segments:

- Global Capital Markets; and
- Asset Management and Securities Services.

These segments consist of various product and service offerings that are set forth in the following chart:

Primary Products and Activities by Business Segment

Global Capital Markets		Asset Management and Securities Services
Investment Banking	Trading and Principal Investments	
— Equity and debt underwriting	— Bank loans	— Commissions
— Financial restructuring advisory services	— Commodities	— Institutional and high-net-worth asset management
— Mergers and acquisitions advisory services	— Currencies	— Margin lending
— Real estate advisory services	— Equity and fixed income derivatives	— Matched book
	— Equity and fixed income securities	— Merchant banking fees
	— Principal investments	— Increased share of merchant banking fund income and gains
	— Proprietary arbitrage	— Mutual funds
		— Prime brokerage
		— Securities lending

Global Capital Markets

The Global Capital Markets segment, which represented 76% of 1999 net revenues, consists of the following:

- **Investment Banking.** Investment Banking consists of our Financial Advisory and Underwriting businesses; and
- **Trading and Principal Investments.** Trading and Principal Investments consists of our Fixed Income, Currency and Commodities ("FICC"), Equities and Principal Investments businesses.

Investment Banking

Investment Banking represented 33% of 1999 net revenues. We provide a broad range of investment banking services to a diverse group of corporations, financial institutions, governments and individuals and seek to develop and maintain long-term relationships with these clients as their lead investment bank.

Our current structure, which is organized along regional, product and industry groups, seeks to combine client-focused investment bankers with execution and industry expertise. Because our businesses are global, we have adapted our organization to meet the demands of our clients in each geographic region. Through our commitment to teamwork, we believe that we provide services in an integrated fashion for the benefit of our clients.

Our investment banking activities are divided into two categories:

- **Financial Advisory.** Financial Advisory includes advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, restructurings and spin-offs; and
- **Underwriting.** Underwriting includes public offerings and private placements of equity and debt securities.

Financial Advisory. Goldman Sachs is a leading investment bank in worldwide mergers and acquisitions. Our mergers and acquisitions capabilities are evidenced by our significant share of

assignments in large, complex transactions for which we provide multiple services, including “one-stop” acquisition financing, currency hedging and cross-border structuring expertise.

Underwriting. We underwrite a wide range of securities and other instruments, including common and preferred stock, convertible securities, investment-grade debt, high-yield debt, sovereign and emerging markets debt, municipal debt, bank loans, asset-backed securities and real estate-related securities, such as mortgage-backed securities and the securities of real estate investment trusts.

Equity Underwriting. Equity underwriting has been a long-term core strength of Goldman Sachs. As with mergers and acquisitions, we have been particularly successful in winning mandates for large, complex equity underwritings. We believe our leadership in large initial public offerings reflects our expertise in complex transactions, research strengths, track record and distribution capabilities. We have also acted as lead manager on many of the largest initial public offerings in the international arena.

We believe that a key factor in our equity underwriting success is the close working relationship among the investment bankers, research analysts and sales force as coordinated by our Equity Capital Markets group. With institutional sales professionals and high-net-worth relationship managers located in every major market around the world, Goldman Sachs has relationships with a large and diverse group of investors.

Debt Underwriting. We engage in the underwriting and origination of various types of debt instruments that we broadly categorize as follows:

- investment-grade debt for corporations, governments, municipalities and agencies;
- leveraged finance, which includes high-yield debt and bank loans for non-investment-grade issuers;
- emerging market debt, which includes corporate and sovereign issues; and
- asset-backed securities.

We have employed a focused approach in debt underwriting, emphasizing high value-added areas in servicing our clients.

Trading and Principal Investments

Trading and Principal Investments represented 43% of 1999 net revenues. Our Trading and Principal Investments business facilitates transactions with a diverse group of corporations, financial institutions, governments and individuals and takes proprietary positions through market making in and trading of fixed income and equity products, currencies, commodities, and swaps and other derivatives. In order to meet the needs of our clients, our Trading and Principal Investments business is diversified across a wide range of products. For example, we make markets in traditional investment-grade debt securities, structure complex derivatives and securitize mortgages and insurance risk. We believe our willingness and ability to take risk distinguishes us and substantially enhances our client relationships.

Trading and Principal Investments is divided into three categories:

- **Fixed Income, Currency and Commodities.** Goldman Sachs makes markets in and trades fixed income products, currencies and commodities, structures and enters into a wide variety of derivative transactions, and engages in proprietary trading and arbitrage activities;
- **Equities.** Goldman Sachs makes markets in and trades equities and equity-related products, structures and enters into equity derivative transactions, and engages in proprietary trading and equity arbitrage; and

- **Principal Investments.** Principal Investments primarily represents net revenues from our merchant banking investments.

Fixed Income, Currency and Commodities. FICC is a large and diversified operation through which we engage in a variety of customer-driven market-making and proprietary trading and arbitrage activities. FICC's principal products are:

- Bank loans
- Commodities
- Currencies
- Derivatives
- Emerging market debt
- Global government securities
- High-yield securities
- Investment-grade corporate securities
- Money market instruments
- Mortgage securities and loans
- Municipal securities

We generate trading net revenues from our customer-driven business in three ways. First, in large, highly liquid markets, we undertake a high volume of transactions for modest spreads. Second, by capitalizing on our strong market relationships and capital position, we also undertake transactions in less liquid markets where spreads are generally larger. Finally, we generate net revenues from structuring and executing transactions that address complex client needs.

In our proprietary activities, we assume a variety of risks and devote substantial resources to identify, analyze and benefit from these exposures. We leverage our strong research capabilities and capitalize on our proprietary analytical models to analyze information and make informed trading judgments. We seek to benefit from perceived disparities in the value of assets in the trading markets and from macroeconomic and company-specific trends.

FICC uses a three-part approach to deliver high quality service to its clients. First, we offer broad market making, research and market knowledge to our clients on a global basis. Second, we create innovative solutions to complex client problems by drawing upon our structuring and trading expertise. Third, we use our expertise to take positions in markets when we believe the return is at least commensurate with the risk.

A core activity in FICC is market making in a broad array of securities and products. For example, we are a primary dealer in many of the largest government bond markets around the world, including the United States, Japan, the United Kingdom and Canada. We are a member of the major futures exchanges, and also have interbank dealer status in the currency markets in New York, London, Tokyo and Hong Kong. Our willingness to make markets in a broad range of fixed income, currency and commodity products and their derivatives is crucial both to our client relationships and to support our underwriting business by providing secondary market liquidity. Our research capabilities include quantitative and qualitative analyses of global economic, currency and financial market trends, as well as credit analyses of corporate and sovereign fixed income securities.

Equities. Goldman Sachs engages in a variety of market-making, proprietary trading and arbitrage activities in equity securities and equity-related products (such as convertible securities

and equity derivative instruments) on a global basis. Goldman Sachs makes markets and positions blocks of stock to facilitate customers' transactions and to provide liquidity in the marketplace. Goldman Sachs is a member of most of the major stock exchanges, including New York, London, Frankfurt, Tokyo and Hong Kong.

As agent, we execute brokerage transactions in equity securities for institutional and individual customers that generate commission revenues. Commissions earned on agency transactions are recorded in Asset Management and Securities Services.

In equity trading, as in FICC, we generate net revenues from our customer-driven business in three ways. First, in large, highly liquid principal markets, such as the over-the-counter market for equity securities, we undertake a high volume of transactions for modest spreads. Second, by capitalizing on our strong market relationships and capital position, we also undertake large transactions, such as block trades and positions in securities, in which we benefit from spreads that are generally larger. Finally, we also benefit from structuring complex transactions.

Goldman Sachs was a pioneer and is currently active in the execution of large block trades (trades of 50,000 or more shares) in the United States and abroad. We have been able to capitalize on our expertise in block trading, our global distribution network and our willingness to commit capital to effect increasingly large and complex customer transactions. We expect corporate consolidation and restructuring and increased demand for certainty and speed of execution by sellers and issuers of securities to increase both the frequency and size of sales of large blocks of equity securities. Block transactions, however, expose us to increased risks, including those arising from holding large and concentrated positions, and decreasing spreads.

We are active in the listed options and futures markets, and we structure, distribute and execute over-the-counter derivatives on market indices, industry groups and individual company stocks to facilitate customer transactions and our proprietary activities. We develop quantitative strategies and render advice with respect to portfolio hedging and restructuring and asset allocation transactions. We also create specially tailored instruments to enable sophisticated investors to undertake hedging strategies and establish or liquidate investment positions. We are one of the leading participants in the trading and development of equity derivative instruments. We are an active participant in the trading of futures and options on most of the major exchanges in the United States, Europe and Asia.

We remain committed to being at the forefront of technological innovation in the global capital markets. To pursue our strategy of expanding our electronic market-making capabilities, on September 24, 1999, Goldman Sachs completed its acquisition of The Hull Group, a leading global electronic market maker in exchange-traded equity derivatives and an active market maker in equity securities worldwide.

In addition, equity arbitrage has long been an important part of our equity franchise. Our strategy is based on making investments on a global basis through a diversified portfolio across different markets and event categories. This business focuses on event-oriented special situations where we are not acting as an advisor and on relative value trades. These special situations include mergers and acquisitions, corporate restructurings, recapitalizations and legal and regulatory events.

Trading Risk Management. We believe that our trading and market-making capabilities are key ingredients to our success. While these businesses have generally earned attractive returns, we have in the past incurred significant trading losses in periods of market turbulence, such as in 1994 and the second half of 1998.

Our trading risk management process seeks to balance our ability to profit from trading positions with our exposure to potential losses. Risk management includes input from all levels of Goldman Sachs, from the trading desks to the Firmwide Risk Committee. For a further discussion of our risk management policies and procedures, see "Management's Discussion and

Analysis — Risk Management” in the 1999 Annual Report to Shareholders, which is incorporated by reference in Part II, Item 7 of this Annual Report on Form 10-K.

Principal Investments. In connection with our merchant banking activities, we invest by making principal investments directly and through funds that we raise and manage. As of November 1999, we had committed \$3.06 billion, of which \$2.33 billion had been funded, of the \$17.27 billion total equity capital committed for our merchant banking funds. The funds’ investments generate capital appreciation or depreciation and, upon disposition, realized gains or losses. See “— Asset Management and Securities Services — Merchant Banking” for a discussion of our merchant banking funds. As of November 1999, the aggregate carrying value of our principal investments held directly or through our merchant banking funds was approximately \$2.88 billion, which consisted of corporate principal investments with an aggregate carrying value of approximately \$1.95 billion and real estate investments with an aggregate carrying value of approximately \$928 million.

Asset Management and Securities Services

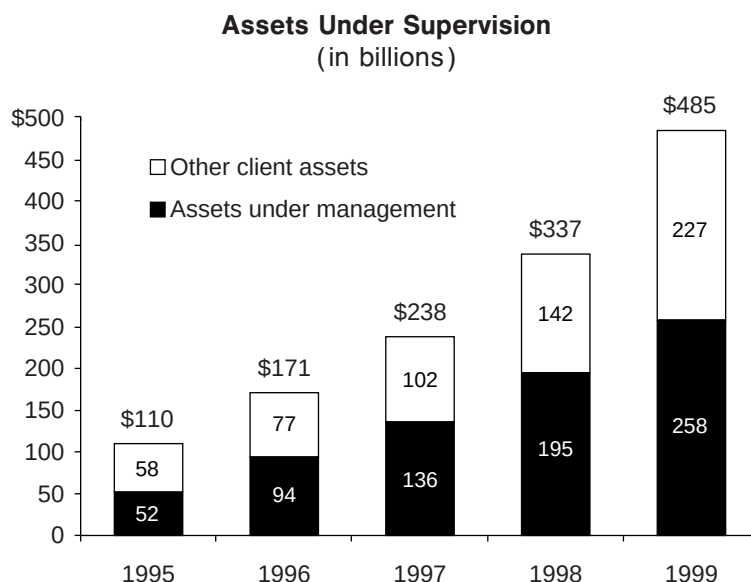
The components of the Asset Management and Securities Services segment, which represented 24% of 1999 net revenues, are set forth below:

- **Asset Management.** Asset Management generates management fees by providing investment advisory services to a diverse client base of institutions and individuals;
- **Securities Services.** Securities Services includes prime brokerage, financing services and securities lending, and our matched book businesses, all of which generate revenue primarily in the form of fees or interest rate spreads; and
- **Commissions.** Commissions includes agency transactions for clients on major stock and futures exchanges and revenues from the increased share of the income and gains derived from our merchant banking funds.

Asset Management

Goldman Sachs is seeking to build a premier global asset management business. We offer a broad array of investment strategies and advice across all major asset classes: global equity; fixed income, including money markets; currency; and alternative investment products (*i.e.*, investment vehicles with non-traditional investment objectives and/or strategies). Assets under supervision consist of assets under management and other client assets. Assets under management typically generate fees based on a percentage of their value and include our mutual funds, separate accounts managed for institutional and individual investors, our merchant banking funds and other alternative investment funds. Other client assets consist of assets in brokerage accounts of primarily high-net-worth individuals, on which we earn commissions.

Our growth in assets under supervision is set forth in the graph below:



As of November 1999, equities and alternative investments represented 59% of our total assets under management. Since 1996, these two asset classes have been the primary drivers of our growth in assets under management.

The following table sets forth the amount of assets under management by asset class:

Asset Class	As of November		
	1999	1998	1997
Equity	\$ 98	\$ 69	\$ 52
Fixed income and currency	58	50	36
Money markets	48	46	31
Alternative investment(1)	54	30	17
Total	<u>\$258</u>	<u>\$195</u>	<u>\$136</u>

(1) Includes private equity, real estate, quantitative asset allocation and other funds that we manage.

Since the beginning of 1996, we have increased the resources devoted to our Asset Management business, including the addition of over 1,000 employees. In addition, Goldman Sachs has made three asset management acquisitions in order to expand its geographic reach and broaden its global equity and alternative investment portfolio management capabilities.

Clients. Our primary clients are institutions, high-net-worth individuals and retail investors. We access clients through both direct and third-party channels. Our institutional clients include corporations, insurance companies, pension funds, foundations and endowments. In the third-party distribution channel, we distribute our mutual funds on a worldwide basis through banks, brokerage firms, insurance companies and other financial intermediaries.

The table below sets forth the amount of assets under supervision by distribution channel and client category as of November 1999:

Assets Under Supervision by Distribution Channel
(in billions)

	<u>Assets Under Supervision (1)</u>	<u>Primary Investment Vehicles</u>
• Directly distributed		
— Institutional	\$151	Separate managed accounts
— High-net-worth individuals	262	Commingled vehicles Brokerage accounts Limited partnerships Separate managed accounts
• Third-party distributed		
— Institutional and retail	56	Mutual funds
Total	<u>\$469</u>	

(1) Excludes \$16 billion in our merchant banking funds.

Merchant Banking

Goldman Sachs has established a successful record in the corporate and real estate merchant banking business, with \$17.27 billion of committed capital as of November 1999, of which \$13.03 billion has been funded. We have committed \$3.06 billion and funded \$2.33 billion of these amounts. Our clients, including pension plans, endowments, charitable institutions and high-net-worth individuals, have provided the remainder.

Our strategy with respect to each merchant banking fund is to invest opportunistically to build a portfolio of investments that is diversified by industry, product type, geographic region and transaction structure and type. Some of these investment funds pursue, on a global basis, long-term investments in equity and debt securities in privately negotiated transactions, leveraged buyouts and acquisitions. As of November 1999, our corporate merchant banking funds had total committed capital of \$9.50 billion. Other funds, with total committed capital of \$7.77 billion as of November 1999, invest in real estate operating companies and debt and equity interests in real estate assets.

Merchant banking activities generate three revenue streams. First, we receive a management fee that is generally a percentage of a fund's committed capital, invested capital, total gross acquisition cost or asset value. These annual management fees are included in our Asset Management revenues. Second, after that fund has achieved a minimum return for fund investors, we receive an increased share of the fund's income and gains that is a percentage, typically 20%, of the capital appreciation and gains from the fund's investments. Revenues from the increased share of the funds' income and gains are included in Commissions. Finally, Goldman Sachs, as a substantial investor in these funds, is allocated its proportionate share of the funds' unrealized appreciation or depreciation arising from changes in fair value as well as gains and losses upon realization. These items are included in the Trading and Principal Investments component of Global Capital Markets.

Securities Services

Securities Services consists predominantly of Global Securities Services, which provides prime brokerage, financing services and securities lending to a diversified U.S. and international

customer base, including hedge funds, pension funds and high-net-worth individuals. Securities Services also includes our matched book businesses.

We offer prime brokerage services to our clients, allowing them the flexibility to trade with most brokers while maintaining a single source for financing and portfolio reports. Our prime brokerage activities provide multi-product clearing and custody in 50 markets, consolidated multi-currency accounting and reporting and offshore fund administration and also provide servicing for our most active clients. Additionally, we provide financing to our clients through margin loans collateralized by securities held in the client's account.

Securities lending activities principally involve the borrowing and lending of equity securities to cover customer and Goldman Sachs' short sales and to finance Goldman Sachs' long positions. In addition, we are an active participant in the securities lending broker-to-broker business and the third-party agency lending business.

Commissions

Goldman Sachs generates commissions by executing agency transactions on major stock and futures exchanges worldwide. We effect agency transactions for clients located throughout the world. In recent years, aggregate commissions have increased as a result of growth in transaction volume on the major exchanges. As discussed above, Commissions also includes the increased share of income and gains from merchant banking funds as well as commissions earned from brokerage transactions. For a discussion regarding our increased share of the income and gains from our merchant banking funds, see "— Merchant Banking" above.

In anticipation of continued growth in electronic connectivity and on-line trading, Goldman Sachs has made strategic investments in alternative trading systems to gain experience and participate in the development of this market. See "— Internet Strategy" below for a further discussion of these investments.

Global Investment Research

Our Global Investment Research Department provides fundamental research on economies, debt and equity markets, commodities markets, industries and companies on a worldwide basis. For over two decades, we have committed resources on a global scale to develop a leading position in the industry for our investment research products.

Global Investment Research employs a team approach that as of November 1999 provided research coverage of approximately 2,400 companies worldwide, 52 economies and 26 stock markets. This is accomplished by four groups:

- the Commodities Research group, which provides research on the global commodity markets;
- the Company/Industry group, which provides fundamental analysis, forecasts and investment recommendations for companies and industries worldwide. Equity research analysts are organized regionally by sector and globally into more than 20 industry teams, which allows for extensive collaboration and knowledge sharing on important investment themes;
- the Economic Research group, which formulates macroeconomic forecasts for economic activity, foreign exchange and interest rates based on the globally coordinated views of its regional economists; and
- the Portfolio Strategy group, which forecasts equity market returns and provides recommendations on both asset allocation and industry representation.

Internet Strategy

We believe that Internet technology and electronic commerce will, over time, change the ways that securities and other financial products are traded and distributed, creating both opportunities and challenges for our businesses. In response, we have established a program of internal development and external investment.

Internally, we are extending our global electronic trading and information distribution capabilities to our clients via the Internet. These capabilities cover many of our fixed income, currency, commodity, equities and mutual fund products in markets around the world. We are also using the Internet to improve the ease and quality of communication with our institutional and high-net-worth clients. For example, investors have on-line access to our investment research, mutual fund data and valuation models. In addition, our high-net-worth clients are increasingly accessing their portfolio information over the Internet. We have also recently established GS-OnlineSM, which, in conjunction with Goldman, Sachs & Co., acts as an underwriter of securities offerings via the Internet and other electronic means. GS-OnlineSM will deal initially only with other underwriters and syndicate members and not with members of the public.

Recently, we established an internal working group to focus primarily on utilizing the Internet to enhance and support our wealth management business. Externally, we have invested in electronic commerce concerns such as Bridge Information Systems, Inc., TradeWeb LLC, Archipelago, L.L.C., The BRASS Utility, L.L.C., OptiMark Technologies, Inc. and Wit Capital Group, Inc. Through these investments, we gain an increased understanding of business developments and opportunities in this emerging sector.

Information Technology

Technology is fundamental to our overall business strategy. Goldman Sachs is committed to the ongoing development, maintenance and use of technology throughout the organization. We have developed significant software and systems over the past several years. Our technology initiatives can be broadly categorized into three efforts:

- enhancing client service through increased connectivity and the provision of high value-added, tailored services;
- risk management; and
- overall efficiency and control.

We have tailored our services to our clients by providing them with electronic access to our products and services. For example, we developed the *GS Financial Workbench*SM, an Internet Web site that clients and employees can use to download research reports, access earnings and valuation models, submit trades, monitor accounts, build and view presentations, calculate derivative prices and view market data. First made available in 1995, the *GS Financial Workbench*SM represents a joint effort among all of our business areas to create one comprehensive site for clients and employees to access our products and services.

We have also developed software that enables us to monitor and analyze our market and credit risks. This risk management software not only analyzes market risk on firmwide, divisional and trading desk levels, but also breaks down our risk into its underlying exposures, permitting management to evaluate exposures on the basis of specific interest rate, currency rate, equity price or commodity price changes. To assist further in the management of our credit exposures, data from many sources are aggregated daily into credit management systems that give senior management and professionals in the Credit and Controllers departments the ability to receive timely information with respect to credit exposures worldwide, including netting information, and the ability to analyze complex risk situations effectively. Our software accesses this data, allows

for quick analysis at the level of individual trades and interacts with other Goldman Sachs systems.

Technology has also been a significant factor in improving the overall efficiency of many areas of Goldman Sachs. By automating many trading procedures and operational and accounting processes, we have substantially increased our efficiency and accuracy.

Employees

Management believes that one of the strengths and principal reasons for the success of Goldman Sachs is the quality and dedication of its people and the shared sense of being part of a team. We strive to maintain a work environment that fosters professionalism, excellence, diversity and cooperation among our employees worldwide.

Instilling the Goldman Sachs culture in all employees is a continuous process, in which training plays an important part. All employees are offered the opportunity to participate in education and periodic seminars that we sponsor at various locations throughout the world. Another important part of instilling the Goldman Sachs culture is our employee review process. Employees are reviewed by supervisors, co-workers and employees they supervise in a 360-degree review process that is integral to our team approach.

As of November 1999, we had 15,361 employees, which excludes employees of Goldman Sachs' two property management subsidiaries. Substantially all of the costs of these property management employees are reimbursed to Goldman Sachs by the real estate investment funds to which these subsidiaries provide property management services.

Competition

The financial services industry — and all of our businesses — are intensely competitive, and we expect them to remain so. Our competitors are other brokers and dealers, investment banking firms, insurance companies, investment advisors, mutual funds, hedge funds, commercial banks and merchant banks. We compete with some of our competitors globally and with others on a regional, product or niche basis. Our competition is based on a number of factors, including transaction execution, our products and services, innovation, reputation and price.

We also face intense competition in attracting and retaining qualified employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees.

In recent years, there has been substantial consolidation and convergence among companies in the financial services industry. In particular, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired broker-dealers or have merged with other financial institutions. Many of these firms have the ability to offer a wide range of products, from loans, deposit taking and insurance to brokerage, asset management and investment banking services, which may enhance their competitive position. They also have the ability to support investment banking and securities products with commercial banking, insurance and other financial services revenues in an effort to gain market share, which could result in pricing pressure in our businesses.

Recently enacted federal financial modernization legislation significantly expands the activities permissible for firms affiliated with a U.S. bank. The legislation, among other things, enables U.S. banks and insurance firms to affiliate, facilitates affiliations between U.S. banks and securities firms, and expands the permissible principal investing activities of U.S. banking organizations. This legislation may further accelerate consolidation and increase competition in the financial services industry and will enable banking organizations to compete more effectively across a broad range of activities.

The trend toward consolidation and convergence has significantly increased the capital base and geographic reach of our competitors. This trend has also hastened the globalization of the securities and other financial services markets. As a result, we have had to commit capital to support our international operations and to execute large global transactions.

We believe that some of our most significant challenges and opportunities will arise outside the United States. In order to take advantage of these opportunities, we will have to compete successfully with financial institutions based in important non-U.S. markets, particularly in Europe. Some of these institutions are larger and better capitalized, and have a stronger local presence and a longer operating history in these markets.

We have experienced intense price competition in some of our businesses in recent years. For example, equity and debt underwriting discounts have been under pressure for a number of years and the ability to execute trades electronically, through the Internet and through other alternative trading systems may increase the pressure on trading commissions. It appears that this trend toward alternative trading systems will continue and probably accelerate. Similarly, underwriting spreads in certain privatizations have been subject to considerable pressure. We believe that we may experience pricing pressures in these and other areas in the future as some of our competitors seek to obtain market share by reducing prices.

Regulation

Goldman Sachs, as a participant in the securities and commodity futures and options industries, is subject to extensive regulation in the United States and elsewhere. As a matter of public policy, regulatory bodies in the United States and the rest of the world are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of customers participating in those markets. They are not, however, charged with protecting the interests of Goldman Sachs' shareholders or creditors. In the United States, the SEC is the federal agency responsible for the administration of the federal securities laws. Goldman, Sachs & Co. is registered as a broker-dealer and as an investment adviser with the SEC and as a broker-dealer in all 50 states and the District of Columbia. Self-regulatory organizations, such as the Chicago Board of Trade, the NYSE and the NASD, adopt rules and examine broker-dealers such as Goldman, Sachs & Co. In addition, state securities and other regulators also have regulatory or oversight authority over Goldman, Sachs & Co. Similarly, our businesses are also subject to regulation by various non-U.S. governmental and regulatory bodies and self-regulatory authorities in virtually all countries where we have offices.

Broker-dealers are subject to regulations that cover all aspects of the securities business, including sales methods, trade practices among broker-dealers, use and safekeeping of customers' funds and securities, capital structure, record-keeping, the financing of customers' purchases, and the conduct of directors, officers and employees. Additional legislation, changes in rules promulgated by self-regulatory organizations, or changes in the interpretation or enforcement of existing laws and rules, either in the United States or elsewhere, may directly affect the mode of operation and profitability of Goldman Sachs.

The U.S. and non-U.S. government agencies and self-regulatory organizations, as well as state securities commissions in the United States, are empowered to conduct administrative proceedings that can result in censure, fine, the issuance of cease-and-desist orders, or the suspension or expulsion of a broker-dealer or its directors, officers or employees. Occasionally, our subsidiaries have been subject to investigations and proceedings, and sanctions have been imposed for infractions of various regulations relating to our activities, none of which has had a material adverse effect on us or our businesses.

The commodity futures and options industry in the United States is subject to regulation under the Commodity Exchange Act, as amended. The Commodity Futures Trading Commission is the federal agency charged with the administration of the Commodity Exchange Act and the

regulations thereunder. Goldman, Sachs & Co. is registered with the Commodity Futures Trading Commission as a futures commission merchant, commodity pool operator and commodity trading advisor.

As a registered broker-dealer and member of various self-regulatory organizations, Goldman, Sachs & Co. is subject to the SEC's uniform net capital rule, Rule 15c3-1. This rule specifies the minimum level of net capital a broker-dealer must maintain and also requires that part of its assets be kept in relatively liquid form. Goldman, Sachs & Co. is also subject to the net capital requirements of the Commodity Futures Trading Commission and various securities and commodity exchanges. See Note 12 to the consolidated financial statements incorporated by reference in Part II, Item 8 of this Annual Report on Form 10-K.

The SEC and various self-regulatory organizations impose rules that require notification when net capital falls below certain predefined criteria, dictate the ratio of subordinated debt to equity in the regulatory capital composition of a broker-dealer and constrain the ability of a broker-dealer to expand its business under certain circumstances. Additionally, the SEC's uniform net capital rule imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to the SEC for certain withdrawals of capital.

In January 1999, the SEC adopted revisions to its uniform net capital rule and related regulations that permit the registration of over-the-counter derivatives dealers as broker-dealers. An over-the-counter derivatives dealer can, upon adoption of a risk management framework in accordance with the new rules, utilize a capital requirement based upon proprietary models for estimating market risk exposures. We have established Goldman Sachs Financial Markets, L.P. and registered this company with the SEC as an over-the-counter derivatives dealer to conduct in a more capital-efficient manner certain over-the-counter derivative businesses previously conducted in other affiliates.

Goldman Sachs is an active participant in the international fixed income and equity markets. Many of our affiliates that participate in those markets are subject to comprehensive regulations that include some form of capital adequacy rule and other customer protection rules. Goldman Sachs provides investment services in and from the United Kingdom under a regulatory regime that is undergoing comprehensive restructuring aimed at implementing the Financial Services Authority as the United Kingdom's unified financial services regulator. The relevant Goldman Sachs entities in London are at present regulated by the Securities and Futures Authority Limited in respect of their investment banking, individual asset management, brokerage and principal trading activities, and the Investment Management Regulatory Organization in respect of their institutional asset management and fund management activities. Some of these Goldman Sachs entities are also regulated by the London Stock Exchange and other U.K. securities and commodities exchanges of which they are members. It is expected, however, that during 2000, the responsibilities of the Securities and Futures Authority Limited and Investment Management Regulatory Organization will be taken over by the Financial Services Authority. The investment services that are subject to oversight by U.K. regulators are regulated in accordance with European Union directives requiring, among other things, compliance with certain capital adequacy standards, customer protection requirements and conduct of business rules. These standards, requirements and rules are similarly implemented, under the same directives, throughout the European Union and are broadly comparable in scope and purpose to the regulatory capital and customer protection requirements imposed under the SEC and Commodity Futures Trading Commission rules. European Union directives also permit local regulation in each jurisdiction, including those in which we operate, to be more restrictive than the requirements of such directives and these local requirements can result in certain competitive disadvantages to Goldman Sachs. In addition, the Japanese Ministry of Finance, the Financial Supervisory Agency, the Tokyo Stock Exchange, the Tokyo International Financial Futures Exchange and the Japan Securities Dealers Association in Japan, the Securities and Futures Commission in Hong Kong,

the Bundesbank in Germany, as well as French and Swiss banking authorities, among others, regulate various of our subsidiaries and also have capital standards and other requirements comparable to the rules of the SEC.

Compliance with net capital requirements of these and other regulators could limit those operations of our subsidiaries that require the intensive use of capital, such as underwriting and trading activities and the financing of customer account balances, and also could restrict our ability to withdraw capital from our regulated subsidiaries, which in turn could limit our ability to repay debt or pay dividends on our common stock.

Certain Factors That May Affect Our Business

As an investment banking and securities firm, our businesses are materially affected by conditions in the financial markets and economic conditions generally, both in the United States and elsewhere around the world. The financial markets in the United States and elsewhere have achieved record or near record levels, and the favorable business environment in which we operate will not continue indefinitely. In the event of a change in market conditions, our businesses could be adversely affected in many ways, including the following:

- We generally maintain large trading and investment positions, including merchant banking investments, in the fixed income, currency, commodity and equity markets, and in real estate and other assets, and we may incur significant losses if market fluctuations or volatility adversely affect the value of these positions.
- Unfavorable financial or economic conditions would likely reduce the number and size of transactions in which we provide underwriting, mergers and acquisitions advisory, and other services, and could thereby adversely affect our results of operations.
- A market downturn would likely lead to a decline in the volume of transactions that we execute for our customers and, therefore, to a decline in the revenues we receive from commissions and spreads. A market downturn could also result in a decline in the fees we earn for managing assets. Moreover, even in the absence of a market downturn, below-market performance by our mutual funds could result in a decline in assets under management and therefore in the fees we receive.
- Concentration of risk in the past has increased the losses that we have incurred in our arbitrage, market-making, block trading, underwriting and lending businesses and may continue to do so in the future. In particular, in the case of block trading, we expect the trend toward an increase in the number and size of trades we execute to continue.
- A prolonged market downturn could impair our operating results for a long period of time. In such a downturn, our revenues may decline and, if we were unable to reduce expenses at the same pace, our profit margins would erode.

If any of the variety of instruments and strategies we utilize to hedge or otherwise manage our exposure to various types of risk are not effective, we may incur losses. Our hedging strategies and other risk management techniques may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of our methods of managing risk are based upon our use of observed historical market behavior. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate. Other risk management methods depend upon evaluation of information regarding markets, clients or other matters. This information may not in all cases be accurate, complete, up-to-date or properly evaluated.

The financial services industry — and all of our businesses — are intensely competitive, and we expect them to remain so. We compete on the basis of a number of factors, including

transaction execution, our products and services, innovation, reputation and price. We believe that we may experience pricing pressures in the future as some of our competitors seek to obtain market share by reducing prices. In recent years, there has been substantial consolidation and convergence among companies in the financial services industry. Recent financial services legislation, which significantly expands the activities permissible for firms affiliated with a U.S. bank, may accelerate this consolidation and further increase competition. This trend toward consolidation and convergence has significantly increased the capital base and geographic reach of our competitors. This trend has also hastened the globalization of the securities and other financial services markets. As a result, we have had to commit capital to support our international operations and to execute large global transactions.

Our performance is largely dependent on the talents and efforts of highly skilled individuals. Competition in the financial services industry for qualified employees is intense. Our continued ability to compete effectively in our businesses depends on our ability to attract new employees and to retain and motivate our existing employees. The steps we have taken to encourage the continued service of our employees since our conversion to corporate form may not be effective.

Liquidity, i.e., ready access to funds, is essential to our businesses. Our liquidity could be impaired by an inability to access the long-term or short-term debt capital markets, an inability to access the repurchase and securities lending markets, or an impairment of our ability to sell assets. Our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time. In addition, a reduction in our credit ratings could adversely affect our liquidity and competitive position and increase our borrowing costs.

We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. The amount and duration of our credit exposures have been increasing over the past several years. In addition, we have also experienced, due to competitive factors, pressure to extend credit against less liquid collateral and price more aggressively the credit risks that we take. Although we regularly review our credit exposure to specific clients and counterparties and to specific industries, countries and regions that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee. In addition, concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect Goldman Sachs.

Our businesses are highly dependent on our ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies, and the transactions we process have become increasingly complex. If any of our financial, accounting or other data processing systems do not operate properly or are disabled, we could suffer financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses.

Substantial legal liability or a significant regulatory action against Goldman Sachs could have a material adverse financial effect or cause significant reputational harm to Goldman Sachs, which in turn could seriously harm our business prospects. We face significant legal risks in our businesses and the volume and amount of damages claimed in litigation against financial intermediaries are increasing. In addition, we would expect legal claims by customers and clients to increase in a market downturn.

Goldman Sachs, as a participant in the financial services industry, is subject to extensive regulation in jurisdictions around the world. We face the risk of significant intervention by regulatory authorities in all jurisdictions in which we conduct business. Among other things, we could be fined or prohibited from engaging in some of our business activities. New laws or

regulations or changes in enforcement of existing laws or regulations applicable to our clients may also adversely affect our businesses.

There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years, and we run the risk that employee misconduct could occur. It is not always possible to deter employee misconduct and the precautions we take to prevent and detect this activity may not be effective in all cases.

We believe that some of our most significant challenges and opportunities will arise outside the United States. In order to take advantage of these opportunities, we will have to compete successfully with financial institutions based in important non-U.S. markets, particularly in Europe. Some of these institutions are larger and better capitalized, and have a stronger local presence and a longer operating history in these markets.

In conducting our businesses in major markets around the world, we are subject to political, economic, legal, operational and other risks that are inherent in operating in other countries, including risks of possible nationalization, expropriation, price controls, exchange controls and other restrictive governmental actions. In many countries, the laws and regulations applicable to the securities and financial services industries are uncertain and evolving, and it may be difficult for us to determine the exact requirements of local laws in every market. Our inability to remain in compliance with local laws in a particular foreign market could have a significant and negative effect not only on our businesses in that market but also on our reputation generally. We are also subject to the risk that transactions we structure might not be legally enforceable in all cases.

In the last several years, various emerging market countries have experienced severe economic and financial disruptions, including significant devaluations of their currencies and low or negative growth rates in their economies. The possible effects of these conditions include an adverse impact on our businesses and increased volatility in financial markets generally. As we expand our businesses in emerging and other markets, our exposure to these risks will increase.

Securities and futures transactions are now being conducted through the Internet and other alternative, non-traditional trading systems, and it appears that the trend toward alternative trading systems will continue and probably accelerate. A dramatic increase in computer-based or other electronic trading may adversely affect our commission and trading revenues, reduce our participation in the trading markets and associated access to market information and lead to the creation of new and stronger competitors.

Item 2. *Properties*

Our principal executive offices are located at 85 Broad Street, New York, New York, and comprise approximately 969,000 square feet of leased space, pursuant to a lease agreement expiring in June 2008 (with an option to renew for up to 20 additional years). We also occupy over 500,000 square feet at each of 1 New York Plaza and 10 Hanover Square in New York, New York, pursuant to lease agreements expiring in September 2004 (with an option to renew for ten years) and June 2018, respectively. Additionally, we have a 15-year lease for approximately 605,000 square feet at 180 Maiden Lane in New York, New York, that expires in March 2014. In total, we lease over 3.6 million square feet in the New York area. We have additional offices in the United States and elsewhere in the Americas. Together, these offices comprise approximately 680,000 square feet of leased space.

In the first quarter of 2000, we executed a contract to purchase approximately six acres of unimproved land in Jersey City, New Jersey. We expect to develop this land to complement our offices in lower Manhattan. The initial phase of development is expected to include approximately 1.4 million usable square feet of office space, with occupancy planned for early 2003.

We also have offices in Europe, Asia, Africa and Australia. In Europe, we have offices that totaled approximately 788,000 square feet as of the end of January 2000. Our largest presence

in Europe is in London, where we leased approximately 609,000 square feet through various leases as of the end of January 2000, with the principal one for Peterborough Court expiring in 2016. An additional 453,000 square feet of leased space in London is expected to be occupied during 2000 and 2001.

In Asia, we have offices that total approximately 563,000 square feet. Our largest offices in this region are in Tokyo and Hong Kong. In Tokyo, we currently lease approximately 234,000 square feet under renewable leases with current terms extending, in some cases, to June 2005. In Hong Kong, we currently lease approximately 222,000 square feet under a lease that expires in 2012. There are significant expansion efforts underway in Tokyo and Singapore.

Our space requirements have increased significantly over the last several years. Currently, Goldman Sachs is at or near capacity at most of its locations. As a result, we have been actively leasing additional space to support our anticipated growth. Based on our progress to date, we believe that we will be able to acquire additional space to meet our anticipated needs.

Item 3. *Legal Proceedings*

We are involved in a number of judicial, regulatory and arbitration proceedings (including those described below) concerning matters arising in connection with the conduct of our businesses. We believe, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on our financial condition, but might be material to our operating results for any particular period, depending, in part, upon the operating results for such period.

MobileMedia Securities Litigation

Goldman, Sachs & Co. has been named as a defendant in a purported class action lawsuit commenced on December 6, 1996 and pending in the U.S. District Court for the District of New Jersey. This lawsuit was brought on behalf of purchasers of common stock of MobileMedia Corporation in an underwritten offering in 1995 and purchasers of senior subordinated notes of MobileMedia Communications Inc. in a concurrent underwritten offering. Defendants are MobileMedia Corporation, certain of its officers and directors, and the lead underwriters, including Goldman, Sachs & Co. MobileMedia Corporation is currently reorganizing in bankruptcy.

Goldman, Sachs & Co. underwrote 2,242,500 shares of common stock, for a total price of approximately \$53 million, and Goldman Sachs International underwrote 718,750 shares, for a total price of approximately \$17 million. Goldman, Sachs & Co. underwrote approximately \$38 million in principal amount of the senior subordinated notes.

The consolidated class action complaint alleges violations of the disclosure requirements of the federal securities laws and seeks compensatory and/or rescissory damages. In light of MobileMedia Corporation's bankruptcy, the action against it has been stayed. Defendants' motion to dismiss was denied in October 1998.

The parties have entered into a stipulation of settlement, which was approved by the court on February 7, 2000, but the time to appeal has yet to expire.

Antitrust Matters

Goldman, Sachs & Co. is one of numerous financial services companies that have been named as defendants in certain purported class actions brought in the U.S. District Court for the Southern District of New York by purchasers of securities in public offerings, who claim that the defendants engaged in conspiracies in violation of federal antitrust laws in connection with these offerings. The plaintiffs in each instance seek treble damages as well as injunctive relief. One of the actions, which was commenced on August 21, 1998, alleges that the defendants have conspired to discourage or restrict the resale of securities for a period after the offerings,

including by imposing “penalty bids”. Defendants moved to dismiss the complaint in November 1998. The plaintiffs amended their complaint in February 1999, modifying their claims in various ways, including limiting the proposed class to retail purchasers of public offerings. On May 7, 1999, the defendants moved to dismiss the amended complaint.

Several other actions were commenced, beginning on November 3, 1998, that allege that the defendants, many of whom are also named in the other action discussed above, have conspired to fix at 7% the discount that underwriting syndicates receive from issuers of shares in certain offerings. On March 15, 1999, the plaintiffs filed a consolidated amended complaint. The defendants moved to dismiss the consolidated amended complaint on April 29, 1999.

Goldman, Sachs & Co. received a Civil Investigative Demand on April 29, 1999 from the U.S. Department of Justice requesting information with respect to its investigation of an alleged conspiracy among securities underwriters to fix underwriting fees.

Hull Trading Co. L.L.C., an affiliate of The Goldman Sachs Group, Inc., is one of numerous market makers in listed equity options which have been named as defendants, together with five national securities exchanges, in a purported class action brought in the U.S. District Court for the Southern District of New York on behalf of persons who purchased or sold listed equity options. The consolidated class action complaint, filed on October 4, 1999 (which consolidated certain previously pending actions and added Hull Trading Co. L.L.C. and other market makers as defendants), generally alleges that the defendants engaged in a conspiracy to preclude the multiple listing of certain equity options on the exchanges and seeks treble damages under the antitrust laws as well as injunctive relief. On January 28, 2000, the defendants moved to dismiss the consolidated class action complaint.

Rockefeller Center Properties, Inc. Litigation

Several former shareholders of Rockefeller Center Properties, Inc. brought purported class actions in the U.S. District Court for the District of Delaware and the Delaware Court of Chancery arising from the acquisition of Rockefeller Center Properties, Inc. by an investor group in July 1996. The defendants in the actions include, among others, Goldman, Sachs & Co., Whitehall Real Estate Partnership V, a fund advised by Goldman, Sachs & Co., a Goldman, Sachs & Co. managing director and other members of the investor group. The federal court actions, which have since been consolidated, were filed beginning on November 15, 1996, and the state court action was filed on May 29, 1998.

The complaints generally allege that the proxy statement disseminated to former Rockefeller Center Properties, Inc. stockholders in connection with the transaction was deficient, in violation of the disclosure requirements of the federal securities laws. The plaintiffs are seeking, among other things, unspecified damages, rescission of the acquisition, and/or disgorgement.

In a series of decisions, the federal district court granted summary judgment dismissing all the claims in the federal action. The plaintiffs appealed those rulings.

On July 19, 1999, the U.S. Court of Appeals for the Third Circuit rendered its decision affirming in part and vacating in part the lower court’s entry of summary judgment dismissing the action. With respect to the claim as to which summary judgment was vacated, the appellate court held that the district court had committed a procedural error in converting the defendants’ motion to dismiss into a motion for summary judgment and remanded for the district court to reconsider that claim under appropriate standards applicable to motions to dismiss. Plaintiffs have since sought leave to amend the complaint as to the remanded claim. The defendants have moved to dismiss the remanded claim and are opposing the plaintiffs’ motion to amend it further.

The state action has been stayed pending disposition of the federal action.

Reichhold Chemicals Litigation

Reichhold Chemicals, Inc. and Reichhold Norway ASA brought a claim on March 30, 1998 in the Commercial Court in London against Goldman Sachs International in relation to the plaintiffs' 1997 purchase of the polymer division of one of Goldman Sachs International's Norwegian clients, Jotun A/S. The plaintiffs claim that they overpaid by \$40 million based upon misrepresentations concerning the financial performance of the polymer division.

In November 1998, the Commercial Court granted Goldman Sachs International's application for a stay of the action pending the outcome of arbitration proceedings between Reichhold Chemicals, Inc. and Reichhold Norway ASA, on the one hand, and Jotun A/S in Norway, on the other. That stay order was upheld by an appellate court on June 28, 1999.

Matters Relating to Municipal Securities

Goldman, Sachs & Co., together with a number of other firms active in the municipal securities area, has received requests beginning in June 1995 for information from the SEC and certain other federal and state agencies and authorities with respect to the pricing of escrow securities sold by Goldman, Sachs & Co. to certain municipal bond issuers in connection with the advanced refunding of municipal securities. Goldman, Sachs & Co. understands that certain municipal bond issuers to which Goldman, Sachs & Co. sold escrow securities have also received such inquiries.

There have been published reports that an action under the Federal False Claims Act was filed in February 1995 alleging unlawful and undisclosed overcharges in certain advance refunding transactions by a private plaintiff on behalf of the United States and that Goldman, Sachs & Co., together with a number of other firms, is a named defendant in that action. The complaint was reportedly filed under seal while the government determines whether it will pursue the claims directly.

Goldman, Sachs & Co. is also one of many municipal underwriting firms that have been named as defendants in a purported class action brought on November 24, 1998 in the U.S. District Court for the Middle District of Florida by the Clerk of Collier County, Florida on behalf of municipal issuers which purchased escrow securities since October 1986 in connection with advance refundings. The amended complaint alleges that the securities were excessively "marked up" in violation of the Investment Advisers Act and Florida law, and that the defendants violated the federal antitrust laws in connection with the prices at which escrow securities were sold to municipal issuers. The complaint seeks to recover the difference between the actual and alleged "fair" prices of the escrow securities and to treble the alleged damages with respect to the antitrust claim. On October 29, 1999, the defendants moved to dismiss the complaint.

AMF Securities Litigation

The Goldman Sachs Group, L.P., Goldman, Sachs & Co. and a Goldman, Sachs & Co. managing director have been named as defendants in several purported class action lawsuits beginning on April 27, 1999 in the U.S. District Court for the Southern District of New York. The lawsuits, which have been consolidated, were brought on behalf of purchasers of stock of AMF Bowling, Inc. in an underwritten initial public offering of 15,525,000 shares of common stock in November 1997 at a price of \$19.50 per share. Defendants are AMF Bowling, Inc., certain officers and directors of AMF Bowling, Inc. (including the Goldman, Sachs & Co. managing director), and the lead underwriters of the offering (including Goldman, Sachs & Co.). The consolidated amended complaint alleges violations of the disclosure requirements of the federal securities laws and seeks compensatory damages and/or rescission. The complaint asserts that The Goldman Sachs Group, L.P. and the Goldman, Sachs & Co. managing director are liable as controlling persons under the federal securities laws because certain funds managed by Goldman Sachs owned a majority of the outstanding common stock of AMF Bowling, Inc. and the

managing director served as its chairman at the time of the offering. On December 22, 1999, the defendants moved to dismiss the complaint.

Iridium Securities Litigation

Goldman, Sachs & Co. has been named as a defendant in two purported class action lawsuits commenced, beginning on May 26, 1999, in the U.S. District Court for the District of Columbia. These lawsuits were brought on behalf of purchasers of Class A common stock of Iridium World Communications, Ltd. in a January 1999 underwritten secondary offering of 7,500,000 shares of Class A common stock at a price of \$33.40 per share, as well as in the secondary market. The defendants in the actions include Iridium, certain of its officers and directors, Motorola, Inc. (an investor in Iridium) and the lead underwriters in the offering, including Goldman, Sachs & Co.

The complaints in both actions allege violations of the disclosure requirements of the federal securities laws and seek compensatory and/or rescissory damages. Goldman, Sachs & Co. underwrote 996,500 shares of common stock and Goldman Sachs International underwrote 320,625 shares of common stock for a total offering price of approximately \$44 million.

On August 13, 1999, Iridium World Communications, Ltd. filed for protection under the U.S. bankruptcy laws.

HUD Litigation

In September 1999, Goldman, Sachs & Co. was notified by the civil division of the United States Attorney's Office for the District of Columbia that it is a named defendant, along with other unidentified entities, in a civil action brought by a private party in the U.S. District Court for the District of Columbia under the *qui tam* provisions of the federal False Claims Act in connection with certain auctions of competitive loans on behalf of the U.S. Department of Housing and Urban Development. Goldman, Sachs & Co. has not been provided with the complaint, which has been filed under seal, but has been informed that the complaint alleges, among other things, that (i) Goldman, Sachs & Co. and its bidding partners improperly directed approximately \$4.7 billion of government-owned notes for prices below that which would have been obtained in full and fair competition, (ii) the U.S. Department of Housing and Urban Development's financial advisor in connection with such auctions provided Goldman, Sachs & Co. and its bidding partners with information not available to competing bidders relating to the details of competing bids, the value of the assets being sold and the structure of the sales, and (iii) in one instance, Goldman, Sachs & Co. and its bidding partners were awarded assets despite not being the highest bidder. Pursuant to the False Claims Act, the complaint remains under seal pending the government's investigation and consideration as to whether to intervene in the action. The complaint does not state a monetary amount of damages. Under the False Claims Act, any damage award could be trebled.

Item 4. Matters Submitted to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of our fiscal year ended November 26, 1999.

EXECUTIVE OFFICERS OF THE GOLDMAN SACHS GROUP, INC.

Set forth below are the name, age, present title, principal occupation, and certain biographical information for the past five years for our executive officers, all of whom have been appointed by and serve at the pleasure of our board of directors.

Henry M. Paulson, Jr., 53

Mr. Paulson has been a director of The Goldman Sachs Group, Inc. since August 1998, and has been its Chairman and Chief Executive Officer since May 1999. He was Co-Chairman and Chief Executive Officer or Co-Chief Executive Officer of The Goldman Sachs Group, L.P. from June 1998 to May 1999 and served as Chief Operating Officer from December 1994 to June 1998. From December 1990 to November 1994, he was Co-Head of Investment Banking. Mr. Paulson is a member of the Board of Directors of the New York Stock Exchange. He is also Chairman of the Board of Directors of the Peregrine Fund, Inc. and Co-Chairman of the Asia/Pacific Council of The Nature Conservancy. Mr. Paulson also serves on the Advisory Board of the J.L. Kellogg Graduate School of Management at Northwestern University, is a member of the Board of Directors of the Associates of Harvard Business School and is Chairman of the Advisory Board of the Tsinghua University School of Economics and Management.

Robert J. Hurst, 54

Mr. Hurst has been a director of The Goldman Sachs Group, Inc. since August 1998, and has been its Vice Chairman since May 1999. He was Vice Chairman of The Goldman Sachs Group, L.P. from February 1997 to May 1999 and served as Head or Co-Head of Investment Banking from December 1990 to November 1999. He is also a director of VF Corporation and IDB Holding Corporation Ltd. Mr. Hurst is a member of the Board of Overseers of the Wharton School. He is also a member of the Council on Foreign Relations and a member of the Committee for Economic Development. He is Chairman of the Board of the Jewish Museum and a Trustee and Vice President of the Whitney Museum of American Art.

John A. Thain, 44

Mr. Thain has been a director of The Goldman Sachs Group, Inc. since August 1998, and has been its President and Co-Chief Operating Officer since May 1999. He was President of The Goldman Sachs Group, L.P. from March 1999 to May 1999 and Co-Chief Operating Officer from January 1999 to May 1999. From December 1994 to March 1999, he served as Chief Financial Officer and Head of Operations, Technology and Finance, the predecessor to the current Operations, Finance & Resources and Information Technology divisions. From July 1995 to September 1997, he was also Co-Chief Executive Officer for European Operations. In 1990, Mr. Thain transferred from the Fixed Income Division, where he established and served as Co-Head of the Mortgage Securities Department, to Operations, Technology and Finance to assume responsibility for Controllers and Treasury. Mr. Thain is also a member of the Federal Reserve Bank of New York's International Capital Markets Advisory Committee, a member of the INSEAD — U.S. National Advisory Board, and a member of the Dean's Advisory Council — MIT/Sloan School of Management.

John L. Thornton, 46

Mr. Thornton has been a director of The Goldman Sachs Group, Inc. since August 1998, and has been its President and Co-Chief Operating Officer since May 1999. He was President of The Goldman Sachs Group, L.P. from March 1999 to May 1999 and Co-Chief Operating Officer from January 1999 to May 1999. From August 1998 until January 1999, he had oversight responsibility for International Operations. From September 1996 until August 1998, he was Chairman, Goldman Sachs — Asia, in addition to his senior strategic responsibilities in Europe. From July 1995 to September 1997, he was Co-Chief Executive Officer for European Operations. From 1994 to 1995, he was Co-Head of Investment Banking in Europe and from 1992 to 1994 was

Head of European Investment Banking Services. Mr. Thornton is also a director of the Ford Motor Company, BSKYB PLC, Laura Ashley Holdings PLC and the Pacific Century Group, Inc. In addition, he is a member of the Council on Foreign Relations, the Hotchkiss School Board of Trustees, the Asia Society Board of Trustees, the Yale University Investment Committee and the Advisory Board of the Yale School of Management.

Robert J. Katz, 52

Mr. Katz has been General Counsel, Secretary to the Board of Directors and an Executive Vice President of The Goldman Sachs Group, Inc. since May 1999. He was General Counsel of The Goldman Sachs Group, L.P. or its predecessor from 1988 to May 1999. From 1980 to 1988, Mr. Katz was a partner in Sullivan & Cromwell. Mr. Katz is Chairman-elect of the Board of Trustees of Horace Mann School, a member of the University Council and of the College of Arts and Sciences, Advisory Council of Cornell University, a Trustee of Prep for Prep, a Trustee *emeritus* of the Allen-Stevenson School and a member of the National Campaign Board of the Shoah Foundation.

Gregory K. Palm, 51

Mr. Palm has been General Counsel and an Executive Vice President of The Goldman Sachs Group, Inc. since May 1999. He was General Counsel of The Goldman Sachs Group, L.P. from 1992 to May 1999. He has senior oversight responsibility for Legal, Compliance and Management Controls, and is Co-Chairman of the Global Compliance and Control Committee. Mr. Palm also is a member of the American Law Institute and the Legal Advisory Committee of the New York Stock Exchange. From 1982 to 1992, Mr. Palm was a partner in Sullivan & Cromwell.

Leslie C. Tortora, 43

Ms. Tortora has been Chief Information Officer and an Executive Vice President of The Goldman Sachs Group, Inc. since May 1999 and has been Head of Information Technology since March 1999. She was Chief Information Officer of The Goldman Sachs Group, L.P. from March 1999 to May 1999. She headed Goldman Sachs' global technology efforts from 1994 to March 1999. Prior to joining Goldman Sachs in 1994, she was a director of Technical Services at General Electric Company.

David A. Viniar, 44

Mr. Viniar has been Chief Financial Officer and an Executive Vice President of The Goldman Sachs Group, Inc. since May 1999 and has been Co-Head of Operations, Finance and Resources since March 1999. He was Chief Financial Officer of The Goldman Sachs Group, L.P. from March 1999 to May 1999. From July 1998 until March 1999, he was Deputy Chief Financial Officer and from 1994 until July 1998, he was Head of Finance, with responsibility for Controllers and Treasury. From 1992 to 1994, Mr. Viniar was Head of Treasury and immediately prior to then was in the Structured Finance Department of Investment Banking. Mr. Viniar is a member of the Board of Trustees of Children's Aid and Family Services, and serves on the Board of Trustees of Union College.

Barry L. Zubrow, 46

Mr. Zubrow has been Chief Administrative Officer and an Executive Vice President of The Goldman Sachs Group, Inc. since May 1999 and has been Co-Head of Operations, Finance and Resources since March 1999. He was Chief Administrative Officer of The Goldman Sachs Group, L.P. from March 1999 to May 1999. From 1994 until then, he was chief credit officer and Head of the Credit Department. From 1992 to 1994, Mr. Zubrow was Head of the Midwest Group in the Corporate Finance Department of Investment Banking. Mr. Zubrow is a Vice-Chairman of the Board of Managers of Haverford College. He is also a member of the Board of Directors of the Juvenile Law Center and a member of the Visiting Committee of The Law School of the University of Chicago.

PART II

Item 5. *Market for Registrant's Common Equity and Related Stockholder Matters*

Information relating to the principal market in which our common stock is traded and the high and low sales prices per share for each full quarterly period since the common stock commenced trading on the New York Stock Exchange on May 4, 1999 is set forth under the caption "Stock Price Range" on page 74 of the 1999 Annual Report to Shareholders, which is incorporated by reference in Item 8 of this Annual Report on Form 10-K. As of January 17, 2000, there were approximately 591 holders of record of our common stock. There is no established public trading market for our nonvoting common stock.

During fiscal 1999, dividends of \$0.12 per share of common stock and nonvoting common stock were declared on June 23, 1999 and September 20, 1999. The holders of our common stock and nonvoting common stock share proportionately on a per share basis in all dividends and other distributions declared by our board of directors.

The declaration of dividends by Goldman Sachs is subject to the discretion of our board of directors. Our board of directors will take into account such matters as general business conditions, our financial results, capital requirements, contractual, legal and regulatory restrictions on the payment of dividends by us to our shareholders or by our subsidiaries to us, the effect on our debt ratings and such other factors as our board of directors may deem relevant. See "Business — Regulation" in Item 1 of this Annual Report on Form 10-K for a discussion of potential regulatory limitations on our receipt of funds from our regulated subsidiaries.

On September 24, 1999, we issued 4,024,637 shares of common stock in connection with our acquisition of The Hull Group. These shares were issued in a transaction not involving a public offering in reliance on the exemption provided by Section 4(2) of the Securities Act of 1933 and Rule 506 thereunder for transactions by an issuer not involving a public offering (with the recipients representing their intentions to acquire the shares for their own accounts and not with a view to the distribution thereof and acknowledging that the shares were issued in a transaction not registered under the Securities Act of 1933).

Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and the notes thereto on pages 47 to 73 of the 1999 Annual Report to Shareholders.

SELECTED CONSOLIDATED FINANCIAL DATA

	As of or for Year Ended November				
	1999	1998	1997	1996	1995
	(\$ and share amounts in millions, except per share amounts)				
Income Statement Data					
Total revenues	\$ 25,363	\$ 22,478	\$ 20,433	\$ 17,289	\$ 14,324
Interest expense	12,018	13,958	12,986	11,160	9,841
Net revenues	13,345	8,520	7,447	6,129	4,483
Compensation and benefits (1) ..	6,459	3,838	3,097	2,421	2,005
Other operating expenses	4,894 (6)	1,761	1,336	1,102	1,110
Pre-tax earnings (1)	\$ 1,992 (6)	\$ 2,921	\$ 3,014	\$ 2,606	\$ 1,368
Balance Sheet Data					
Total assets (2)	\$250,491	\$217,380	\$178,401	\$152,046	\$100,066
Long-term borrowings	20,952	19,906	15,667	12,376	13,358
Total liabilities (2)	240,346	210,996	171,864	145,753	94,686
Partners' capital	—	6,310	6,107	5,309	4,905
Stockholders' equity	10,145	—	—	—	—
Common Share Data					
Earnings per share					
Basic	\$ 5.69	—	—	—	—
Diluted	5.57	—	—	—	—
Average common shares outstanding					
Basic	476	—	—	—	—
Diluted	486	—	—	—	—
Dividends per share (paid) (3) ..	\$ 0.24	—	—	—	—
Book value per share	20.94	—	—	—	—
Pro Forma Data (unaudited) (4)					
Pro forma net earnings	\$ 2,550	—	—	—	—
Pro forma diluted earnings per share	5.27	—	—	—	—
Pro forma diluted shares	484	—	—	—	—
Selected Data (unaudited)					
Employees					
United States	9,746	8,349	6,879	5,818	5,356
International	5,615	4,684	3,743	3,159	2,803
Total employees (5)	15,361	13,033	10,622	8,977	8,159
Assets under supervision					
Assets under management	\$258,045	\$194,821	\$135,929	\$ 94,599	\$ 52,358
Other client assets	227,424	142,018	102,033	76,892	57,716
Total assets under supervision ..	\$485,469	\$336,839	\$237,962	\$171,491	\$110,074

(1) Our pre-tax earnings in 1999 reflect payments for services rendered by managing directors who, prior to our conversion to corporate form, were profit participating limited partners. In prior years, these payments were accounted for as distributions of partners' capital rather than as compensation and benefits expense. As a result, these payments are not reflected in operating expenses in 1998, 1997, 1996 or 1995 and, therefore, the pre-tax earnings in these years are not comparable to 1999.

(2) Total assets and liabilities were increased as of November 1999 and November 1998 as a result of certain provisions of Statement of Financial Accounting Standards No. 125.

- (3) Represents two quarterly dividends of \$0.12 per common share each.
 - (4) Reflects such adjustments as are necessary, in the opinion of management, for a fair presentation of the results of operations and average diluted common shares outstanding of Goldman Sachs on a pro forma basis. For more detailed information concerning these adjustments, see “Management’s Discussion and Analysis — Results of Operations — Pro Forma Operating Results” in the 1999 Annual Report to Shareholders, which is incorporated by reference in Item 7 of this Annual Report on Form 10-K.
 - (5) Excludes employees of Goldman Sachs’ property management subsidiaries. Substantially all of the costs of these employees are reimbursed to Goldman Sachs by the real estate investment funds to which these subsidiaries provide property management services.
 - (6) Reflects nonrecurring expenses of \$2.26 billion associated with our conversion to corporate form and the charitable contribution to The Goldman Sachs Foundation of \$200 million made at the time of our initial public offering.
-

Item 7. *Management’s Discussion and Analysis of Financial Condition and Results of Operations*

Management’s Discussion and Analysis of Financial Condition and Results of Operations is set forth under the caption “Management’s Discussion and Analysis” on pages 24 to 45 of the 1999 Annual Report to Shareholders and is incorporated herein by reference. All of such information should be read in conjunction with the consolidated financial statements and the notes thereto, which are incorporated by reference in Item 8 of this Annual Report on Form 10-K.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

Quantitative and qualitative disclosure about market risk is set forth on pages 39 to 45 of the 1999 Annual Report to Shareholders under the caption “Management’s Discussion and Analysis — Risk Management” and on pages 55 to 58 of such Annual Report in Note 3 to the consolidated financial statements, and is incorporated herein by reference.

Item 8. *Financial Statements and Supplementary Data*

The consolidated financial statements of the Registrant and its subsidiaries, together with the notes thereto and the Report of Independent Accountants thereon, are contained in the 1999 Annual Report to Shareholders on pages 46 to 73, and are incorporated herein by reference. In addition, the information on page 74 of the 1999 Annual Report to Shareholders under the caption “Supplemental Financial Information — Quarterly Results” is incorporated herein by reference.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

There were no changes in or disagreements with accountants on accounting and financial disclosure during the last two fiscal years.

PART III

Item 10. *Directors and Executive Officers of the Registrant*

Information relating to directors of the Registrant is set forth under the caption “Election of Directors” on pages 4 to 6 of the Registrant’s Proxy Statement for its 2000 Annual Meeting of Shareholders (the “2000 Proxy Statement”) and such information is incorporated herein by reference. Also incorporated herein by reference is the information under the caption “Other Matters — Section 16(a) Beneficial Ownership Reporting Compliance” on page 18 of the 2000 Proxy Statement.

Item 11. *Executive Compensation*

Information relating to the Registrant’s executive officer and director compensation is set forth under the captions “Election of Directors — Employment Contracts and Change of Control Arrangements”, “— Director Compensation” and “— Executive Compensation” on pages 6 to 9 of the 2000 Proxy Statement and all such information is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management*

Information relating to security ownership of certain beneficial owners of the Registrant’s common stock is set forth under the caption “Beneficial Owners of More Than Five Percent” on page 16 of the 2000 Proxy Statement and information relating to the security ownership of the Registrant’s management is set forth under the caption “Beneficial Ownership of Directors and Executive Officers” on pages 15 to 16 of the 2000 Proxy Statement and all such information is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions*

Information regarding certain relationships and related transactions is set forth under the caption “Certain Relationships and Related Transactions” on page 17 of the 2000 Proxy Statement and such information is incorporated herein by reference.

PART IV

Item 14. *Exhibits, Financial Statement Schedule, and Reports on Form 8-K*

(a) Documents filed as part of this Report:

1. Consolidated Financial Statements

The consolidated financial statements required to be filed in this Annual Report on Form 10-K are listed on page F-1 hereof and incorporated herein by reference to the corresponding page number in the 1999 Annual Report to Shareholders.

2. Financial Statement Schedule

The financial statement schedule required in this Annual Report on Form 10-K is listed on page F-1 hereof. The required schedule appears on pages F-3 through F-6 hereof.

3. Exhibits

- 2.1 Plan of Incorporation.*
- 2.2 Agreement and Plan of Merger of The Goldman Sachs Corporation into The Goldman Sachs Group, Inc.* *
- 2.3 Agreement and Plan of Merger of The Goldman Sachs Group, L.P. into The Goldman Sachs Group, Inc.* *

- 3.1 Amended and Restated Certificate of Incorporation of The Goldman Sachs Group, Inc.* *
- 3.2 Amended and Restated By-Laws of The Goldman Sachs Group, Inc.* *
- 4.1 Indenture, dated as of May 19, 1999, between The Goldman Sachs Group, Inc. and The Bank of New York, as trustee (incorporated by reference to Exhibit 6 to the Registrant's registration statement on Form 8-A, filed June 29, 1999).
Certain instruments defining the rights of holders of long-term debt securities of the Registrant and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Registrant hereby undertakes to furnish to the SEC, upon request, copies of any such instruments.
- 10.1 Lease, dated June 11, 1985, between Metropolitan Life Insurance Company and Goldman, Sachs & Co.*
- 10.2 Lease, dated April 5, 1994, between The Chase Manhattan Bank (National Association) and The Goldman Sachs Group, L.P., as amended.*
- 10.3 Lease, dated as of August 22, 1997, between Ten Hanover LLC and The Goldman Sachs Group, L.P.*
- 10.4 Lease, dated as of July 16, 1998, between TCC Acquisition Corp. and The Goldman Sachs Group, L.P.*
- 10.5 Agreement for Lease, dated April 2, 1998, among (i) JC No. 3 (UK) Limited and Fleet Street Square Management Limited trading as Fleet Street Partnership, (ii) Goldman Sachs International, (iii) Restamove Limited, (iv) The Goldman Sachs Group, L.P. and (v) Itochu Corporation.*
- 10.6 Annexure 1 to Agreement for Lease, dated April 2, 1998, among (i) JC No. 3 (UK) Limited and Fleet Street Square Management Limited trading as Fleet Street Partnership, (ii) Goldman Sachs International, (iii) Restamove Limited, (iv) The Goldman Sachs Group, L.P. and (v) Itochu Corporation (Form of Occupational Lease among (i) JC No. 3 (UK) Limited and Fleet Street Square Management Limited trading as Fleet Street Partnership, (ii) Goldman Sachs International and (iii) The Goldman Sachs Group, L.P.).*
- 10.7 Agreement relating to Developer's Fit Out Works to be carried out at 120 Fleet Street, London, dated April 2, 1998, among (i) JC No. 3 (UK) Limited and Fleet Street Square Management Limited, (ii) Goldman Sachs Property Management, (iii) Itochu Corporation and (iv) The Goldman Sachs Group, L.P.*
- 10.8 Agreement relating to One Carter Lane, London EC4, dated March 25, 1998, among Britel Fund Trustees Limited, Goldman Sachs International, The Goldman Sachs Group, L.P., English Property Corporation plc and MEPC plc.*
- 10.9 Fit Out Works Agreement relating to One Carter Lane, London EC4, dated March 25, 1998, among Britel Fund Trustees Limited, Goldman Sachs International, Goldman Sachs Property Management, The Goldman Sachs Group, L.P., English Property Corporation plc and MEPC plc.*
- 10.10 Underlease of premises known as One Carter Lane, London EC4, dated September 9, 1998, among Britel Fund Trustees Limited, Goldman Sachs International and The Goldman Sachs Group, L.P.*
- 10.11 Lease, dated March 5, 1994, among Shine Hill Development Limited, Shine Belt Limited, Fair Page Limited, Panhy Limited, Maple Court Limited and Goldman Sachs (Asia) Finance, as amended.*
- 10.12 Guarantee, dated November 17, 1993, between Shine Hill Development Limited and The Goldman Sachs Group, L.P.*
- 10.13 Agreement for Lease, dated November 29, 1998, between Turbo Top Limited and Goldman Sachs (Asia) Finance.*
- 10.14 Summary of Tokyo Leases.*
- 10.15 The Goldman Sachs 1999 Stock Incentive Plan.**+
- 10.16 The Goldman Sachs Defined Contribution Plan.**
- 10.17 Letter Agreement with Mr. John L. Weinberg.*+

- 10.18 The Goldman Sachs Partner Compensation Plan.**+
- 10.19 Form of Employment Agreement.**+
- 10.20 Form of Agreement Relating to Noncompetition and Other Covenants.**+
- 10.21 Form of Pledge Agreement.**+
- 10.22 Form of Award Agreement (Formula RSUs).**
- 10.23 Form of Award Agreement (Discretionary RSUs).**
- 10.24 Form of Option Agreement (Discretionary Options).**+
- 10.25 Tax Indemnification Agreement, dated as of May 7, 1999, by and among The Goldman Sachs Group, Inc. and various parties.**
- 10.26 Form of Shareholders' Agreement among The Goldman Sachs Group, Inc. and various parties.
- 10.27 Instrument of Indemnification.**
- 10.28 Form of Indemnification Agreement.
- 10.29 Subscription Agreement, dated as of April 24, 1992, among the Trustees of the Estate of Bernice Pauahi Bishop, Pauahi Holdings Corporation, Royal Hawaiian Shopping Center, Inc. and The Goldman Sachs Group, L.P.*
- 10.30 Subscription Agreement, dated as of November 21, 1994, among the Trustees of the Estate of Bernice Pauahi Bishop, Pauahi Holdings Corporation, Royal Hawaiian Shopping Center, Inc. and The Goldman Sachs Group, L.P.*
- 10.31 Letter Agreement, dated March 15, 1999, among Kamehameha Activities Association and The Goldman Sachs Group, L.P. (the "Kamehameha Letter Agreement").*
- 10.32 Amended and Restated Subscription Agreement, dated March 28, 1989, among The Sumitomo Bank, Limited, Sumitomo Bank Capital Markets, Inc., Goldman, Sachs & Co. and The Goldman Sachs Group, L.P.*
- 10.33 Letter Agreement, dated March 15, 1999, among The Sumitomo Bank, Limited, Sumitomo Bank Capital Markets, Inc. and The Goldman Sachs Group, L.P. (the "Sumitomo Letter Agreement").*
- 10.34 Lease, dated September 24, 1992, from LDT Partners to Goldman Sachs International.*
- 10.35 Amendment to Kamehameha Letter Agreement (filed as Exhibit 10.31), dated April 30, 1999, among Kamehameha Activities Association, the Trustees of the Estate of Bernice Pauahi Bishop, The Goldman Sachs Group, L.P. and The Goldman Sachs Group, Inc.**
- 10.36 Amendment to Sumitomo Letter Agreement (filed as Exhibit 10.33), dated April 30, 1999, among The Sumitomo Bank, Limited, Sumitomo Bank Capital Markets, Inc., The Goldman Sachs Group, L.P., The Goldman Sachs Group, Inc. and Goldman, Sachs & Co.**
- 10.37 Voting Agreement, dated as of April 30, 1999, by and among The Goldman Sachs Group, Inc., on the one hand, and The Trustees of the Estate of Bernice Pauahi Bishop and Kamehameha Activities Association, on the other hand.**+
- 10.38 Voting Agreement, dated as of April 30, 1999, by and among The Goldman Sachs Group, Inc., on the one hand, and The Sumitomo Bank, Limited and Sumitomo Bank Capital Markets, Inc., on the other hand.**+
- 10.39 Letter Agreement, dated August 18, 1999, between The Goldman Sachs Group, Inc. and Mr. James A. Johnson (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended August 27, 1999).+
- 10.40 Letter Agreement, dated August 18, 1999, between The Goldman Sachs Group, Inc. and Sir John Browne (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended August 27, 1999).+

- 10.41 Letter Agreement, dated November 9, 1999, between The Goldman Sachs Group, Inc. and Mr. John H. Bryan (incorporated by reference to Exhibit 10.42 to the Registrant's registration statement on Form S-1 (No. 333-90677)).⁺
- 10.42 Registration Rights Instrument, dated as of December 10, 1999 (incorporated by reference to Exhibit G to Amendment No. 1 to Schedule 13D, filed December 17, 1999, relating to the Registrant's common stock).
- 10.43 Supplemental Registration Rights Instrument, dated as of December 10, 1999 (incorporated by reference to Exhibit H to Amendment No. 1 to Schedule 13D, filed December 17, 1999, relating to the Registrant's common stock).
- 10.44 Form of Indemnification Agreement.
- 10.45 Letter Agreement, dated January 21, 2000, between The Goldman Sachs Group, Inc. and Dr. Ruth J. Simmons.
- 11.1 Statement re computation of per share earnings.
- 12.1 Statement re computation of ratios of earnings to fixed charges.
- 13 The following portions of the Registrant's 1999 Annual Report to Shareholders, which are incorporated by reference in this Annual Report on Form 10-K, are filed as an exhibit:
 - 13.1 "Management's Discussion and Analysis" (pages 24 to 45).
 - 13.2 Consolidated Financial Statements of the Registrant and its subsidiaries, together with the Notes thereto and the Report of Independent Accountants thereon (pages 46 to 73).
 - 13.3 "Supplemental Financial Information — Quarterly Results" and "— Stock Price Range" (page 74).
- 21.1 List of subsidiaries of The Goldman Sachs Group, Inc.
- 23.1 Consent of PricewaterhouseCoopers LLP.
- 24.1 Powers of Attorney (included on signature page).
- 27.1 Financial Data Schedule.
- 99.1 Opinion of PricewaterhouseCoopers LLP with respect to the Selected Financial Data, which is included in Part II, Item 6 hereof.

* Incorporated by reference to the corresponding exhibit to the Registrant's registration statement on Form S-1 (No. 333-74449).

** Incorporated by reference to the corresponding exhibit to the Registrant's registration statement on Form S-1 (No. 333-75213).

*** Incorporated by reference to the corresponding exhibit to the Registrant's registration statement on Form S-1 (No. 333-90677).

⁺ This exhibit is a management contract or a compensatory plan or arrangement.

(b) Reports on Form 8-K:

A Current Report on Form 8-K, dated November 18, 1999, was filed with the Securities and Exchange Commission in connection with the establishment of the date of the Registrant's 2000 Annual Meeting of Shareholders.

THE GOLDMAN SACHS GROUP, INC.

**INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE
ITEMS 14(a)(1) AND 14(a)(2)**

	<u>Page Reference</u>
	<u>Form 10-K</u>
	<u>1999 Annual Report to Shareholders</u>
Consolidated Financial Statements	
Report of Independent Accountants	46
Consolidated Statements of Earnings	47
Consolidated Statements of Financial Condition	48
Consolidated Statements of Changes in Stockholders' Equity and Partners' Capital	49
Consolidated Statements of Cash Flows	50
Consolidated Statements of Comprehensive Income	51
Notes to Consolidated Financial Statements	52 to 73
Financial Statements Schedule	
Schedule I — Condensed Financial Information of Registrant (Parent Company Only)	F-2 to F-6
Report of Independent Accountants	F-2
Condensed Statements of Earnings	F-3
Condensed Statements of Financial Condition	F-4
Condensed Statements of Cash Flows	F-5
Note to Condensed Financial Statements	F-6

Specifically incorporated elsewhere herein by reference are certain portions of the following unaudited items:

- | | |
|--|----------|
| (i) Management's Discussion and Analysis; | 24 to 45 |
| (ii) Supplemental Financial Information — Quarterly Results; and | 74 |
| (iii) Supplemental Financial Information — Stock Price Range. | 74 |

Schedules not listed are omitted because of the absence of the conditions under which they are required or because the information is included in the consolidated financial statements and notes thereto in the 1999 Annual Report to Shareholders, which information is incorporated herein by reference.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Directors and Shareholders,
The Goldman Sachs Group, Inc.:

Our audits of the consolidated financial statements referred to in our report dated January 21, 2000 appearing in the 1999 Annual Report to Shareholders of The Goldman Sachs Group, Inc. and Subsidiaries (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

New York, New York
January 21, 2000.

SCHEDULE I

THE GOLDMAN SACHS GROUP, INC.
CONDENSED STATEMENTS OF EARNINGS (PARENT COMPANY ONLY)

	Year Ended November		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(in millions)		
Revenues			
Equity in earnings of subsidiaries	\$1,231	\$1,780	\$2,378
Principal investments	1,139	540	339
Interest income, principally from affiliates	<u>3,305</u>	<u>4,369</u>	<u>2,943</u>
Total revenues	5,675	6,689	5,660
Interest expense	<u>3,338</u>	<u>4,201</u>	<u>2,858</u>
Revenues, net of interest expense	2,337	2,488	2,802
Operating Expenses			
Compensation and benefits	251	9	12
Other	109	43	29
Charitable contribution	<u>200</u>	<u>—</u>	<u>—</u>
Total operating expenses	560	52	41
Pre-tax earnings	1,777	2,436	2,761
(Benefit) /provision for taxes	<u>(931)</u>	<u>8</u>	<u>15</u>
Net earnings	<u><u>\$2,708</u></u>	<u><u>\$2,428</u></u>	<u><u>\$2,746</u></u>

The accompanying note is an integral part of these condensed financial statements.

SCHEDULE I

THE GOLDMAN SACHS GROUP, INC.

CONDENSED STATEMENTS OF FINANCIAL CONDITION (PARENT COMPANY ONLY)

	As of November	
	1999	1998
	(in millions, except share and per share amounts)	
Assets		
Cash and cash equivalents	\$ 1	\$ 11
Financial instruments owned, at fair value	3,476	2,147
Receivables from affiliates	41,511	33,562
Subordinated loan receivables from affiliates	9,048	8,668
Investment in subsidiaries	7,526	5,077
Other assets	2,284	1,123
	<u>\$63,846</u>	<u>\$50,588</u>
Liabilities and Equity		
Short-term borrowings, including commercial paper	\$32,286	\$23,364
Payables to affiliates	207	1,679
Other liabilities and accrued expenses	572	147
Long-term borrowings		
With third parties	20,262	18,584
With affiliates	374	430
	<u>53,701</u>	<u>44,204</u>
Commitments and contingencies		
Partners' capital allocated for income taxes and potential withdrawals	—	74
Partners' capital	—	6,310
Preferred stock, par value \$0.01 per share; 150,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, par value \$0.01 per share; 4,000,000,000 shares authorized, 441,421,899 shares issued and outstanding	4	—
Restricted stock units; 76,048,404 units issued and outstanding	4,339	—
Nonvoting common stock, par value \$0.01 per share; 200,000,000 shares authorized, 7,440,362 shares issued and outstanding	—	—
Additional paid-in capital	7,359	—
Retained earnings	444	—
Unearned compensation	(2,038)	—
Accumulated other comprehensive income	37	—
	<u>10,145</u>	<u>6,310</u>
	<u>\$63,846</u>	<u>\$50,588</u>

The accompanying note is an integral part of these condensed financial statements.

SCHEDULE I

THE GOLDMAN SACHS GROUP, INC.

CONDENSED STATEMENTS OF CASH FLOWS (PARENT COMPANY ONLY)

	Year Ended November		
	1999	1998	1997
	(in millions)		
Cash flows from operating activities			
Net earnings	\$ 2,708	\$ 2,428	\$ 2,746
Noncash items included in net earnings			
Equity in earnings of subsidiaries	(1,231)	(1,780)	(2,378)
Depreciation and amortization	71	35	19
Deferred income taxes	(1,030)	—	—
Other, net	46	—	—
Changes in operating assets and liabilities			
Financial instruments owned, at fair value	(1,575)	(8)	(395)
Other, net	553	(501)	(98)
Net cash (used for) /provided by operating activities	(458)	174	(106)
Cash flows from investing activities			
Financial instruments owned, at fair value	246	(243)	(331)
Receivables from affiliates, net	(6,416)	(8,235)	(4,320)
Subordinated loan receivables from affiliates	(380)	(1,779)	(1,528)
Investment in subsidiaries, net	(850)	1,362	2,147
Property, leasehold improvements and equipment	(292)	(145)	(4)
Acquisition	(196)	—	—
Net cash used for investing activities	(7,888)	(9,040)	(4,036)
Cash flows from financing activities			
Short-term borrowings, net	12	2,586	39
Issuance of long-term borrowings	10,755	10,289	7,498
Repayment of long-term borrowings	(587)	(1,698)	(1,005)
Capital contributions	48	9	89
Dividends paid	(107)	—	—
Returns on capital and certain distributions to partners	(306)	(619)	(557)
Termination of the profit participation plan	—	(21)	—
Proceeds from issuance of common stock	2,633	—	—
Partners' capital distributions, net	(4,112)	—	—
Partners' capital allocated for income taxes and potential withdrawals	—	(1,673)	(2,034)
Net cash provided by financing activities	8,336	8,873	4,030
Net (decrease) /increase in cash and cash equivalents	(10)	7	(112)
Cash and cash equivalents, beginning of year	11	4	116
Cash and cash equivalents, end of year	<u>\$ 1</u>	<u>\$ 11</u>	<u>\$ 4</u>

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest approximated the related expense for each of the fiscal years presented. Payments of income taxes were immaterial.

Noncash activities:

Receivables from affiliates includes \$2.94 billion of stock-based compensation awards granted to employees of affiliated entities.

In connection with the firm's conversion to corporate form, junior subordinated debentures of \$371 million were issued to the retired limited partners in exchange for their partnership interests.

Common stock issued in connection with the acquisition was \$245 million in 1999.

The accompanying note is an integral part of these condensed financial statements.

THE GOLDMAN SACHS GROUP, INC.

NOTE TO CONDENSED FINANCIAL STATEMENTS (PARENT COMPANY ONLY)

Note 1. Significant Accounting Policies

Basis of Presentation

The condensed unconsolidated financial statements of The Goldman Sachs Group, Inc. should be read in conjunction with the consolidated financial statements of The Goldman Sachs Group, Inc. and subsidiaries and the notes thereto, which are incorporated by reference in this Form 10-K.

Investments in subsidiaries are accounted for using the equity method.

These condensed unconsolidated financial statements have been prepared in accordance with generally accepted accounting principles that require management to make estimates and assumptions regarding investment valuations, the outcome of pending litigation, and other matters that affect the condensed unconsolidated financial statements and related disclosures. These estimates and assumptions are based on judgment and available information and, consequently, actual results could be materially different from these estimates.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE GOLDMAN SACHS GROUP, INC.

By: /s/ DAVID A. VINIAR
Name: David A. Viniar
Title: Chief Financial Officer

Date: February 11, 2000

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John A. Thain, Robert J. Katz, Gregory K. Palm and David A. Viniar, and each of them severally, his or her true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his or her name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with this Annual Report on Form 10-K and any and all amendments hereto, as fully for all intents and purposes as he or she might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Capacity</u>	<u>Date</u>
/s/ HENRY M. PAULSON, JR. Henry M. Paulson, Jr.	Director, Chairman and Chief Executive Officer (Principal Executive Officer)	February 11, 2000
/s/ ROBERT J. HURST Robert J. Hurst	Director	February 11, 2000
/s/ JOHN A. THAIN John A. Thain	Director	February 11, 2000
/s/ JOHN L. THORNTON John L. Thornton	Director	February 11, 2000
/s/ SIR JOHN BROWNE Sir John Browne	Director	February 11, 2000
/s/ JOHN H. BRYAN John H. Bryan	Director	February 11, 2000
/s/ JAMES A. JOHNSON James A. Johnson	Director	February 11, 2000
/s/ RUTH J. SIMMONS Ruth J. Simmons	Director	February 11, 2000
/s/ JOHN L. WEINBERG John L. Weinberg	Director	February 11, 2000
/s/ DAVID A. VINIAR David A. Viniar	Chief Financial Officer (Principal Financial Officer)	February 11, 2000
/s/ SARAH G. SMITH Sarah G. Smith	Principal Accounting Officer	February 11, 2000

SHAREHOLDERS' AGREEMENT

This Shareholders' Agreement (this "Agreement"), among The Goldman Sachs Group, Inc., a Delaware corporation ("GS Inc."), and the Covered Persons listed on Appendix A hereto, as such Appendix A may be amended from time to time pursuant to the provisions hereof.

WITNESSETH:

WHEREAS, the Covered Persons are beneficial owners of shares of Common Stock, par value \$0.01 per share, of GS Inc. (the "Common Stock").

WHEREAS, the Covered Persons desire to address herein certain relationships among themselves with respect to the voting and disposition of their shares of Common Stock and various other matters and desire to give to the Shareholders' Committee (hereinafter defined) the power to enforce their agreements with respect thereto.

NOW, THEREFORE, in consideration of the premises and of the mutual agreements, covenants and provisions herein contained, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS AND OTHER MATTERS

Section 1.1 Definitions. The following words and phrases as used herein shall have the following meanings, except as otherwise expressly provided or unless the context otherwise requires:

(a) A Covered Person "acquires" Covered Shares when such Covered Person first acquires beneficial ownership over such Covered Shares.

(b) This "Agreement" shall have the meaning ascribed to such term in the Recitals.

(c) A "beneficial owner" of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise has or shares: (i) voting power, which includes the power to vote, or to direct the voting of, such security and/or (ii) investment power, which includes the power to dispose, or to direct the disposition of, such security, but for purposes of this Agreement a person shall not be deemed a beneficial owner of

(A) Common Stock solely by virtue of the application of Exchange Act Rule 13d-3(d) or Exchange Act Rule 13d-5 as in effect on the date hereof (B) Common Stock solely by virtue of the possession of the legal right to vote securities under applicable state or other law (such as by proxy or power of attorney) or (C) Common Stock held of record by a "private foundation" subject to the requirements of Section 509 of the Code. "Beneficially own" and "beneficial ownership" shall have correlative meanings.

(d) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and the applicable rulings and regulations thereunder.

(e) "Common Stock" shall have the meaning ascribed to such term in the Recitals.

(f) "Company" shall mean GS Inc., together with its Subsidiaries.

(g) "Continuing Provisions" shall have the meaning ascribed to such term in Section 7.1(b).

(h) "Covered Persons" shall mean those persons from time to time listed on Appendix A hereto, and all persons who may become parties to this Agreement and whose name is required to be listed on Appendix A hereto, in each case in accordance with the terms hereof.

(i) A Covered Person's "Covered Shares" shall mean any shares of Common Stock acquired from the Company by such Covered Person and beneficially owned by such Covered Person at the time in question, but shall not include (i) Common Stock beneficially owned as a result of (A) an acquisition, directly or indirectly, from the Company in an underwritten public offering or (B) conversion of securities convertible into Common Stock, where beneficial ownership of the convertible securities was acquired in a transaction described in clause (A) above, (ii) Excluded Shares (as defined in the Plan of Incorporation), (iii) any other Common Stock excluded from the definition of Covered Shares by action of the Board of Directors of GS Inc. prior to the IPO Date or (iv) any other Common Stock acquired under a deferred compensation or employee benefit plan and excluded from the definition of Covered Shares by action of the Board of Directors of GS Inc. and the Shareholders' Committee after the IPO Date. "Covered Shares" shall also include the securities that are defined to be "Covered Shares" in Section 6.4.

(j) The term "employee" shall mean any person employed by the Company who receives compensation, other than a person receiving compensation in the nature of a consulting fee, a pension or a retainer.

(k) "Employee Covered Person" shall mean a Covered Person who is an employee of the Company at the time in question.

(l) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended to date and as further amended from time to time.

(m) A reference to an "Exchange Act Rule" shall mean such rule or regulation of the Securities and Exchange Commission under the Exchange Act, as in effect from time to time or as replaced by a successor rule thereto.

(n) "General Transfer Restrictions" shall have the meaning ascribed to such term in Section 2.2 hereof.

(o) "GS Inc." shall have the meaning ascribed to such term in the Recitals.

(p) "IPO Date" shall mean the closing date of the initial public offering of the Common Stock.

(q) "Permitted Basket Transaction" shall mean the purchase or sale of, or the establishment of a long or short position in, a basket or index of securities (or of a derivative financial instrument with respect to a basket or index of securities) that includes securities of GS Inc., in each case if such purchase, sale or establishment is permitted under the Company's policy on hedging with respect to securities of GS Inc. as announced from time to time.

(r) A "person" shall include, as applicable, any individual, estate, trust, corporation, partnership, limited liability company, unlimited liability company, foundation, association or other entity.

(s) "Plan of Incorporation" shall mean the plan for the incorporation and reorganization of the business of The Goldman Sachs Group, L.P. approved by the Schedule II Limited Partners thereof on March 8, 1999, as amended from time to time.

(t) "PLP Transfer Restrictions" shall have the meaning ascribed to such term in Section 2.1 hereof.

(u) "Preliminary Vote" shall have the meaning ascribed to such term in Section 4.1 hereof.

(v) "Restricted Person" shall mean any person that is not (i) a Covered Person or (ii) a director, officer or employee of the Company acting in such person's capacity as a director, officer or employee; provided, however, that for purposes of Section 6.1(c) only, the term "Restricted Person" shall not include Sumitomo Bank Capital Markets, Inc. and/or Kamehameha Activities Association to the extent that either or both of such parties are included in such group solely by virtue of their being parties to Voting Agreements, each dated as of April 30, 1999, with GS Inc., as amended from time to time.

(w) "Shareholders' Committee" shall mean the body constituted to administer the terms and provisions of this Agreement pursuant to Article V hereof.

(x) "Sole Beneficial Owner" shall mean a person who is the beneficial owner of Covered Shares, who does not share beneficial ownership of such Covered Shares with any other person (other than pursuant to this Agreement or applicable community property laws) and who is the only person (other than pursuant to applicable community property laws) with a direct economic interest in the Covered Shares. An economic interest of the Company as pledgee shall be disregarded for this purpose.

(y) "Subsidiary" shall mean any person in which GS Inc. owns, directly or indirectly, a majority of the equity economic or voting ownership interest.

(z) "The Goldman Sachs Defined Contribution Plan" shall mean The Goldman Sachs Defined Contribution Plan adopted by the Board of Directors of GS Inc. on May 7, 1999, as amended or supplemented from time to time, and any successors to such Plan.

(aa) "Transfer" shall mean any sale, transfer, pledge, hypothecation or other disposition, whether direct or indirect, whether or not for value, and shall include any disposition of the economic or other risks of ownership of Common Stock, including short sales of securities of GS Inc., option transactions (whether physical or cash settled) with respect to securities of GS Inc., use of equity or other derivative financial instruments relating to securities of GS Inc. and other hedging arrangements with respect to securities of GS Inc., in each such case other than Permitted Basket Transactions. Notwithstanding the foregoing, bona fide pledges of Common Stock approved by GS Inc. and foreclosures pursuant thereto shall not constitute Transfers within the meaning of this definition.

(ab) "Transfer Restrictions" shall mean the General Transfer Restrictions and the PLP Transfer Restrictions.

(ac) "vote" shall include actions taken or proposed to be taken by written consent.

(ad) "Voted Covered Shares" shall have the meaning ascribed to such term in Section 4.2(a).

(ae) "Voting Interests" shall have the meaning ascribed to such term in Section 4.1 hereof.

Section 1.2 Gender. For the purposes of this Agreement, the words "he," "his" or "himself" shall be interpreted to include the masculine, feminine and corporate, other entity or trust form.

ARTICLE II LIMITATIONS ON TRANSFER OF SHARES

Section 2.1 General. Each Covered Person agrees that such Covered Person shall not Transfer any Covered Shares beneficially owned by such Covered Person, except in accordance with all of the following: (a) the terms of this Agreement, (b) the restrictions on transferability of Common Stock contained in the Plan of Incorporation (the "PLP Transfer Restrictions"), if applicable, and (c) the terms of any other contract or agreement with the Company or other undertaking by which such Covered Person is bound and to which such Covered Shares are subject.

Section 2.2 General Transfer Restrictions. Each Covered Person agrees that for so long as such Covered Person is an Employee Covered Person such Covered Person shall at all times be the Sole Beneficial Owner of at least that number of Covered Shares which equals 25% of the aggregate number of Covered Shares (a) beneficially owned by such Covered Person at the time such Covered Person became a Covered Person and (b) beneficial ownership of which is acquired by such Covered Person thereafter, with no reduction in such aggregate number for Covered Shares disposed of by such Covered Person (the "General Transfer Restrictions"). For purposes of this Section 2.2 only, Covered Shares held by the trust underlying The Goldman Sachs Defined Contribution Plan and allocated to a Covered Person shall not be deemed to be beneficially owned by such Covered Person until such Covered Shares are distributed to such Covered Person in accordance with the terms of The Goldman Sachs Defined Contribution Plan. For purposes of this Section 2.2 only, when a delivery of Covered Shares is made by GS Inc. or by the trustee of the trust underlying The Goldman Sachs

Defined Contribution Plan to a Covered Person net of Covered Shares to be withheld for tax purposes or to be paid for the receipt of such delivered Covered Shares, the recipient of such delivered number of Covered Shares shall be treated as if such Covered Person acquired the total (gross) number of Covered Shares to be delivered before giving effect to any such withholding or payment.

Section 2.3 Compliance with Certain Restrictions.

(a) Each Covered Person agrees that, with respect to all Common Stock beneficially owned by such Covered Person, such Covered Person shall comply with the restrictions on transfer imposed by Section 6(e) of the Underwriting Agreement, dated as of May 3, 1999, among GS Inc. and the several underwriters named therein, whether or not said Section refers to such Covered Person by name.

(b) Each Employee Covered Person agrees that, with respect to all Common Stock beneficially owned by such Employee Covered Person, and each Covered Person who is not an Employee Covered Person agrees that, with respect to all Covered Shares beneficially owned by such Covered Person which could not then be Transferred without contravening the PLP Transfer Restrictions, at the request of GS Inc. such Covered Person shall comply with any future restrictions on transfer imposed by or with the consent of GS Inc. from time to time in connection with any future offerings of securities of GS Inc., whether by GS Inc. or by any securityholder of GS Inc. and whether or not such restrictions on transfer refer to such Covered Person by name.

(c) Each Employee Covered Person agrees that, with respect to all Common Stock beneficially owned by such Employee Covered Person, such Employee Covered Person will comply with any restrictions imposed by the Company from time to time to enable the Company or any party to an agreement with the Company to account for a business combination by the pooling of interests method.

Section 2.4 Holding of Covered Shares in Custody and in Nominee Name; Legend on Certificates; Entry of Stop Transfer Orders.

(a) Each Covered Person understands and agrees that all Covered Shares beneficially owned by each Employee Covered Person and all Covered Shares which could not then be Transferred without contravening the PLP Transfer Restrictions beneficially owned by each Covered Person who is not an Employee Covered Person (in each case other than Covered Shares held of record by a trustee in a compensation or benefit plan administered by the Company and other

Covered Shares that have been pledged to the Company to secure the performance of such Covered Person's obligations under any agreement with the Company) shall be registered in the name of a nominee for such Covered Person and shall be held in the custody of a custodian until otherwise determined by the Shareholders' Committee or the Board of Directors of GS Inc. or until such time as such Covered Shares are released pursuant to Section 2.4(e) or Section 2.4(f) hereof (whichever occurs first), and each Covered Person agrees to assign, endorse and register for transfer into such nominee name or deliver to such custodian any such Covered Shares which are not so registered or so held, as the case may be. The form of the custody agreement and the identity of the custodian and nominee must be satisfactory in form and substance to the Shareholders' Committee and GS Inc.

(b) Whenever the nominee holder shall receive any dividend or other distribution upon any Covered Shares other than in Covered Shares, the Shareholders' Committee will give or cause to be given notice or direction to the applicable nominee and/or custodian referred to in paragraph (a) to permit the prompt distribution of such dividend or distribution to the beneficial owner of such Covered Shares, net of any tax withholding amounts required to be withheld by the nominee, unless the distribution of such dividend or distribution is restricted by the terms of another agreement between the Covered Person and the Company known to the Shareholders' Committee.

(c) Each Covered Person understands and agrees that any outstanding certificate representing Covered Shares beneficially owned by an Employee Covered Person or representing Covered Shares which could not then be Transferred without contravening the PLP Transfer Restrictions beneficially owned by a Covered Person who is not an Employee Covered Person, and any agreement or other instrument evidencing restricted stock units, options or other rights to receive or acquire Covered Shares beneficially owned by such Covered Person, may bear a legend noted conspicuously on each such certificate, agreement or other instrument reading substantially as follows:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE PROVISIONS OF EITHER OR BOTH OF A SHAREHOLDERS' AGREEMENT AMONG THE GOLDMAN SACHS GROUP, INC. ("GS INC.") AND THE PERSONS NAMED THEREIN AND A PLAN OF INCORPORATION OF THE GOLDMAN SACHS GROUP, L.P., COPIES OF WHICH ARE ON FILE AT THE PRINCIPAL EXECUTIVE OFFICE OF GS INC. AND WHICH, AMONG OTHER MATTERS, PLACE RESTRICTIONS ON THE DISPOSITION AND VOTING OF SUCH SECURITIES. THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY BE

SOLD, EXCHANGED, TRANSFERRED, ASSIGNED, PLEDGED, PARTICIPATED, HYPOTHECATED OR OTHERWISE DISPOSED OF ONLY IN ACCORDANCE THEREWITH."

(d) Each Covered Person agrees and consents to the entry of stop transfer orders against the transfer of Covered Shares subject to Transfer Restrictions except in compliance with this Agreement.

(e) The Shareholders' Committee shall develop procedures for releasing all Covered Shares of each Covered Person who is not an Employee Covered Person which could then be Transferred without contravening any Transfer Restrictions to or at the direction of such Covered Person free and clear of all restrictions and legends described in this Section 2.4.

(f) The Shareholders' Committee shall also develop procedures for releasing (free and clear of all restrictions and legends described in this Section 2.4) a specified number of Covered Shares of an Employee Covered Person upon the request of any Covered Person and to or at the direction of such Employee Covered Person, provided that such request is accompanied by a certificate of such requesting Covered Person (i) indicating such requesting Covered Person's intention to Transfer promptly such specified number of Covered Shares and (ii) establishing that such specified number of Covered Shares are then permitted to be Transferred without contravening any Transfer Restrictions (which evidence must be satisfactory to the Shareholders' Committee).

ARTICLE III REPRESENTATIONS AND WARRANTIES OF THE PARTIES

Each Covered Person severally represents and warrants for himself that:

(a) Such Covered Person has (and with respect to Covered Shares to be acquired, will have) good, valid and marketable title to the Covered Shares, free and clear of any pledge, lien, security interest, charge, claim, equity or encumbrance of any kind, other than pursuant to this Agreement, the Plan of Incorporation or another agreement with the Company by which such Covered Person is bound and to which the Covered Shares are subject; and

(b) (if the Covered Person is other than a natural person, with respect to subsections (i) through (x), and if the Covered Person is a natural person, with respect to subsections (iv) through (x) only): (i) such Covered Person is duly organized and validly existing in good standing under the laws of the jurisdiction

of such Covered Person's formation; (ii) such Covered Person has full right, power and authority to enter into and perform this Agreement; (iii) the execution and delivery of this Agreement and the performance of the transactions contemplated herein have been duly authorized, and no further proceedings on the part of such Covered Person are necessary to authorize the execution, delivery and performance of this Agreement; and this Agreement has been duly executed by such Covered Person; (iv) the person signing this Agreement on behalf of such Covered Person has been duly authorized by such Covered Person to do so; (v) this Agreement constitutes the legal, valid and binding obligation of such Covered Person, enforceable against such Covered Person in accordance with its terms (subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles); (vi) neither the execution and delivery of this Agreement by such Covered Person nor the consummation of the transactions contemplated herein conflicts with or results in a breach of any of the terms, conditions or provisions of any agreement or instrument to which such Covered Person is a party or by which the assets of such Covered Person are bound (including without limitation the organizational documents of such Covered Person, if such Covered Person is other than a natural person), or constitutes a default under any of the foregoing, or violates any law or regulation; (vii) such Covered Person has obtained all authorizations, consents, approvals and clearances of all courts, governmental agencies and authorities, and any other person, if any (including the spouse of such Covered Person with respect to the interest of such spouse in the Covered Shares of such Covered Person if the consent of such spouse is required), required to permit such Covered Person to enter into this Agreement and to consummate the transactions contemplated herein; (viii) there are no actions, suits or proceedings pending, or, to the knowledge of such Covered Person, threatened against or affecting such Covered Person or such Covered Person's assets in any court or before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality which, if adversely determined, would impair the ability of such Covered Person to perform this Agreement; (ix) the performance of this Agreement will not violate any order, writ, injunction, decree or demand of any court or federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality to which such Covered Person is subject; and (x) no statement, representation or warranty made by such Covered Person in this Agreement, nor any information provided by such Covered Person for inclusion in a report filed pursuant to Section 6.3 hereof or in a registration statement filed by GS Inc. contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary in order to make the statements, representations or warranties contained herein or information provided therein not misleading.

Each Covered Person severally agrees for himself that the foregoing provision of this Article III shall be a continuing representation and covenant of such Covered Person during the period that such person shall be a Covered Person and shares of Common Stock of such person shall be Covered Shares, and such Covered Person shall take all actions as shall from time to time be necessary to cure any breach or violation and to obtain any authorizations, consents, approvals and clearances in order that such representations shall be true and correct during the foregoing period.

ARTICLE IV VOTING AGREEMENT

Section 4.1 Preliminary Vote of Covered Persons. Prior to any vote of the stockholders of GS Inc. there shall be a separate, preliminary vote, on each matter upon which a stockholder vote is proposed to be taken (each, a "Preliminary Vote"), of the Covered Shares beneficially owned by (a) through December 31, 2000, all Covered Persons, and (b) on and after January 1, 2001, the Employee Covered Persons (including in both clause (a) and (b) and for the purpose of this Article IV shares of Common Stock held by the trust underlying The Goldman Sachs Defined Contribution Plan and allocated to Covered Persons (in the case of clause (a)) and Employee Covered Persons (in the case of clause (b)) who are participants therein) (such Covered Shares at any such time, the "Voting Interests"). The Preliminary Vote shall be conducted pursuant to procedures established by the Shareholders' Committee.

Section 4.2 Voting of the Voting Interests.

(a) Other than in elections of directors, every Covered Share beneficially owned by an Employee Covered Person, every Covered Share which could not then be Transferred without contravening the PLP Transfer Restrictions beneficially owned by any Covered Person who is not an Employee Covered Person and every Covered Share held by the trust underlying The Goldman Sachs Defined Contribution Plan and allocated to a Covered Person (collectively, the "Voted Covered Shares") shall be voted in accordance with the vote of the majority of the votes cast on the matter in question by the Voting Interests in the Preliminary Vote.

(b) In elections of directors, every Voted Covered Share shall be voted in favor of the election of those persons, equal in number to the number of such positions to be filled, receiving the highest numbers of votes cast by the Voting Interests in the Preliminary Vote.

Section 4.3 Irrevocable Proxy and Power of Attorney.

(a) By his signature hereto, each Covered Person hereby gives the Shareholders' Committee, with full power of substitution and resubstitution, an irrevocable proxy to vote or otherwise act with respect to all of the Covered Person's Voted Covered Shares, as fully, to the same extent and with the same effect as such Covered Person might or could do under any applicable laws or regulations governing the rights and powers of stockholders of a Delaware corporation and (i) directs that such proxy shall be voted in connection with such matters as are the subject of a Preliminary Vote as provided in this Agreement --in accordance with such Preliminary Vote, (ii) authorizes the holder of such proxy to vote on such other matters as may come before a meeting of stockholders of GS Inc. or any adjournment thereof and as are related, directly or indirectly, to the matter which was the subject of the Preliminary Vote -- as the aforementioned persons see fit in their discretion but in a manner consistent with the Preliminary Vote, and (iii) authorizes the holder of such proxy to vote on such other matters as may come before a meeting of stockholders of GS Inc. or any adjournment thereof (including matters related to adjournment thereof) -- as the aforementioned persons see fit in their discretion but not to cast any vote under this clause (iii) which is inconsistent with the Preliminary Vote or which would achieve an outcome that would frustrate the intent of the Preliminary Vote. Each such Covered Person hereby affirms that this proxy is given as a term of this Agreement and as such is coupled with an interest and is irrevocable. It is further understood and agreed by each such Covered Person that this proxy may be exercised by the aforementioned persons with respect to all Voted Covered Shares of such Covered Person for the period beginning on the date hereof and ending on the date this Agreement shall have been terminated pursuant to Section 7.1(a) hereof.

(b) By his signature hereto, each Covered Person appoints the Shareholders' Committee, with full power of substitution and resubstitution, his true and lawful attorney-in-fact to direct, in accordance with the provisions of this Article IV, the voting of any Voted Covered Shares held of record by any other person but beneficially owned by such Covered Person (including Voted Covered Shares held by the trust underlying The Goldman Sachs Defined Contribution Plan and allocated to such Covered Person), granting to such attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that such attorney or attorneys may deem necessary, advisable or appropriate to carry out fully the intent of Section 4.2 and Section 4.3(a) as such Covered Person might or could do personally, hereby ratifying and confirming all acts and things that such attorney or attorneys may do or cause to be done by virtue of this power of attorney. It is understood and agreed by each such Covered Person that this appointment, empowerment and authorization may be exercised by the aforementioned persons with respect to all Voted Covered Shares of such Covered Person, and held of record by another person, for the period beginning on

the date hereof and ending on the date this Agreement shall have been terminated pursuant to Section 7.1(a) hereof.

ARTICLE V SHAREHOLDERS' COMMITTEE

Section 5.1 Constituency. The Shareholders' Committee shall at any time consist of each of those individuals who are both Employee Covered Persons and members of the Board of Directors of GS Inc. and who agree to serve as members of the Shareholders' Committee.

Section 5.2 Additional Members. If there are less than three individuals who are both Employee Covered Persons and members of the Board of Directors of GS Inc. and who agree to serve as members of the Shareholders' Committee, the Shareholders' Committee shall consist of each such individual plus such additional individuals who are Employee Covered Persons and who are selected pursuant to procedures established by the Shareholders' Committee as shall assure a Shareholders' Committee of not less than three members who are Employee Covered Persons.

Section 5.3 Determinations of and Actions by the Shareholders' Committee.

(a) All determinations necessary or advisable under this Agreement (including determinations of beneficial ownership) shall be made by the Shareholders' Committee, whose determinations shall be final and binding. The Shareholders' Committee's determinations under this Agreement and the Plan of Incorporation and actions (including waivers) hereunder and thereunder need not be uniform and may be made selectively among Covered Persons (whether or not such Covered Persons are similarly situated).

(b) Each Covered Person recognizes and agrees that the members of the Shareholders' Committee in acting hereunder shall at all times be acting in their individual capacities and not as directors or officers of the Company and in so acting or failing to act shall not have any fiduciary duties to the Covered Persons as a member of the Shareholders' Committee by virtue of the fact that one or more of such members may also be serving as a director or officer of the Company or otherwise.

(c) The Shareholders' Committee shall act through a majority vote of its members and such actions may be taken in person at a meeting or by a written instrument signed by all of the members.

Section 5.4 Certain Obligations of the Shareholders' Committee. The Shareholders' Committee shall be obligated (a) to attend as proxy, or cause a person designated by it and acting as lawful proxy to attend as proxy, each meeting of the stockholders of GS Inc. and to vote or to cause such designee to vote the Covered Shares over which it has the power to vote in accordance with the results of the Preliminary Vote as set forth in Section 4.2, and (b) to develop procedures governing Preliminary Votes and other votes and actions to be taken pursuant to this Agreement.

ARTICLE VI OTHER AGREEMENTS OF THE PARTIES

Section 6.1 Standstill Provisions. Each Covered Person agrees that such Covered Person shall not, directly or indirectly, alone or in concert with any other person, (a) make, or in any way participate in, any "solicitation" of "proxies" (as such terms are defined in Exchange Act Rule 14a-1) relating to any securities of the Company to or with any Restricted Person; (b) deposit any Covered Shares in a voting trust or subject any Covered Shares to any voting agreement or arrangement that includes as a party any Restricted Person; (c) form, join or in any way participate in a group (as contemplated by Exchange Act Rule 13d-5(b)) with respect to any securities of the Company (or any securities the ownership of which would make the owner thereof a beneficial owner of securities of the Company (for this purpose as determined by Exchange Act Rule 13d-3 and Exchange Act Rule 13d-5)) that includes as a party any Restricted Person; (d) make any announcement subject to Exchange Act Rule 14a-1(l)(2)(iv) to any Restricted Person; (e) initiate or propose any "shareholder proposal" subject to Exchange Act Rule 14a-8; (f) together with any Restricted Person, make any offer or proposal to acquire any securities or assets of GS Inc. or any of its Subsidiaries or solicit or propose to effect or negotiate any form of business combination, restructuring, recapitalization or other extraordinary transaction involving, or any change in control of, GS Inc., its Subsidiaries or any of their respective securities or assets; (g) together with any Restricted Person, seek the removal of any directors or a change in the composition or size of the board of directors of GS Inc.; (h) together with any Restricted Person, in any way participate in a call for any special meeting of the stockholders of GS Inc.; or (i) assist, advise or encourage any person with respect to, or seek to do, any of the foregoing.

Section 6.2 Expenses.

(a) GS Inc. shall be responsible for all expenses of the members of the Shareholders' Committee incurred in the operation and administration of this Agreement, including expenses of proxy solicitation for and tabulation of the Preliminary Vote, expenses incurred in preparing appropriate filings and correspondence with the Securities and Exchange Commission, lawyers', accountants',

agents', consultants', experts', investment banking and other professionals' fees, expenses incurred in enforcing the provisions of this Agreement, expenses incurred in maintaining any necessary or appropriate books and records relating to this Agreement and expenses incurred in the preparation of amendments to and waivers of provisions of this Agreement.

(b) Each Covered Person shall be responsible for all expenses of such Covered Person incurred in connection with the compliance by such Covered Person with his obligations under this Agreement, including expenses incurred by the Shareholders' Committee or GS Inc. in enforcing the provisions of this Agreement relating to such obligations.

Section 6.3 Filing of Schedule 13D or 13G.

(a) In the event that a Covered Person is required to file a report of beneficial ownership on Schedule 13D or 13G with respect to the Covered Shares beneficially owned by him (for this purpose as determined by Exchange Act Rule 13d-3 and Exchange Act Rule 13d-5), such Covered Person agrees that, unless otherwise directed by the Shareholders' Committee, such Covered Person will not file a separate such report, but will file a report together with the other Covered Persons, containing the information required by the Exchange Act, and such Covered Person understands and agrees that such report shall be filed on his behalf by the Shareholders' Committee or any member thereof. Such Covered Person shall cooperate fully with the other Covered Persons and the Shareholders' Committee to achieve the timely filing of any such report and any amendments thereto as may be required, and such Covered Person agrees that any information concerning such Covered Person which such Covered Person furnishes in connection with the preparation and filing of such report will be complete and accurate.

(b) By his signature hereto, each Covered Person appoints the Shareholders' Committee and each member thereof, with full power of substitution and resubstitution, his true and lawful attorney-in-fact to execute such reports and any and all amendments thereto and to file such reports with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, granting to such attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that such attorney or attorneys may deem necessary, advisable or appropriate to carry out fully the intent of this Section 6.3 as such Covered Person might or could do personally, hereby ratifying and confirming all acts and things that such attorney or attorneys may do or cause to be done by virtue of this power of attorney. Each Covered Person hereby further designates such attorneys as such Covered Person's

agents authorized to receive notices and communications with respect to such reports and any amendments thereto. It is understood and agreed by each such Covered Person that this appointment, empowerment and authorization may be exercised by the aforementioned persons for the period beginning on the date hereof and ending on the date such Covered Person is no longer subject to the provisions of this Agreement (and shall extend thereafter for such time as is required to reflect that such Covered Person is no longer a party to this Agreement).

Section 6.4 Adjustment upon Changes in Capitalization;
Adjustments upon Changes of Control; Representatives, Successors and Assigns.

(a) In the event of any change in the outstanding Common Stock by reason of stock dividends, stock splits, reverse stock splits, spin-offs, split-ups, recapitalizations, combinations, exchanges of shares and the like, the term "Covered Shares" shall refer to and include the securities received or resulting therefrom, but only to the extent such securities are received in exchange for or in respect of Covered Shares. Upon the occurrence of any event described in the immediately preceding sentence, the Shareholders' Committee shall make such adjustments to or interpretations of the restrictions of Section 2.2 (and, if it so determines, any other provisions hereof) as it shall deem necessary or desirable to carry out the intent of such provision(s). If the Shareholders' Committee deems it desirable, any such adjustments may take effect from the record date, the "when issued trading date", the "ex dividend date" or another appropriate date.

(b) In the event of any business combination, restructuring, recapitalization or other extraordinary transaction involving GS Inc., its Subsidiaries or any of their respective securities or assets as a result of which the Covered Persons shall hold voting securities of a person other than GS Inc., the Covered Persons agree that this Agreement shall also continue in full force and effect with respect to such voting securities of such other person formerly representing or distributed in respect of Covered Shares of GS Inc., and the terms "Covered Shares," "Common Stock" and "Voting Interests," and "GS Inc." and "Company," shall refer to such voting securities formerly representing or distributed in respect of Covered Shares of GS Inc. and such person, respectively. Upon the occurrence of any event described in the immediately preceding sentence, the Shareholders' Committee shall make such adjustments to or interpretations of the restrictions of Section 2.2 (and, if it so determines, any other provisions hereof) as it shall deem necessary or desirable to carry out the intent of such provision(s). If the Shareholders' Committee deems it desirable, any such adjustments may take effect from the record date or another appropriate date.

(c) This Agreement shall be binding upon and inure to the benefit of the respective legatees, legal representatives, successors and assigns of the Covered Persons (and GS Inc. in the event of a transaction described in Section 6.4(b) hereof); provided, however, that a Covered Person may not assign this Agreement or any of his rights or obligations hereunder without the prior written consent of GS Inc., and any assignment without such consent by a Covered Person shall be void; and provided further that no assignment of this Agreement by GS Inc. or to a successor of GS Inc. (by operation of law or otherwise) shall be valid unless such assignment is made to a person which succeeds to the business of GS Inc. substantially as an entirety.

Section 6.5 Further Assurances. Each Covered Person agrees to execute such additional documents and take such further action as may be reasonably necessary to effect the provisions of this Agreement.

ARTICLE VII MISCELLANEOUS

Section 7.1 Term of the Agreement; Termination of Certain Provisions.

(a) The term of this Agreement shall continue until the first to occur of January 1, 2050 and such time as this Agreement is terminated by the affirmative vote of not less than 66 2/3% of the outstanding Voting Interests. If this Agreement is terminated prior to the expiration or termination of the restrictions on transfer referred to in Section 2.3(a), such restrictions on transfer shall continue to apply in accordance with the provisions of Section 6(e) of the Underwriting Agreement referred to in Section 2.3(a) unless waived or terminated as provided in said Underwriting Agreement. If this Agreement is terminated prior to the expiration or termination of the PLP Transfer Restrictions, the PLP Transfer Restrictions shall continue to apply in accordance with the provisions of the Plan of Incorporation unless waived or terminated as provided in the Plan of Incorporation.

(b) Unless this Agreement is theretofore terminated pursuant to Section 7.1(a) hereof, any Covered Person who ceases to be an employee for any reason other than death shall no longer be bound by the provisions of Section 2.2 and Section 6.1 hereof (unless such Covered Person is subject to the PLP Transfer Restrictions in which case Section 6.1 shall continue to apply until December 31, 2000) but shall be bound by all other provisions of this Agreement until such time as such Covered Person holds all Covered Shares free from PLP Transfer Restrictions. Thereafter, such Covered Person shall no longer be bound by the provisions of this Agreement (other than Sections 5.3, 6.2, 6.3, 6.5, 7.4, 7.5, 7.6,

7.8, 7.10 and 7.11 (the "Continuing Provisions")), and such Covered Person's name shall be removed from Appendix A to this Agreement.

(c) Unless this Agreement is theretofore terminated pursuant to Section 7.1(a) hereof, the estate of any Covered Person who ceases to be an employee by reason of death or any Covered Person who ceases to be an employee for any reason other than death and who subsequently dies shall from and after the date of such death be bound only by the restrictions on transfer imposed by Section 2.3(a) hereof and the Continuing Provisions; and upon the expiration of the restrictions in Section 2.3(a), the estate of such Covered Person shall no longer be bound by the provisions of this Agreement (other than the Continuing Provisions), and such Covered Person's name shall be removed from Appendix A to this Agreement.

Section 7.2 Amendments.

(a) Except as provided in this Section 7.2, provisions of this Agreement may be amended only by the affirmative vote of a majority of the outstanding Voting Interests.

(b) This Section 7.2(b), Section 7.1(a) and Section 7.3(a)(i) may be amended only by the affirmative vote of 66 2/3% of the outstanding Voting Interests. Any amendment of any other provision of this Agreement that would have the effect, in connection with a tender or exchange offer by any person other than the Company as to which the Board of Directors of GS Inc. is recommending rejection, of permitting Transfers which would not be permitted by the terms of this Agreement as theretofore in effect shall also require the affirmative vote of 66 2/3% of the outstanding Voting Interests.

(c) This Section 7.2(c), Article V, Section 7.3(b) and any other provision the amendment (or addition) of which has the effect of materially changing the rights or obligations of the Shareholders' Committee hereunder may be amended (or added) either (i) with the approval of the Shareholders' Committee and the affirmative vote of a majority of the Voting Interests or (ii) by the affirmative vote of 66 2/3% of the outstanding Voting Interests.

(d) In addition to any other vote or approval that may be required under this Section 7.2, any amendment to the General Transfer Restrictions that would make such General Transfer Restrictions materially more onerous to a Covered Person will not be enforceable against that Covered Person unless that Covered Person has consented to such amendment.

(e) In addition to any other vote or approval that may be required under this Section 7.2, any amendment of this Agreement that has the effect of changing the obligations of GS Inc. hereunder to make such obligations materially more onerous to GS Inc. shall require the approval of GS Inc.

(f) In addition to any other vote or approval that may be required under this Section 7.2, any amendment that has the effect of amending the provisions of Section 2.3(a), 2.3(b) or 2.3(c) shall require the approval of GS Inc.

(g) Each Covered Person understands that it is intended that each managing director of the Company will be a Covered Person under this Agreement or will become a Covered Person upon his appointment to such position, and each Covered Person further understands that from time to time certain other persons may become Covered Persons and certain Covered Persons will cease to be bound by the provisions of this Agreement pursuant to the terms hereof. Accordingly, this Agreement may be amended by action of the Shareholders' Committee from time to time and without the approval of any other person, but solely for the purposes of (i) adding to Appendix A such persons as shall be made party to this Agreement pursuant to the terms hereof or shall (A) be appointed managing directors of the Company and (B) execute a counterpart of the signature page of this Agreement, such addition to be effective as of the time of such action or appointment and (ii) removing from Appendix A such persons as shall cease to be bound by the provisions of this Agreement pursuant to Sections 7.1(b) or (c) hereof, which additions and removals shall be given effect from time to time by appropriate changes to Appendix A.

Section 7.3 Waivers. The Transfer Restrictions and the other provisions of this Agreement may be waived only as provided in this Section 7.3.

(a) The holders of the outstanding Voting Interests may waive the Transfer Restrictions and the other provisions of this Agreement without the consent of any other person as follows:

- (i) The Transfer Restrictions may be waived, in connection with any tender or exchange offer by any person other than the Company as to which the Board of Directors of GS Inc. is recommending rejection at the time of such waiver, only by the affirmative vote of 66 2/3% of the outstanding Voting Interests;
- (ii) The Transfer Restrictions may be waived, in connection with any tender or exchange offer by any person other than the

Company as to which the Board of Directors of GS Inc. is recommending acceptance or is not making any recommendation with respect to acceptance at the time of such waiver, only by the affirmative vote of a majority of the outstanding Voting Interests;

- (iii) The Transfer Restrictions may be waived, in connection with any tender or exchange offer by the Company, by the affirmative vote of a majority of the outstanding Voting Interests;
- (iv) In all circumstances other than those set forth in Section 7.3(a)(i), (ii) and (iii), the provisions of this Agreement may be waived only by the affirmative vote of a majority of the outstanding Voting Interests; provided, however, that the holders of the outstanding Voting Interests may not waive the provisions of this Agreement in the circumstances set forth in Section 7.3(b); and
- (v) In addition to any other action that may be required under this Section 7.3(a), any waiver that has the effect of waiving the provisions of Section 2.3(a), 2.3(b) or 2.3(c) shall require the approval of GS Inc.

(b) The Shareholders' Committee may waive the Transfer Restrictions and the other provisions of this Agreement without the consent of any other person as follows:

- (i) The Shareholders' Committee may waive the Transfer Restrictions and the other provisions of this Agreement to permit: (A) Covered Persons to participate as sellers in underwritten public offerings of, and stock repurchase programs and tender offers by GS Inc. for, Common Stock; (B) Transfers of Covered Shares to organizations described in Section 501(c)(3) of the Code, including gifts to "private foundations" subject to the requirements of Section 509 of the Code; (C) Transfers of Covered Shares held in employee benefit plans of the Company either generally or in particular situations; and (D) particular Covered Persons or all Covered Persons to Transfer Covered Shares in particular situations (such as Transfers to family members, partnerships or trusts), but not generally (provided that in each of (A) through (D),

waivers of the restrictions imposed by Section 2.3(a), 2.3(b) and 2.3(c) shall also require the prior written consent of GS Inc.);

- (ii) The Shareholders' Committee may waive the PLP Transfer Restrictions in all circumstances other than in connection with a tender or exchange offer by any person other than the Company; and
- (iii) The Shareholders' Committee may waive any or all of the Transfer Restrictions and the other provisions of this Agreement with respect to Covered Shares owned by a person at the time the person becomes a managing director of the Company or acquired by the person in connection with such person's becoming a managing director of the Company; provided that such person was not an employee of the Company prior to the granting of such waiver by the Shareholders' Committee.

(c) GS Inc. agrees that the PLP Transfer Restrictions shall be deemed to be waived under the Plan of Incorporation if they are waived as provided in this Agreement.

(d) In connection with any waiver granted under this Agreement, the Shareholders' Committee or the holders of the percentage of Voting Interests required for the waiver, as the case may be, may impose such conditions as they determine on the granting of such waivers.

(e) The failure of the Company or the Shareholders' Committee at any time or times to require performance of any provision of this Agreement shall in no manner affect the rights at a later time to enforce the same. No waiver by the Company or the Shareholders' Committee of the breach of any term contained in this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be or construed as a further or continuing waiver of any such breach or the breach of any other term of this Agreement.

Section 7.4 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS.

Section 7.5 Resolution of Disputes.

(a) The Shareholders' Committee shall have the sole and exclusive power to enforce the provisions of this Agreement. The Shareholders' Committee may in its sole discretion request GS Inc. to conduct such enforcement, and GS Inc. agrees to conduct such enforcement as requested and directed by the Shareholders' Committee.

(b) Without diminishing the finality and conclusive effect of any determination by the Shareholders' Committee of any matter under this Agreement which is provided herein to be determined or proposed by the Shareholders' Committee (and subject to the provisions of paragraphs (c) and (d) hereof), any dispute, controversy or claim arising out of or relating to or concerning the provisions of this Agreement shall be finally settled by arbitration in New York City before, and in accordance with the rules then obtaining of, the New York Stock Exchange, Inc. ("NYSE"), or if the NYSE declines to arbitrate the matter, the American Arbitration Association ("AAA") in accordance with the commercial arbitration rules of the AAA.

(c) Notwithstanding the provisions of paragraph (b), and in addition to its right to submit any dispute or controversy to arbitration, the Shareholders' Committee may bring, or may cause GS Inc. to bring, on behalf of the Shareholders' Committee or on behalf of one or more Covered Persons, an action or special proceeding in a state or federal court of competent jurisdiction sitting in the State of Delaware, whether or not an arbitration proceeding has theretofore been or is ever initiated, for the purpose of temporarily, preliminarily or permanently enforcing the provisions of this Agreement and, for the purposes of this paragraph (c), each Covered Person (i) expressly consents to the application of paragraph (d) to any such action or proceeding, (ii) agrees that proof shall not be required that monetary damages for breach of the provisions of this Agreement would be difficult to calculate and that remedies at law would be inadequate and (iii) irrevocably appoints each General Counsel of GS Inc., c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801 as such Covered Person's agent for service of process in connection with any such action or proceeding, who shall promptly advise such Covered Person of any such service of process.

(d) (i) EACH COVERED PERSON HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED IN THE STATE OF DELAWARE OVER ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO OR CONCERNING THIS AGREEMENT THAT IS NOT OTHERWISE ARBITRATED ACCORDING TO THE PROVISIONS OF PARAGRAPH (B)

HEREOF. This includes any suit, action or proceeding to compel arbitration or to enforce an arbitration award. The parties acknowledge that the forum designated by this paragraph (d) has a reasonable relation to this Agreement, and to the parties' relationship with one another. Notwithstanding the foregoing, nothing herein shall preclude the Shareholders' Committee or GS Inc. from bringing any action or proceeding in any other court for the purpose of enforcing the provisions of this Section 7.5.

(ii) The agreement of the parties as to forum is independent of the law that may be applied in the action, and they each agree to such forum even if the forum may under applicable law choose to apply non-forum law. The parties hereby waive, to the fullest extent permitted by applicable law, any objection which they now or hereafter may have to personal jurisdiction or to the laying of venue of any such suit, action or proceeding brought in any court referred to in paragraph (d)(i). The parties undertake not to commence any action arising out of or relating to or concerning this Agreement in any forum other than a forum described in paragraph (d)(i). The parties agree that, to the fullest extent permitted by applicable law, a final and non-appealable judgment in any such suit, action or proceeding in any such court shall be conclusive and binding upon the parties.

Section 7.6 Relationship of Parties. The terms of this Agreement are intended not to create a separate entity for U.S. federal income tax purposes, and nothing in this Agreement shall be read to create any partnership, joint venture or separate entity among the parties or to create any trust or other fiduciary relationship between them.

Section 7.7 Notices.

(a) Any communication, demand or notice to be given hereunder will be duly given (and shall be deemed to be received) when delivered in writing by hand or first class mail or by telecopy to a party at its address as indicated below:

If to a Covered Person,

c/o The Goldman Sachs Group, Inc.
85 Broad Street
New York, New York 10004
Telecopy: (212) 902-3876
Attention: General Counsel;

If to the Shareholders' Committee, at

Shareholders' Committee under the Shareholders'
Agreement,

dated May 7, 1999
c/o The Goldman Sachs Group, Inc.
85 Broad Street
New York, New York 10004
Telecopy: (212) 902-3876
Attention: General Counsel;

and

If to GS Inc., at

The Goldman Sachs Group, Inc.
85 Broad Street
New York, New York 10004
Telecopy: (212) 902-3876

Attention: General Counsel.

GS Inc. shall be responsible for notifying each Covered Person of the receipt of a communication, demand or notice under this Agreement relevant to such Covered Person at the address of such Covered Person then in the records of GS Inc. (and each Covered Person shall notify GS Inc. of any change in such address for communications, demands and notices).

(b) Unless otherwise provided to the contrary herein, any notice which is required to be given in writing pursuant to the terms of this Agreement may be given by telecopy.

Section 7.8 Severability. If any provision of this Agreement is finally held to be invalid, illegal or unenforceable, (a) the remaining terms and provisions hereof shall be unimpaired and (b) the invalid or unenforceable term or provision shall be deemed replaced by a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision.

Section 7.9 Right to Determine Tender Confidentially. In connection with any tender or exchange offer for all or any portion of the outstanding Common Stock, subject to compliance with all applicable restrictions on Transfer in this Agreement, the Plan of Incorporation or any other agreement with GS Inc., each Covered Person will have the right to determine confidentially whether such Covered Person's Covered Shares will be tendered in such tender or exchange offer.

Section 7.10 No Third-Party Rights. Nothing expressed or referred to in this Agreement will be construed to give any person other than the parties to this Agreement any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement. This Agreement and all of its provisions and conditions are for the sole and exclusive benefit of the parties to this Agreement and their successors and assigns.

Section 7.11 Section Headings. The headings of sections in this Agreement are provided for convenience only and will not affect its construction or interpretation.

Section 7.12 Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have duly executed or caused to be duly executed this Agreement as of the dates indicated.

THE GOLDMAN SACHS GROUP, INC.

By _____
Name:
Title:

Dated: May 7, 1999

[Signature Page 1 and Signature Page 2 Follow]

Signature Page 1
to
Shareholders' Agreement

Bradley I. Abelow
Paul M. Achleitner
Jonathan R. Aisbitt
Andrew M. Alper
Armen A. Avanesians
David M. Baum
Ron E. Beller
Milton R. Berlinski
Lloyd C. Blankfein
David W. Blood
Peter L. Briger Jr.
Richard J. Bronks
Lawrence R. Buchalter
Michael J. Carr
Christopher J. Carrera
Mary Ann Casati
Andrew A. Chisholm
Zachariah Cobrinik
Abby Joseph Cohen
Gary D. Cohn
Christopher A. Cole
Carlos A. Cordeiro
Henry Cornell
E. Gerald Corrigan
Jon S. Corzine
Claudio Costamagna
Frank L. Coulson, Jr.
Randolph L. Cowen
Philip M. Darivoff
Timothy D. Dattels
Gavyn Davies
David A. Dechman
Paul C. Deighton
Robert V. Delaney
Joseph Della Rosa
Alexander C. Dibelius
John O. Downing
Connie K. Duckworth
C. Steven Duncker
Gordon E. Dyal
Glenn P. Earle

Signature Page 1
to
Shareholders' Agreement (cont.)

Paul S. Efron
J. Michael Evans
W. Mark Evans
Pieter Maarten Feenstra
Lawton W. Fitt
David B. Ford
Edward C. Forst
Christopher G. French
Richard A. Friedman
Joseph D. Gatto
Peter C. Gerhard
Nomi P. Ghez
Joseph H. Gleberman
Richard J. Gnodde
Jeffrey B. Goldenberg
Jacob D. Goldfield
Amy O. Goodfriend
Andrew M. Gordon
Geoffrey T. Grant
Eric P. Grubman
Joseph D. Gutman
Robert S. Harrison
Thomas J. Healey
Sylvain M. Hefes
David B. Heller
Steven M. Heller
David L. Henle
Mary C. Henry
Robert E. Higgins
M. Roch Hillenbrand
Jacquelyn M. Hoffman-Zehner
Robert J. Hurst
Francis J. Ingrassia
Timothy J. Ingrassia
Reuben Jeffery III
Stefan J. Jentzsch
Chansoo Joung
Ann F. Kaplan
Barry A. Kaplan
Robert S. Kaplan
Scott B. Kapnick

Signature Page 1
to
Shareholders' Agreement (cont.)

Erland S. Karlsson
Robert J. Katz
Kevin W. Kennedy
Peter D. Kiernan III
Douglas W. Kimmelman
Bradford C. Koenig
Jonathan L. Kolatch
Peter S. Kraus
David G. Lambert
Thomas D. Lasersohn
Anthony D. Lauter
Matthew G. L'Heureux
Lawrence H. Linden
Robert Litterman
Robert H. Litzenberger
Jonathan M. Lopatin
Michael R. Lynch
Peter G.C. Mallinson
Ronald G. Marks
Eff W. Martin
David J. Mastrocola
John P. McNulty
E. Scott Mead
Sanjeev K. Mehra
T. Willem Mesdag
Eric M. Mindich
Steven T. Mnuchin
Masanori Mochida
Karsten N. Moller
Thomas K. Montag
Wayne L. Moore
Robert B. Morris III
Michael P. Mortara
Sharmin Mossavar-Rahmani
Edward A. Mule
Philip D. Murphy
Thomas S. Murphy, Jr.
Avi M. Nash
Daniel M. Neidich
Kipp M. Nelson
Robin Neustein

Signature Page 1
to
Shareholders' Agreement (cont.)

Suzanne M. Nora Johnson
Michael E. Novogratz
Alok Oberoi
Terence J. O'Neill
Timothy J. O'Neill
Donald C. Opatrny, Jr.
Robert J. O'Shea
Greg M. Ostroff
Terence M. O'Toole
Robert J. Pace
Gregory K. Palm
Henry M. Paulson, Jr.
Scott M. Pinkus
Timothy C. Plaut
Wiet H. Pot
John J. Powers
Michael A. Price
Scott S. Prince
Stephen D. Quinn
Michael G. Rantz
Girish V. Reddy
Arthur J. Reimers
James P. Riley, Jr.
Simon M. Robertson
J. David Rogers
Emmanuel Roman
Ralph F. Rosenberg
Stuart M. Rothenberg
Michael S. Rubino
Richard M. Ruzika
John C. Ryan
Michael D. Ryan
Richard A. Sapp
Joseph Sassoon
Tsutomu Sato
Muneer A. Satter
Jonathan S. Savitz
Peter Savitz
Howard B. Schiller
Antoine Schwartz
Eric S. Schwartz

Signature Page 1
to
Shareholders' Agreement (cont.)

Mark Schwartz
Charles B. Seelig, Jr.
Steven M. Shafran
Richard S. Sharp
James M. Sheridan
Richard G. Sherlund
Michael S. Sherwood
Howard A. Silverstein
Dinakar Singh
Christian J. Siva-Jothy
Cody J. Smith
Jonathan S. Sobel
Marc A. Spilker
Daniel W. Stanton
Esta E. Stecher
Fredric E. Steck
Robert K. Steel
Hsueh J. Sung
Peter D. Sutherland
Gene T. Sykes
Mark R. Tercek
Donald F. Textor
John A. Thain
John L. Thornton
John R. Tormondsen
Leslie C. Tortora
John L. Townsend, III
Byron D. Trott
Robert B. Tudor III
Thomas E. Tuft
Malcolm B. Turnbull
John E. Urban
Lee G. Vance
David A. Viniar
Barry S. Volpert
George H. Walker
Thomas B. Walker III
Patrick J. Ward
John S. Weinberg
Peter A. Weinberg
George W. Wellde, Jr.

Signature Page 1
to
Shareholders' Agreement (cont.)

Anthony G. Williams
Gary W. Williams
Kendrick R. Wilson III
Jon Winkelried
Steven J. Wisch
Richard E. Witten
Tracy R. Wolstencroft
Yasuyo Yamazaki
Danny O. Yee
Michael J. Zamkow
Yoel Zaoui
Gregory H. Zehner
Jide J. Zeitlin
Joseph R. Zimmer
Barry L. Zubrow
Mark A. Zurack

By: _____
Name:
Title: Attorney-in-Fact

Dated: May 7, 1999

Signature Page 2
to
Shareholders' Agreement

Name: _____

Dated: May 7, 1999

APPENDIX A

PARTIES TO THE SHAREHOLDERS' AGREEMENT

NAME

Bradley I. Abelow
Peter C. Aberg
Paul M. Achleitner
Jonathan R. Aisbitt
Elliot M. Alchek
Andrew M. Alper
Philippe J. Altuzarra
Kazutaka P. Arai
David M. Atkinson
Mitchel J. August
Armen A. Avanesians
John S. Barakat
Barbara J. Basser-Bigio
David M. Baum
Robert A. Beckwitt
Jonathan A. Beinner
Ron E. Beller
Tarek M. Ben Halim
Jaime I. Bergel
Todd L. Bergman
Milton R. Berlinski
Andrew S. Berman
Frances R. Bermanzohn
Jeffrey J. Bernstein
Robert A. Berry
Jean-Luc Biamonti
James J. Birch
Lloyd C. Blankfein
David W. Blood
David R. Boles
David A. Bolotsky
Charles W.A. Bott
Charles C. Bradford III
Benjamin S. Bram
Thomas C. Brasco
Peter L. Briger Jr.

APPENDIX A (CONT.)

Craig W. Broderick
Richard J. Bronks
Charles K. Brown
Vern J. Brownell
Peter D. Brundage
Lawrence R. Buchalter
Steven M. Bunson
Timothy B. Bunting
Calvert C. Burkhardt
Michael S. Burton
George H. Butcher III
Lawrence V. Calcano
John D. Campbell
Richard M. Campbell-Breeden
Anthony H. Carpet
Michael J. Carr
Christopher J. Carrera
Virginia E. Carter
Calvin R. Carver, Jr.
Mary Ann Casati
Chris Casciato
Douglas W. Caterfino
Michael J. Certo
Varkki P. Chacko
David K. Chang
Thomas P. Chang
Sacha A. Chiaramonte
Andrew A. Chisholm
Robert J. Christie
Peter T. Cirenza
Kent A. Clark
Zachariah Cobrinik
Abby Joseph Cohen
Gary D. Cohn
Christopher A. Cole
Timothy J. Cole
Laura C. Conigliaro
Frank T. Connor
Donna L. Conti
Edith W. Cooper
Philip A. Cooper
John W. Copeland
Carlos A. Cordeiro

APPENDIX A (CONT.)

Henry Cornell
E. Gerald Corrigan
Jon S. Corzine
Claudio Costamagna
Frank L. Coulson, Jr.
Randolph L. Cowen
Neil D. Crowder
John W. Curtis
Stephen C. Daffron
John S. Daly
Philip M. Darivoff
Matthew S. Darnall
Timothy D. Dattels
Gavyn Davies
David A. Dechman
Paul C. Deighton
Juan A. Del Rivero
Robert V. Delaney
Joseph Della Rosa
Emanuel Derman
Andrew C. Devenport
Stephen D. Dias
Alexander C. Dibelius
Simon P. Dingemans
Sandra D'Italia
Paula A. Dominick
Noel B. Donohoe
Jana Hale Doty
Robert G. Doumar, Jr.
John O. Downing
Michael B. Dubno
Connie K. Duckworth
William C. Dudley
Matthieu B. Duncan
C. Steven Duncker
Karlo J. Duvnjak
Jay S. Dweck
Gordon E. Dyal
Isabelle Ealet
Glenn P. Earle
Paul S. Efron
Herbert E. Ehlers
Alexander S. Ehrlich

APPENDIX A (CONT.)

John E. Eisenberg
Glenn D. Engel
Michael P. Esposito
George C. Estey
Mark D. Ettenger
J. Michael Evans
W. Mark Evans
Charles P. Eve
Paul D. Farrell
Elizabeth C. Fascitelli
Pieter Maarten Feenstra
Steven M. Feldman
Laurie R. Ferber
Robert P. Fisher, Jr.
Lawton W. Fitt
Stephen C. Fitzgerald
David N. Fleischer
Jeffrey S. Flug
David B. Ford
Eric O. Fornell
Edward C. Forst
Oliver L. Frankel
Matthew T. Fremont-Smith
Christopher G. French
Richard A. Friedman
C. Douglas Fuge
Joseph D. Gatto
Emmanuel Gavaudan
Eduardo B. Gentil
Peter C. Gerhard
Nomi P. Ghez
H. John Gilbertson, Jr.
Alan R. Gillespie
Joseph H. Gleberman
Richard J. Gnodde
Jeffrey B. Goldenberg
Jacob D. Goldfield
Amy O. Goodfriend
Jay S. Goodgold
Andrew M. Gordon
Robert D. Gottlieb
Geoffrey T. Grant
William M. Grathwohl

APPENDIX A (CONT.)

David J. Greenwald
Louis S. Greig
Christopher Grigg
Douglas C. Grip
Eric P. Grubman
Celeste A. Guth
Joseph D. Gutman
Erol Hakanoglu
Roger C. Harper
Charles T. Harris III
Robert S. Harrison
Shelley A. Hartman
Nobumichi Hattori
Stephen J. Hay
Walter H. Haydock
Isabelle Hayen
Thomas J. Healey
John P. Heanue
Robert C. Heathcote
Sylvain M. Hefes
David B. Heller
Steven M. Heller
R. Douglas Henderson
David L. Henle
Mary C. Henry
Robert E. Higgins
M. Roch Hillenbrand
Maykin Ho
Timothy E. Hodgson
Jacquelyn M. Hoffman-Zehner
Christopher G. Hogg
Gregory T. Hoogkamp
Robert D. Hormats
Robert G. Hottensen, Jr.
James A. Hudis
Terry P. Hughes
Bimaljit S. Hundal
Robert J. Hurst
Francis J. Ingrassia
Timothy J. Ingrassia
Masahiro Iwano
William L. Jacob III
Mark M. Jacobs

APPENDIX A (CONT.)

Richard I. Jaffee
Reuben Jeffery III
Stefan J. Jentzsch
Dan H. Jester
Daniel J. Jick
Robert H. Jolliffe
Robert C. Jones
Reginald L. Jones III
Chansoo Joungh
Andrew J. Kaiser
Donald G. Kane II
Ann F. Kaplan
Barry A. Kaplan
David A. Kaplan
Jason S. Kaplan
Robert S. Kaplan
Scott B. Kapnick
Erland S. Karlsson
Carolyn F. Katz
Robert J. Katz
Sofia Katzap
Haruo Kawamura
Tetsuya Kawano
Sion P. Kearsey
R. Mark Keating
John L. Kelly
Kevin M. Kelly
Kevin W. Kennedy
Peter D. Kiernan III
James T. Kiernan, Jr.
Sun Bae Kim
Douglas W. Kimmelman
Colin E. King
Robert C. King, Jr.
Adrian P. Kingshott
Ewan M. Kirk
Michael K. Klingher
Craig A. Kloner
Bradford C. Koenig
Mark J. Kogan
Jonathan L. Kolatch
David J. Kostin
Koji Kotaka

APPENDIX A (CONT.)

Peter S. Kraus
Christoph M. Ladanyi
David G. Lambert
Pierre F. Lapeyre Jr.
Bruce M. Larson
Thomas D. Lasersohn
Anthony D. Lauto
Susan R. Leadem
Andrew D. Learoyd
Donald C. Lee
Kenneth H. M. Leet
Paulo C. Leme
Hughes B. Lepic
Alan B. Levande
Thomas B. Lewis, Jr.
Mark E. Leydecker
Matthew G. L'Heureux
Aaron D. Liberman
Gwen R. Libstag
Stephen C. Lichtenauer
Roger A. Liddell
Richard J. Lieb
Mitchell J. Lieberman
Josephine Linden
Lawrence H. Linden
Robert Litterman
Robert H. Litzenberger
Ernest S. Liu
David J. Lockwood
Jonathan M. Lopatin
Francisco Lopez-Balboa
Victor M. Lopez-Balboa
Antigone Loudiadis
C. Richard Lucy
Michael C. Luethke
Michael R. Lynch
Shogo Maeda
John A. Mahoney
Sean O. Mahoney
Jun Makiyara
Russell E. Makowsky
Peter G.C. Mallinson
Charles G. R. Manby

APPENDIX A (CONT.)

Barry A. Mannis
Richard J. Markowitz
Ronald G. Marks
Robert J. Markwick
Eff W. Martin
Jacques Martin
John J. Masterson
David J. Mastrocola
Kathy M. Matsui
Tadanori Matsumura
Heinz Thomas Mayer
Richard X. McArdle
Theresa E. McCabe
Joseph M. McConnell
Mark E. McGoldrick
Stephen J. McGuinness
John C. McIntire
John W. McMahon
Geraldine F. McManus
Audrey A. McNiff
Anne Welsh McNulty
John P. McNulty
E. Scott Mead
David M. Meerscham
Sanjeev K. Mehra
Richard W. Meister
Amos Meron
T. Willem Mesdag
Kenneth A. Miller
Therese L. Miller
James E. Milligan
Eric M. Mindich
Peter A. Mindnich
Edward S. Misrahi
Steven T. Mnuchin
Kurt C. Mobley
Masanori Mochida
Karsten N. Moller
Thomas K. Montag
Wayne L. Moore
Yukihiro Moroe
Robert B. Morris III
Michael P. Mortara

APPENDIX A (CONT.)

Matthias R. Mosler
Jeffrey M. Moslow
Sharmin Mossavar-Rahmani
Ian Mukherjee
Edward A. Mule
Donald J. Mulvihill
Patrick E. Mulvihill
Richard A. Murley
Philip D. Murphy
Thomas S. Murphy, Jr.
Gaetano J. Muzio
Michiya Nagai
Kiyotaka Nakamura
Avi M. Nash
Trevor Nash
Warwick M. Negus
Daniel M. Neidich
Kipp M. Nelson
Robin Neustein
Duncan L. Niederauer
Suzanne M. Nora Johnson
Christopher K. Norton
Michael E. Novogratz
Jay S. Nydick
Alok Oberoi
Jinsuk T. Oh
John C. O'Hara
Terence J. O'Neill
Timothy J. O'Neill
Richard T. Ong
Ronald M. Ongaro
Donald C. Opatrny, Jr.
Daniel B. O'Rourke
Robert J. O'Shea
Greg M. Ostroff
Terence M. O'Toole
Robert J. Pace
Robert N. Packer
Gregory K. Palm
Mukesh K. Parekh
Melissa B. Patrusky
Henry M. Paulson, Jr.
Alberto M. Piedra Jr.

APPENDIX A (CONT.)

Stephen R. Pierce
Philip J. Pifer
Scott M. Pinkus
Timothy C. Plaut
Andrea Ponti
Wiet H. Pot
Michael J. Poulter
John J. Powers
Michael A. Price
Scott S. Prince
Stephen D. Quinn
John J. Rafter
Dioscoro-Roy I. Ramos
Charlotte P. Ransom
Michael G. Rantz
Joseph Ravitch
Girish V. Reddy
Arthur J. Reimers
Anthony John Reizenstein
James P. Riley, Jr.
Simon M. Robertson
J. David Rogers
John F.W. Rogers
Emmanuel Roman
Pamela P. Root
Ralph F. Rosenberg
Jacob D. Rosengarten
Stuart M. Rothenberg
Michael S. Rubinoff
Paul M. Russo
Richard M. Ruzika
John C. Ryan
Michael D. Ryan
J. Michael Sanders
Allen Sangines-Krause
Richard A. Sapp
Joseph Sassoon
Tsutomu Sato
Muneer A. Satter
Jonathan S. Savitz
Peter Savitz
P. Sheridan Schechner
Gary B. Schermerhorn

APPENDIX A (CONT.)

Mitchell I. Scherzer
Howard B. Schiller
Antoine Schwartz
Eric S. Schwartz
Mark Schwartz
Steven M. Scopellite
David J. Scudellari
Charles B. Seelig, Jr.
Steven M. Shafran
Richard S. Sharp
John P. Shaughnessy
Robert J. Shea, Jr.
James M. Sheridan
Richard G. Sherlund
Michael S. Sherwood
Howard A. Silverstein
Richard P. Simon
Victor R. Simone, Jr.
Dinakar Singh
Ravi Sinha
Allen W. Sinsheimer
Edward M. Siskind
Christian J. Siva-Jothy
Mark F. Slaughter
Cody J. Smith
Michael M. Smith
Sarah G. Smith
Randolph C. Snook
Jonathan S. Sobel
Judah C. Sommer
Theodore T. Sotir
Marc A. Spilker
Daniel W. Stanton
Esta E. Stecher
Fredric E. Steck
Robert K. Steel
Robert S. Stellato
Raymond S. Stolz
Steven H. Strongin
Andrew J. Stuart
Patrick Sullivan
Hsueh J. Sung
George M. Suspanic

APPENDIX A (CONT.)

Peter D. Sutherland
Gene T. Sykes
Gary A. Syman
John H. Taylor
Robert E. Taylor
Greg W. Tebbe
Mark R. Tercek
Donald F. Textor
John A. Thain
John L. Thornton
Daisuke Toki
John R. Tormondsen
Leslie C. Tortora
John L. Townsend, III
Mark J. Tracey
Byron D. Trott
Michael A. Troy
Robert B. Tudor III
Thomas E. Tuft
Barry S. Turkanis
Malcolm B. Turnbull
Harkanwar Uberoi
Kaysie P. Uniacke
John E. Urban
Hugo H. Van Vredenburch
Lee G. Vance
John J. Vaske
Oksana Vayner-Ryklin
David A. Viniar
Barry S. Volpert
George H. Walker
Thomas B. Walker III
Nicholas J. Walsh
David R. Walton
Hsueh-Ming Wang
Patrick J. Ward
Haruko Watanuki
Edward F. Watts Jr.
David M. Weil
John S. Weinberg
Peter A. Weinberg
Mark S. Weiss
George W. Wellde, Jr.

APPENDIX A (CONT.)

Bradley W. Wendt
Peter S. Wheeler
Barbara A. White
A. Carver Wickman
Susan A. Willetts
Anthony G. Williams
Gary W. Williams
Todd A. Williams
Kendrick R. Wilson III
Jon Winkelried
Steven J. Wisch
Richard E. Witten
Tracy R. Wolstencroft
Zi Wang Xu
Tetsufumi Yamakawa
Yasuyo Yamazaki
Danny O. Yee
Jaime E. Yordan
W. Thomas York Jr.
Michael J. Zamkow
Paolo Zannoni
Yoel Zaoui
Gregory H. Zehner
Jide J. Zeitlin
Joan H. Zief
Joseph R. Zimmer
James P. Ziperski
Barry L. Zubrow
Mark A. Zurack

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (this "Agreement") is made and entered into as of the 7th day of May, 1999, by and between The Goldman Sachs Group, Inc., a Delaware corporation ("GS Inc.") and each of the Indemnitees listed on the signature pages to this agreement (each, an "Indemnatee", and collectively, the "Indemnitees") as such signature pages may be amended and supplemented from time to time.

WITNESSETH

WHEREAS, GS Inc. has become party to a plan for the incorporation of the business of The Goldman Sachs Group, L.P. ("GS Group") and the related reorganization of the business of GS Group, which plan was approved by The Goldman Sachs Corporation ("GS Corp.") in its capacity as general partner of GS Group and by the Schedule II Limited Partners of GS Group in March 1999 (such plan of incorporation together with all exhibits thereto as it or they may be amended from time to time, the "Plan of Incorporation");

WHEREAS, as part of the Plan of Incorporation, GS Inc. has filed and proposes to file registration statements (the "Registration Statements") with the Securities and Exchange Commission for the public offering and sale of shares of its common stock (including shares issuable in connection with employee benefit plans) and debt securities (including medium-term notes);

WHEREAS, GS Inc. has requested and will request certain of the Indemnitees to execute the Registration Statements in the capacity or capacities listed and to be listed in such Registration Statements; and

WHEREAS, each Indemnatee is or was one or more of the following: (i) an officer or director of GS Inc., (ii) an officer or director of GS Corp., (iii) a person requested or authorized by the board of directors or a person authorized by the board of directors of GS Inc. or GS Corp. to take actions on behalf of GS Group, GS Inc. or GS Corp. in connection with the Registration Statements or the Plan of Incorporation or (iv) a member of the Management Committee or Partnership Committee of GS Inc. or the former Executive Committee of GS Group.

NOW, therefore, in consideration of each Indemnatee's acting and agreeing to act in the capacities referred to above, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties do hereby agree as follows:

1. General. GS Inc. (A) will indemnify and hold harmless each Indemnatee against any Losses (as hereinafter defined), joint or several, to which such Indemnatee may become subject, under the Securities Act of 1933, as amended (the "Act") or otherwise, insofar as such Losses (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statements or any related Rule 462(b) Registration Statements or any preliminary prospectus or prospectus comprising a part thereof, or any

amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that GS Inc. shall not be liable in any such case to the extent that any such Losses arise out of or are based upon an untrue statement or alleged untrue statement or omission or alleged omission relating to such Indemnatee made in any preliminary prospectus, any registration statement or any prospectus or any amendment or supplement in reliance upon and in conformity with written information relating to such Indemnatee furnished to GS Inc. by such Indemnatee expressly for use therein; and (B) will indemnify and hold harmless each Indemnatee against any Losses (or actions in respect thereof) which otherwise arise out of or are based upon or asserted against such Indemnatee in connection with such Indemnatee's acting in the capacities referred to above in connection with the transactions contemplated by the Plan of Incorporation, except to the extent any such Losses referred to in this clause (B) arise out of or are based upon the type of conduct for which (x) a director would not be exempt from liability or (y) the indemnification of a director would be limited in respect of such Losses, in the case of (x) and (y), within the meaning of Article Twelfth of the Amended and Restated Certificate of Incorporation of GS Inc. or Section 102(b)(7) of the Delaware General Corporation Law (whether or not such Indemnatee is a director).

Notwithstanding the foregoing provisions of this Section 1, GS Inc. and each Indemnatee agree that insofar as indemnification for liabilities arising under the Act

may be permitted under this Agreement to an Indemnatee who is a director, officer or controlling person of GS Inc., in the event that a claim for indemnification against such liabilities is made by such an Indemnatee (other than the payment by GS Inc. of expenses incurred or paid by such Indemnatee in the successful defense of any action, suit or proceeding) in connection with a Registration Statement, GS Inc. will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act, and GS Inc. and such Indemnatee will be governed by the final adjudication of such question.

2. Losses. As used in this Agreement, the term "Losses" shall include, without limitation, damages, losses, claims, judgments, liabilities, fines, penalties, excise taxes, settlements, and costs, attorneys' fees, accountants' fees, and disbursements and costs of attachment or similar bonds, investigation costs, defense preparation costs, costs of preparing for and presenting evidence or testimony, and any expenses of establishing a right to indemnification under this Agreement. The term "Losses" shall not include taxes except to the extent taxes are imposed in respect of payments otherwise made pursuant to this Agreement, in which case such Indemnatee's Losses shall include an amount not greater than the net taxes payable (taking into account any deductions or other tax benefits available to such Indemnatee as a result of the Losses in respect of which such payment is made).

3. Enforcement. Subject to the provisions of the second paragraph of Section 1 hereof, if a claim or request by an Indemnatee under this Agreement is not paid by GS Inc. or on its behalf, within thirty (30) days after a written claim or request has been received by GS Inc. and, if applicable, the affirmation in Section 5 hereof has been received by GS Inc., such Indemnatee may at any time thereafter commence an arbitration proceeding in accordance with Section 9 hereof against GS Inc. to recover the unpaid amount of the claim or request and, if successful in whole or in part, such Indemnatee shall be entitled to be paid also the expenses of prosecuting such proceeding. It shall be a defense to any such proceeding (other than a proceeding commenced to enforce a claim for expenses incurred in defending any actual or threatened proceeding in advance of its final disposition where the required affirmation and undertaking, if any is required, have been tendered to GS Inc.) that such Indemnatee has not met the standards of conduct for GS Inc. to indemnify such Indemnatee herein for the amount claimed, but the burden of proving such defense shall be on GS Inc. Neither the failure of GS Inc. (including its Board of Directors, legal counsel or shareholders) to have made a determination prior to the commencement of such proceeding that indemnification of such Indemnatee is proper in the circumstances because such Indemnatee has met the applicable standard of conduct set forth herein, nor an actual determination by GS Inc. (including its Board of Directors, legal counsel or shareholders) that such Indemnatee has not met such applicable standard of conduct, shall be a defense to the proceeding or create a presumption that such Indemnatee has not met the applicable standard of conduct.

4. Partial Indemnification. If an Indemnatee is entitled under any provision of this Agreement to indemnification by GS Inc. for some or a portion of any Losses, but not for the total amount thereof, GS Inc. shall nevertheless indemnify such Indemnatee for the portion of such Losses to which such Indemnatee is entitled.

5. Expenses. Expenses incurred by an Indemnatee in connection with any proceeding shall be paid by GS Inc. upon request of such Indemnatee that GS Inc. pay such expenses, but only upon receipt by GS Inc. of (i) a written affirmation of such Indemnatee's good faith belief that the applicable standard of conduct necessary for indemnification by GS Inc. has been met, (ii) a written undertaking by or on behalf of such Indemnatee to reimburse GS Inc. for expenses if and to the extent that it is ultimately determined that the applicable standard of conduct has not been met and (iii) satisfactory evidence of the amount of such expenses.

6. Notice of Claim. Each Indemnatee shall promptly notify GS Inc. in writing of any claim against such Indemnatee for which indemnification will or could be sought under this Agreement. In addition, each Indemnatee shall give GS Inc. such information and cooperation as it may reasonably require and as shall be within such Indemnatee's power and at such times and places as are not unduly burdensome for such Indemnatee.

7. Defense of Claim. With respect to any proceeding as to which an Indemnatee notifies GS Inc. of the commencement thereof:

expense; (a) GS Inc. will be entitled to participate at its own

(b) subject to Section 7(c) hereof, GS Inc. shall not, in connection with any proceeding or related proceedings in the same jurisdiction against any Indemnatee and any other Indemnitees, be liable to such Indemnatee and such other Indemnitees for the fees and expenses of more than one separate law firm (in addition to a single firm of local counsel);

(c) except as otherwise provided below, to the extent that it may wish, GS Inc. will be entitled to assume the defense thereof, with counsel reasonably satisfactory to such Indemnatee, which in GS Inc.'s sole discretion may be regular counsel to GS Inc. and may be counsel to other Indemnitees. The Indemnitees also shall have the right to employ one separate counsel for such Indemnitees in such action, suit or proceeding if such Indemnitees reasonably conclude that if they did not there would be a conflict of interest between GS Inc. and such Indemnitees, and under such circumstances the fees and expenses of such counsel shall be paid by GS Inc.; and

(d) GS Inc. shall not be liable to indemnify an Indemnatee under this Agreement for any amounts paid in settlement of any action or claim effected without GS Inc.'s written consent. GS Inc. shall not settle any action or claim in any manner which would impose any cost or limitation on an Indemnatee without such Indemnatee's written consent.

Neither GS Inc. nor an Indemnitee will unreasonably withhold or delay its consent to any proposed settlement.

8. Non-exclusivity. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Agreement shall not be exclusive of or affected in any way by any other right which an Indemnitee may have or hereafter may acquire under any statute, certificate of incorporation, by-laws, agreement, arrangement, resolution or instrument providing indemnification or expense payment, except that any payments otherwise required to be made by GS Inc. hereunder shall be offset by any and all amounts received by an Indemnitee from any other indemnitor or under one or more liability insurance policies maintained by an indemnitor or otherwise and shall not be duplicative of any other payments received by an Indemnitee from GS Inc. in respect of the matter giving rise to the indemnity hereunder. When an Indemnitee is entitled to indemnification, expense advancement or reimbursement under this Instrument and any other agreement, arrangement, resolution or instrument of GS Inc. or The Goldman Sachs Group, L.P., the Indemnitee may choose to pursue its rights under one or more, but less than all, of such applicable agreements, arrangements, resolutions or instruments, in which case such Indemnitee need only comply with the standards and procedures of the agreements, arrangements, resolutions or instruments under which it chooses to pursue its rights. Without limiting the foregoing, the rights of any indemnified person under the resolution of the Executive Committee of GS Group, adopted on May 12, 1997 (the "Resolution")

shall remain in full force and effect insofar as an indemnified person has any rights thereunder with respect to the acts, omissions and status of such person through the date of this Agreement. The execution and delivery of this Instrument shall constitute notice, effective as of the date of this Instrument, that the Resolution is rescinded insofar as it relates to the acts, omissions and status of such person after the date of this Instrument.

9. Arbitration. (a) Subject to the provisions of the second paragraph of Section 1 and Section 9(b) hereof, any dispute, controversy or claim between an Indemnatee and GS Inc. arising out of or relating to or concerning the provisions of this Agreement shall be finally settled by arbitration in New York City before, and in accordance with the rules then obtaining of, the New York Stock Exchange, Inc. ("NYSE") or, if the NYSE declines to arbitrate the matter, the American Arbitration Association (the "AAA") in accordance with the commercial arbitration rules of the AAA.

(b) Notwithstanding the provision of Section 9(a) and in addition to its right to submit any dispute or controversy to arbitration, GS Inc. may bring an action or special proceeding in a state or federal court of competent jurisdiction sitting in the State of Delaware, whether or not an arbitration proceeding has theretofore been or is ever initiated, for the purpose of temporarily, preliminarily or permanently enforcing the provisions of this Agreement or to enforce an arbitration award, and, for the purposes of this Section 9(b), each Indemnatee (i) expressly consents to the application of Section 9(c) hereof to any such action or proceeding, (ii) agrees that proof shall not be required that

monetary damages for breach of the provisions of this Agreement would be difficult to calculate and that remedies at law would be inadequate and (iii) irrevocably appoints each General Counsel of GS Inc., c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801 as such Indemnatee's agent for service of process in connection with any such action or proceeding, who shall promptly advise such Indemnatee of any such service of process.

(c) (i) EACH INDEMNITEE HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED IN THE STATE OF DELAWARE OVER ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO OR CONCERNING THIS AGREEMENT THAT IS NOT OTHERWISE ARBITRATED ACCORDING TO THE PROVISIONS OF SECTION 9(a) HEREOF. This includes any suit, action or proceeding to compel arbitration or to enforce an arbitration award. The parties acknowledge that the forum designated by this Section 9(c) has a reasonable relation to this Agreement, and to the parties' relationship with one another. Notwithstanding the foregoing, nothing herein shall preclude GS Inc. from bringing any action or proceeding in any other court for the purpose of enforcing the provisions of this Section 9.

(ii) The agreement of an Indemnatee as to forum is independent of the law that may be applied in the action, and each Indemnatee agrees to this forum even if the forum may under applicable law choose to apply non-forum law. Each Indemnatee hereby waives, to the fullest extent permitted by applicable law, any

objection which such Indemnitee now or hereafter may have to personal jurisdiction or to the laying of venue of any such suit, action or proceeding in any court referred to in Section 9(c)(i). The parties undertake not to commence any action arising out of or relating to this Agreement in any forum other than the forum described in this Section 9(c). The parties agree that, to the fullest extent permitted by applicable law, a final and non-appealable judgment in any such suit, action or proceeding in any such court shall be conclusive and binding upon the parties.

10. Binding Effect. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, assigns (including any direct or indirect successor by merger or consolidation), heirs, executors and administrators.

11. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF DELAWARE, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS.

12. Amendment. Each party understands that from time to time certain other persons may become Indemnitees and certain Indemnitees will cease to be Indemnitees to the extent provided in this Section 12. Accordingly, this Agreement may be amended by action of GS Inc. from time to time to add additional Indemnitees, without the approval of any other person other than such proposed Indemnitees, each of whom shall execute a counterpart of the signature page of this Agreement. This

Agreement may also be amended by action of GS Inc. and without the approval of any other person to remove an Indemnatee; provided that such amendment shall not be effective unless GS Inc. has provided 30 days prior written notice to the Indemnatee and, in any event, such amendment shall not affect any rights of such Indemnatee to be indemnified in respect of Losses associated with the acts, omissions or status of such Indemnatee through the effective date of such termination (including the right to subsequent indemnification and expense advancement and reimbursement relating to such acts, omissions or status).

13. Waiver of Breach. The failure or delay of a party at any time to require performance by any other party of any provision of this Agreement, even if known, shall not affect the right of such party to require performance of that provision or to exercise any right, power, or remedy hereunder, and any waiver by any party of any breach of any provision of this Agreement shall not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself, or a waiver of any right, power, or remedy under this Agreement. No notice to or demand on any party in any case shall, of itself, entitle such party to other or further notice or demand in similar or other circumstances.

14. Severability. GS Inc. and each Indemnatee agree that the agreements and provisions contained in this Agreement are severable and divisible, that each such agreement and provision does not depend upon any other provision or agreement for its enforceability, and that each such agreement and provision set forth

herein constitutes an enforceable obligation between GS Inc. and such Indemnitee. Consequently, GS Inc. and each Indemnitee hereto agrees that neither the invalidity nor the unenforceability of any provision of this Agreement shall affect the other provisions hereof, and this Agreement shall remain in full force and effect and be construed in all respects as if such invalid or unenforceable provision were omitted.

15. No Presumption. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that an Indemnitee did not meet the applicable standard of conduct for indemnification under this Agreement.

16. Notices. Any communication, demand or notice to be given hereunder will be duly given when delivered in writing by hand or first class mail to GS Inc. at its principal executive office or to an Indemnitee at its last address appearing in the business records of GS Inc. (or to such other addresses as a party may designate by written notice to GS Inc.).

17. No Assignments. No Indemnitee may assign its rights or obligations under this Agreement without the prior written consent of GS Inc.

18. No Third Party Rights. Nothing expressed or referred to in this Agreement will be construed to give any person other than the parties to this Agreement any legal or equitable right, remedy or claim under or with respect to this Agreement or any provision of this Agreement. This Agreement and all of its provisions are for the sole

and exclusive benefit of the parties to this Agreement and their successors and permitted assigns.

19. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have entered into this Agreement
as of the date first written above.

THE GOLDMAN SACHS GROUP, INC.

By: _____
Name:
Title:

INDEMNITEES:

-16-

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (this "Agreement") is made and entered into as of the 9th day of November 1999, by and between The Goldman Sachs Group, Inc., a Delaware corporation ("GS Inc."), and each of the Indemnitees listed on the signature pages to this Agreement (each, an "Indemnatee", and collectively, the "Indemnitees") as such signature pages may be amended and supplemented from time to time pursuant to the terms of this Agreement.

WITNESSETH

WHEREAS, GS Inc. has filed and proposes to file registration statements with the Securities and Exchange Commission under the Securities Act of 1933 (the "Securities Act") for the public offering and sale of securities of GS Inc., which securities may include shares of its common stock (including shares to be sold by stockholders of GS Inc. or issuable in connection with employee benefit plans), debt securities (including medium-term notes), warrants, preferred stock and/or any other securities of GS Inc. approved by, or pursuant to action of, the Board of Directors of GS Inc.;

WHEREAS, GS Inc. has in the past requested and will in the future request certain of the Indemnitees to execute registration statements in the capacity or capacities listed, or to be listed, in registration statements and to take actions in connection with registration statements; and

WHEREAS, each Indemnatee is one of the following: (i) an officer or director of GS Inc. or (ii) a person requested or authorized by the Board of Directors of GS Inc. or any committee thereof to take actions on behalf of GS Inc. in connection with a registration statement.

NOW, therefore, in consideration of each Indemnatee's acting and agreeing to act in the capacities referred to above, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. General. GS Inc. will indemnify and hold harmless each Indemnatee against any Losses (as hereinafter defined), joint or several, to which such Indemnatee may become subject, under the Securities Act or otherwise, insofar as such Losses (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Registration Statement (as defined below) or any preliminary prospectus, prospectus, or prospectus supplement comprising a part thereof or relating thereto, or any amendment or supplement to any of the foregoing documents (collectively, the "Offering Documents") or any untrue or alleged untrue oral statement relating to any offering contemplated by any Offering

Document, or arise out of or are based upon an omission or alleged omission to state in any Offering Document or such oral statement a material fact required to be stated therein or necessary to make the statements in any Offering Document or such oral statement not misleading; provided, however, that GS Inc. shall not be liable in any such case to the extent that any such Losses arise out of or are based upon an untrue statement or alleged untrue statement or omission or alleged omission relating to such Indemnatee made in any Offering Document or such oral statement in reliance upon and in conformity with written information relating to such Indemnatee furnished to GS Inc. by such Indemnatee expressly for use therein. "Registration Statement" means any registration statement previously filed or hereafter filed by GS Inc. under the Securities Act on any applicable form (including Forms S-8 and S-4) for the registration of any securities of GS Inc. under the Securities Act, including, without limitation, debt and equity securities, guarantees, back-up undertakings, rights, warrants and options and interests in employee benefit plans, and shall include any amendment, post-effective or otherwise, thereto and any related registration statement filed pursuant to Rule 462 under the Securities Act.

Notwithstanding the foregoing provisions of this Section 1, GS Inc. and each Indemnatee agree that insofar as indemnification for liabilities arising under the Securities Act may be permitted under this Agreement to an Indemnatee who is a director, officer or controlling person of GS Inc., in the event that a claim for indemnification against such liabilities is made by such an Indemnatee (other than the payment by GS Inc. of expenses incurred or paid by such Indemnatee in the successful defense of any action, suit or proceeding) in connection with a Registration Statement, GS Inc. will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act, and GS Inc. and such Indemnatee will be governed by the final adjudication of such question.

2. Losses. As used in this Agreement, the term "Losses" shall include, without limitation, damages, losses, claims, judgments, liabilities, fines, penalties, excise taxes, settlements, and costs, attorneys' fees, accountants' fees, and disbursements and costs of attachment or similar bonds, investigation costs, defense preparation costs, costs of preparing for and presenting evidence or testimony, and any expenses of establishing a right to indemnification under this Agreement. The term "Losses" shall not include taxes except to the extent taxes are imposed in respect of payments otherwise made pursuant to this Agreement, in which case such Indemnatee's Losses shall include an amount not greater than the net taxes payable (taking into account any deductions, credits or other tax benefits available to such Indemnatee as a result of the Losses in respect of which such payment is made and the payment of the taxes imposed in respect of such payment).

3. Enforcement. Subject to the provisions of the second paragraph of Section 1 hereof, if a claim or request by an Indemnatee under this Agreement is not paid by GS Inc. or on its behalf, within thirty (30) days after a written claim or request has been received by GS Inc. and, if applicable, the written undertaking in Section 5 hereof has been received by GS Inc., such Indemnatee may at any time thereafter commence an arbitration proceeding in accordance with Section 9 hereof against GS Inc. to recover the unpaid amount of the claim or request and, if successful in whole or in part, such Indemnatee shall be entitled to be paid also the expenses of prosecuting such proceeding.

4. Partial Indemnification; Contribution. If an Indemnatee is entitled under any provision of this Agreement to indemnification by GS Inc. for some or a portion of any Losses, but not for the total amount thereof, GS Inc. shall nevertheless indemnify such Indemnatee for the portion of such Losses to which such Indemnatee is entitled. If the indemnification provided for in this Agreement is insufficient or unavailable for any reason, GS Inc. shall contribute to relevant Losses to the maximum extent permitted by law.

5. Expenses. Expenses incurred by an Indemnatee in connection with any proceeding shall be paid by GS Inc. upon request of such Indemnatee that GS Inc. pay such expenses, but only upon receipt by GS Inc. of (i) a written undertaking by or on behalf of such Indemnatee to reimburse GS Inc. for expenses if and to the extent that it is ultimately determined that such indemnification is not permitted by the Securities Act (and that contribution is unavailable with respect to such payments) and (ii) satisfactory evidence of the amount of such expenses.

6. Notice of Claim. Each Indemnatee shall promptly notify GS Inc. in writing of any claim against such Indemnatee for which indemnification will or could be sought under this Agreement. In addition, each Indemnatee shall give GS Inc. such information and cooperation as it may reasonably require and as shall be within such Indemnatee's power and at such times and places as are not unduly burdensome for such Indemnatee.

7. Defense of Claim. With respect to any proceeding as to which an Indemnatee notifies GS Inc. of the commencement thereof:

(a) GS Inc. will be entitled to participate at its own expense;

(b) subject to Section 7(c) hereof, GS Inc. shall not, in connection with any proceeding or related proceedings in the same jurisdiction against any Indemnatee and any other Indemnitees, be liable to such Indemnatee and such other Indemnitees for the fees and expenses of

more than one separate law firm (in addition to a single firm of local counsel);

(c) except as otherwise provided below, to the extent that it may wish, GS Inc. will be entitled to assume the defense thereof, with counsel reasonably satisfactory to such Indemnatee, which in GS Inc.'s sole discretion may be regular counsel to GS Inc. and may be counsel to other Indemnitees. The Indemnitees also shall have the right to employ one separate counsel for such Indemnitees in such action, suit or proceeding if such Indemnitees reasonably conclude that if they did not there would be a conflict of interest between GS Inc. and such Indemnitees, and under such circumstances the fees and expenses of such counsel shall be paid by GS Inc.; and

(d) GS Inc. shall not be liable to indemnify an Indemnatee under this Agreement for any amounts paid in settlement of any action, suit or proceeding effected without GS Inc.'s written consent. GS Inc. shall not settle any action, suit or proceeding in any manner which would impose any cost or limitation on an Indemnatee or would admit fault by an Indemnatee without such Indemnatee's written consent. No Indemnatee shall settle any action, suit, or proceeding without the prior written consent of GS Inc. Neither GS Inc. nor an Indemnatee will unreasonably withhold or delay its consent to any proposed settlement.

8. Non-exclusivity. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Agreement shall not be exclusive of or affected in any way by any other right which an Indemnatee may have or hereafter may acquire under any statute, certificate of incorporation, by-laws, agreement, arrangement, resolution or instrument providing indemnification or expense payment, except that any payments otherwise required to be made by GS Inc. hereunder shall be offset by any and all amounts received by an Indemnatee from any other indemnitor or under one or more liability insurance policies maintained by an indemnitor or otherwise and shall not be duplicative of any other payments received by an Indemnatee from GS Inc. in respect of the matter giving rise to the indemnity hereunder. When an Indemnatee is entitled to indemnification, expense advancement or reimbursement under this Instrument and any other agreement, arrangement, resolution or instrument of GS Inc., the Indemnatee may choose to pursue its rights under one or more, but less than all, of such applicable agreements, arrangements, resolutions or instruments, in which case such Indemnatee need only comply with the standards and procedures of the agreements, arrangements, resolutions or instruments under which it chooses to pursue its rights.

9. Arbitration.

(a) Subject to the provisions of the second paragraph of Section 1 and Section 9(b) hereof, any dispute, controversy or claim between an Indemnatee and GS Inc. arising out of or relating to or concerning the provisions of this Agreement shall be finally settled by arbitration in New York City before, and in accordance with the rules then applying of, the New York Stock Exchange, Inc. ("NYSE") or, if the NYSE declines to arbitrate the matter or the matter is not otherwise arbitrable before it, the American Arbitration Association (the "AAA") in accordance with the commercial arbitration rules of the AAA.

(b) Notwithstanding the provision of Section 9(a) and in addition to its right to submit any dispute or controversy to arbitration, GS Inc. may bring an action or special proceeding in a state or federal court of competent jurisdiction sitting in the State of Delaware, whether or not an arbitration proceeding has theretofore been or is ever initiated, for the purpose of temporarily, preliminarily or permanently enforcing the provisions of this Agreement or to enforce an arbitration award, and, for the purposes of this Section 9(b), each Indemnatee (i) expressly consents to the application of Section 9(c) hereof to any such action or proceeding, (ii) agrees that proof shall not be required that monetary damages for breach of the provisions of this Agreement would be difficult to calculate and that remedies at law would be inadequate and (iii) irrevocably appoints each General Counsel of GS Inc., c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801 as such Indemnatee's agent for service of process in connection with any such action or proceeding, who shall promptly advise such Indemnatee of any such service of process.

(c) (i) EACH INDEMNITEE HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED IN THE STATE OF DELAWARE OVER ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO OR CONCERNING THIS AGREEMENT THAT IS NOT OTHERWISE ARBITRATED ACCORDING TO THE PROVISIONS OF SECTION 9(a) HEREOF. This includes any suit, action or proceeding to compel arbitration or to enforce an arbitration award. The parties acknowledge that the forum designated by this Section 9(c) has a reasonable relation to this Agreement, and to the parties' relationship with one another. Notwithstanding the foregoing, nothing herein shall preclude GS Inc. from bringing any action or proceeding in any other court for the purpose of enforcing the provisions of this Section 9.

(ii) The agreement of an Indemnatee as to forum is independent of the law that may be applied in the action, and each Indemnatee agrees to this forum even if the forum may under applicable law choose to apply non-forum law. Each Indemnatee hereby waives, to the fullest extent permitted by applicable law, any objection which such Indemnatee now or hereafter may have to personal jurisdiction or to the laying of venue of any such suit, action or proceeding in any court referred to in Section 9(c)(i). The parties undertake not to commence any action arising out of or relating to this Agreement in any forum other than the forum described in this Section 9(c). The parties agree that, to the fullest extent permitted by applicable law, a final and non-appealable judgment in any such suit, action or proceeding in any such court shall be conclusive and binding upon the parties.

10. Binding Effect. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, assigns (including any direct or indirect successor by merger or consolidation), heirs, executors and administrators.

11. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF DELAWARE, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS.

12. Amendment. Each party understands that from time to time certain other persons may become Indemnitees and certain Indemnitees will cease to be Indemnitees to the extent provided in this Section 12. Accordingly, this Agreement may be amended by action of GS Inc. from time to time to add additional Indemnitees, without the approval of any other person other than such proposed additional Indemnitees, each of whom shall execute a counterpart of the signature page of this Agreement. This Agreement may also be amended by action of GS Inc. and without the approval of any other person to remove an Indemnatee; provided that such amendment shall not be effective unless GS Inc. has provided 30 days prior written notice to the Indemnatee and, in any event, such amendment shall not affect any rights of such Indemnatee to be indemnified in respect of Losses associated with the acts, omissions or status of such Indemnatee through the effective date of such termination (including the right to subsequent indemnification and expense advancement and reimbursement relating to such acts, omissions or status).

13. Waiver of Breach. The failure or delay of a party at any time to require performance by any other party of any provision of this Agreement, even if known, shall not affect the right of such party to require performance of that provision or to exercise any right, power, or remedy hereunder, and any waiver by any party of any breach of any provision of this Agreement shall not be construed as a waiver of any

continuing or succeeding breach of such provision, a waiver of the provision itself, or a waiver of any right, power, or remedy under this Agreement. No notice to or demand on any party in any case shall, of itself, entitle such party to other or further notice or demand in similar or other circumstances.

14. Severability. GS Inc. and each Indemnatee agree that the agreements and provisions contained in this Agreement are severable and divisible, that each such agreement and provision does not depend upon any other provision or agreement for its enforceability, and that each such agreement and provision set forth herein constitutes an enforceable obligation between GS Inc. and such Indemnatee. Consequently, GS Inc. and each Indemnatee hereto agrees that neither the invalidity nor the unenforceability of any provision of this Agreement shall affect the other provisions hereof, and this Agreement shall remain in full force and effect and be construed in all respects as if such invalid or unenforceable provision were omitted.

15. Notices. Any communication, demand or notice to be given hereunder will be duly given when delivered in writing by hand or first class mail to GS Inc. at its principal executive office or to an Indemnatee at its last address appearing in the business records of GS Inc. (or to such other addresses as a party may designate by written notice to GS Inc.).

16. No Assignments. No Indemnatee may assign its rights or delegate obligations under this Agreement without the prior written consent of GS Inc. Any assignment or delegation in violation of this Section 16 shall be null and void.

17. No Third Party Rights. Nothing expressed or referred to in this Agreement will be construed to give any person other than the parties to this Agreement any legal or equitable right, remedy or claim under or with respect to this Agreement or any provision of this Agreement. This Agreement and all of its provisions are for the sole and exclusive benefit of the parties to this Agreement and their successors and permitted assigns.

18. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have entered into this Agreement as of the date first written above.

THE GOLDMAN SACHS GROUP, INC.

By: /s/ Gregory K. Palm

Name: Gregory K. Palm
Title: Authorized Person

[Signatures Continued on Next Page]

INDEMNITEES:

January 21, 2000

PERSONAL AND CONFIDENTIAL

Dr. Ruth J. Simmons
Office of the President
Smith College Hall, Rm. 25
Northampton, MA 01063

Dear Ruth:

We are very pleased that you have agreed to join the Board of Directors of The Goldman Sachs Group, Inc. ("GS Inc."), and are writing to set forth the general terms of your compensation as a director. The terms of your compensation are, of course, subject to future modification by the Board.

Your term as a director will commence on January 21, 2000 and will run through the 2000 annual meeting of shareholders of GS Inc.: we propose to nominate you for a three year term running through the 2003 annual meeting. You have also been elected a member of the Audit Committee and the Compensation Committee.

As compensation for your services, you will receive:

- a grant upon your appointment on January 21, 2000 of 3,000 fully vested restricted stock units ("RSUs") under The Goldman Sachs 1999 Stock Incentive Plan (the "SIP");
- \$35,000 per year (the "Annual Retainer");
- \$15,000 per year for serving on each of the Board committees of which you are a member (the "Committee Fees");
- \$1,000 for each meeting of the Board or of a Board committee that you attend (the "Meeting Fees"); and
- an annual grant of 2000 fully vested RSUs (the "Annual RSU Grant").

Dr. Ruth Simmons
Page Two

The Annual Retainer and the Committee Fees (as well as the Annual RSU Grant) will be paid annually in arrears in the form of fully vested RSUs unless we agree otherwise. The RSUs will provide for delivery of shares of common stock on the last business day in May in the year following your retirement from the Board.

The Meeting Fees are payable in cash and will be paid to you annually in arrears.

The number of shares of RSUs you receive in respect of the Annual Retainer and the Committee Fees will be determined in the same manner as grants to employees. All RSUs will be subject to the terms and conditions of the SIP and the relevant award agreements.

We have enclosed various documents in connection with these arrangements. Please complete them and sign where indicated and return them to Bob Katz in the enclosed envelope. The remaining copies are for your records.

Very truly yours,

THE GOLDMAN SACHS GROUP, INC.

By: /s/ Henry M. Paulson, Jr.

Henry M. Paulson, Jr.
Chairman and Chief Executive Officer

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES
COMPUTATION OF PER SHARE EARNINGS

<Table>
<Caption>

	ACTUAL	PRO FORMA
	-----	-----
	FOR THE YEAR ENDED	
	NOVEMBER 1999	
	(in millions, except share	
	and per share amounts)	
	-----	-----
<S>	<C>	<C>
Earnings available to common stockholders.....	\$ 2,708	\$ 2,550
	=====	=====
Weighted-average number of common shares	475,883,756	475,378,473
Effect of dilutive securities:		
Restricted stock units.....	5,657,350	5,871,943
Stock options.....	4,262,854	2,675,639
	-----	-----
Dilutive potential common shares.....	9,920,204	8,547,582
	-----	-----
Weighted-average number of common shares and dilutive potential common shares.....	485,803,960	483,926,055
	=====	=====
BASIC EARNINGS PER SHARE.....	\$ 5.69	\$ 5.36
	=====	=====
DILUTED EARNINGS PER SHARE.....	\$ 5.57	\$ 5.27
	=====	=====

</Table>

Exhibit 12.1

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

<Table>
<Caption>

	ACTUAL					PRO FORMA
	YEAR ENDED NOVEMBER					YEAR ENDED NOVEMBER
	1999	1998	1997	1996	1995	1999
	(\$ in millions)					
<S> Net earnings.....	<C> \$ 2,708	<C> \$ 2,428	<C> \$ 2,746	<C> \$ 2,399	<C> \$ 1,348	<C> \$ 2,550
Add:						
(Benefit)/provision for taxes.....	(716)	493	268	207	20	1,700
Portion of rents representative of an interest factor.....	51	35	29	28	29	51
Interest expense on all indebtedness.....	12,018	13,958	12,986	11,160	9,841	12,025
Earnings, as adjusted.....	\$14,061	\$16,914	\$16,029	\$13,794	\$11,238	\$16,326
Fixed charges:						
Portion of rents representative of an interest factor.....	\$ 51	\$ 35	\$ 29	\$ 28	\$ 29	\$ 51
Interest expense on all indebtedness.....	12,018	13,958	12,986	11,160	9,841	12,025
Fixed charges.....	\$12,069	\$13,993	\$13,015	\$11,188	\$ 9,870	\$12,076
Ratio of earnings to fixed charges.....	1.16x	1.21x	1.23x	1.23x	1.14x	1.35x

</Table>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Goldman Sachs is a global investment banking and securities firm that provides a wide range of services worldwide to a substantial and diversified client base.

Our activities are divided into two segments:

GLOBAL CAPITAL MARKETS. This segment comprises Investment Banking, which includes Financial Advisory and Underwriting, and Trading and Principal Investments, which includes Fixed Income, Currency and Commodities (FICC), Equities and Principal Investments (Principal Investments primarily represents net revenues from our merchant banking investments); and

ASSET MANAGEMENT AND SECURITIES SERVICES. This segment comprises Asset Management, Securities Services and Commissions.

All references to 1999, 1998 and 1997 refer to our fiscal year ended, or the date, as the context requires, November 26, 1999, November 27, 1998 and November 28, 1997, respectively.

When we use the terms "Goldman Sachs," "we" and "our," we mean, prior to our conversion to corporate form, The Goldman Sachs Group, L.P., a Delaware limited partnership, and its consolidated subsidiaries and, after our conversion to corporate form, The Goldman Sachs Group, Inc., a Delaware corporation, and its consolidated subsidiaries.

In this discussion, we have included statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. These forward-looking statements are not historical facts but instead represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and beyond our control. These statements relate to our future plans and objectives, among other things. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results may differ, possibly materially, from the results indicated in these forward-looking statements. The factors noted below under "-- Results of Operations -- Certain Factors That May Affect Our Results of Operations," among others, could cause actual results to differ from those in our forward-looking statements.

INITIAL PUBLIC OFFERING

On May 7, 1999, we converted from a partnership to a corporation and completed our initial public offering. In that offering, we sold 51,000,000 shares of common stock.

BUSINESS ENVIRONMENT

We operated in a particularly favorable business environment in 1999, as global equity and many fixed income markets recovered from the turbulent conditions of the second half of 1998, though government bond markets in the United States and Europe experienced a significant rise in yields. The improved business environment provided a positive climate for our investment banking activities, as well as for our customer-driven and proprietary trading activities. Economic and market conditions were also favorable for wealth creation, which contributed positively to growth in our asset management businesses.

The macroeconomic environment in 1999 was particularly healthy in the United States, where strong economic growth and low unemployment continued to be combined with low levels of inflation. Major U.S. equity markets reached record levels during the year as corporate earnings growth was strong and activity in the new issues and mergers and acquisitions arenas increased markedly. The pace of economic growth and the restoration of more normal conditions in financial markets prompted the Federal Reserve to raise interest rates three times during the second half of 1999, returning interest rates to levels in existence before the 1998 financial market crisis.

European equity markets posted solid gains in 1999 as economic growth improved and cross-border business combinations increased to record levels

following the introduction of the European Economic and Monetary Union (EMU)

in January. The new European Central Bank held short-term interest rates at low levels for most of the year, despite a weakening in the euro against the U.S. dollar. In Asia, the economic recovery in Japan resulted in an appreciation of the yen versus the U.S. dollar and led Japanese equity markets higher. Financial markets throughout Asia benefited from renewed economic growth in the region.

RESULTS OF OPERATIONS

The composition of our net revenues has varied over time as financial markets and the scope of our operations have changed. The composition of net revenues can also vary over the shorter term due to fluctuations in U.S. and global economic and market conditions. As a result, period-to-period comparisons may not be meaningful. In addition, Goldman Sachs' conversion to corporate form has affected, and will continue to affect, our operating results in several significant ways:

1. **FORMER PARTNER COMPENSATION.** As a corporation, payments for services rendered by managing directors who, prior to our conversion to corporate form, were profit participating limited partners are included in compensation and benefits expense. In prior years, these payments were accounted for as distributions of partners' capital rather than as compensation and benefits expense. As a result, our 1998 and 1997 compensation and benefits expense understate the cost of doing business in corporate form.

2. **ONGOING STOCK-BASED COMPENSATION.** As part of compensation, restricted stock units and other forms of stock-based compensation can be awarded to employees. Of the total restricted stock units that were granted at the end of 1999, approximately 50% require future service as a condition to the delivery of the underlying shares of common stock. In accordance with Accounting Principles Board Opinion No. 25, the restricted stock units with future service requirements will generally be recorded as compensation expense over the four-year service period following the date of grant as follows: 52%, 28%, 14% and 6% in years one, two, three and four, respectively.

3. **AMORTIZATION OF EMPLOYEE INITIAL PUBLIC OFFERING AWARDS.** We have recorded, and will continue to record over the five-year vesting period following the date of grant, noncash expense related to the amortization of certain restricted stock units awarded to employees in connection with our initial public offering. These restricted stock units had a value of \$1.76 billion on the date of grant, approximately 26% of which will be amortized as a noncash expense, after giving effect to forfeitures, in the 12 months following the date of grant. The remaining 74% of the value of these restricted stock units will be amortized over the next four years as follows: 26%, 26%, 15% and 7% in years two, three, four and five, respectively.

4. **INCOME TAXES.** As a corporation, our operating results have become, and will continue to be, subject to U.S. federal, state and local corporate income taxes and, therefore, to a higher tax rate than we incurred as a partnership. Our effective tax rate for the period from May 7, 1999 to the end of the fiscal year, excluding the effect of nonrecurring items, was 40%.

For a further discussion of the effect of these items on our actual and pro forma operating results, see "-- Operating Expenses" and "-- Pro Forma Operating Results" below and the notes to the consolidated financial statements.

CERTAIN FACTORS THAT MAY AFFECT OUR RESULTS OF OPERATIONS

As an investment banking and securities firm, our businesses are materially affected by conditions in the financial markets and economic conditions generally, both in the United States and elsewhere around the world. The financial markets in the United States and elsewhere have achieved record or near record levels, and the favorable business environment in which we have operated will not continue indefinitely. In the event of a change in market conditions, our businesses could be adversely affected in many ways, including the following:

- We generally maintain large trading and investment positions, including merchant banking investments, in the fixed income, currency, commodity and equity markets, and in real estate and other assets, and we may incur

significant losses if market fluctuations or volatility adversely affect the value of these positions.

- Unfavorable financial or economic conditions would likely reduce the number and size of transactions in which we provide underwriting, mergers and acquisitions advisory, and other services, and could thereby adversely affect our results of operations.
- A market downturn would likely lead to a decline in the volume of transactions that we execute for our cus-

tomers and, therefore, to a decline in the revenues we receive from commissions and spreads. A market downturn could also result in a decline in the fees we earn for managing assets. Moreover, even in the absence of a market downturn, below-market performance by our mutual funds could result in a decline in assets under management and therefore in the fees we receive.

- Concentration of risk in the past has increased the losses that we have incurred in our arbitrage, market-making, block trading, underwriting, and lending businesses and may continue to do so in the future. In particular, in the case of block trading, we expect the trend toward an increase in the number and size of trades to continue.
- A prolonged market downturn could impair our operating results for a long period of time. In such a downturn, our revenues may decline and, if we were unable to reduce expenses at the same pace, our profit margins would erode.

If any of the variety of instruments and strategies we utilize to hedge or otherwise manage our exposure to various types of risk are not effective, we may incur losses. Our hedging strategies and other risk management techniques may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated.

Liquidity, i.e., ready access to funds, is essential to our businesses. Our liquidity could be impaired by an inability to access the long-term or short-term debt capital markets, an inability to access the repurchase and securities lending markets, or an impairment of our ability to sell assets. Our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time. In addition, a reduction in our credit ratings could adversely affect our liquidity and competitive position and increase our borrowing costs.

We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. The amount and duration of our credit exposures have been increasing over the past several years. In addition, we have also experienced, due to competitive factors, pressure to extend credit against less liquid collateral and price more aggressively the credit risks that we take. Although we regularly review credit exposures to specific clients and counterparties and to specific industries, countries and regions that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee. In addition, concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect Goldman Sachs.

OVERVIEW

The following table sets forth a summary of our financial results:

FINANCIAL OVERVIEW

<Table>

<Caption>

	YEAR ENDED NOVEMBER		
	1999(5)	1998	1997
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		
<S>	<C>	<C>	<C>
Net revenues.....	\$13,345	\$8,520	\$7,447
Pre-tax earnings(1)(2)(3).....	1,992	2,921	3,014
Net earnings(2).....	2,708	2,428	2,746
Diluted earnings per share.....	5.57	--	--
Pro forma pre-tax earnings(4).....	4,250	--	--
Pro forma net earnings(4).....	2,550	--	--
Pro forma diluted earnings per share(4).....	5.27	--	--

</Table>

-
- (1) Management believes that for periods prior to our conversion to corporate form, the best measure by which to assess Goldman Sachs' profitability is pre-tax earnings because, as a partnership, we generally were not subject to U.S. federal or state income taxes.
 - (2) Our pre-tax earnings and net earnings in 1999 were reduced by nonrecurring items recognized in connection with our conversion to corporate form. For a further discussion of these nonrecurring items, see "-- Operating Expenses" and "-- Provision for Taxes" below.
 - (3) Our pre-tax earnings in 1999 reflect payments for services rendered by managing directors who, prior to our conversion to corporate form, were profit participating limited partners. In prior years, these payments were accounted for as distributions of partners' capital rather than as compensation and benefits expense. As a result, these payments are not reflected in our operating expenses in 1998 or 1997 and, therefore, the pre-tax earnings in these years are not comparable with 1999.
 - (4) Pro forma disclosures reflect the results of Goldman Sachs as if our conversion to corporate form and related transactions had taken place at the beginning of 1999. See "-- Pro Forma Operating Results" below for a discussion of the pro forma adjustments.
 - (5) Includes 23 weeks as a partnership and 29 weeks as a corporation.

1999 VERSUS 1998. Net revenues were \$13.35 billion, an increase of 57% compared with 1998. Global Capital Markets experienced significant net revenue growth in both Trading and Principal Investments, as substantially all components of the business recovered from the global market turmoil of the second half of 1998, and Investment Banking, where we benefited from unprecedented levels of activity in mergers and acquisitions and equity new issues worldwide. Net revenues in Asset Management and Securities Services increased 16% compared with 1998, primarily due to growth in assets under management, increased equities commissions and higher average customer balances in securities lending and margin lending.

Our net earnings of \$2.71 billion, or \$5.57 per diluted share, in 1999 were reduced by \$672 million, or \$1.38 per diluted share, due to nonrecurring items recognized in connection with our conversion to corporate form. For a further discussion of the nonrecurring charges and benefits affecting our operating results in 1999, see "-- Operating Expenses" and "-- Provision for Taxes" below.

1998 VERSUS 1997. Our net revenues were \$8.52 billion in 1998, an increase of 14% compared with 1997. Net revenue growth was strong in Asset Management and Securities Services, which increased 43%, primarily due to increased equities commissions, higher customer balances in securities lending and margin lending and growth in assets under management. Net revenues in Global Capital Markets increased 4% as strong net revenue growth in Investment Banking, resulting from higher levels of mergers and acquisitions activity, was substantially offset by lower net revenues in Trading and Principal Investments, primarily due to a 30%

reduction in FICC net revenues.

Pre-tax earnings in 1998 were \$2.92 billion, a 3% decrease compared with \$3.01 billion in the prior year. This decrease was due to losses incurred in our Trading and Principal Investments business during the global market turmoil of the second half of 1998.

The following table sets forth the net revenues, operating expenses and pre-tax earnings of our segments:

RESULTS BY SEGMENT

<Table>
<Caption>

	YEAR ENDED NOVEMBER		
	1999	1998	1997
	(IN MILLIONS)		
<S>	<C>	<C>	<C>
Global Capital Markets			
Net revenues.....	\$10,132	\$5,747	\$5,513
Operating expenses.....	6,232	3,978	3,228
Pre-tax earnings.....	\$ 3,900	\$1,769	\$2,285
Asset Management and Securities Services			
Net revenues.....	\$ 3,213	\$2,773	\$1,934
Operating expenses.....	2,396	1,621	1,205
Pre-tax earnings.....	\$ 817	\$1,152	\$ 729
Total			
Net revenues.....	\$13,345	\$8,520	\$7,447
Operating expenses.....	11,353(1)	5,599	4,433
Pre-tax earnings.....	\$ 1,992	\$2,921	\$3,014

</Table>

(1) Includes the following expenses that have not been allocated to our segments: (i) nonrecurring employee initial public offering awards of \$2.26 billion, (ii) the ongoing amortization of employee initial public offering awards of \$268 million and (iii) a charitable contribution to The Goldman Sachs Foundation of \$200 million made at the time of our initial public offering.

Net revenues in our segments include allocations of interest income and expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, the underlying positions. Net interest is allocated to the Trading and Principal Investments component of Global Capital Markets and the Securities Services component of Asset Management and Securities Services. See Note 13 to the consolidated financial statements for further information regarding our segments.

The pre-tax earnings of our segments in 1999 reflect payments for services rendered by managing directors who, prior to our conversion to corporate form, were profit participating limited partners. In prior years, these payments were accounted for as distributions of partners' capital rather than as compensation and benefits expense. As a result, these payments are not reflected in the operating expenses of our segments in 1998 and 1997 and, therefore, the pre-tax earnings of our segments in these years are not comparable with 1999.

GLOBAL CAPITAL MARKETS

The components of the Global Capital Markets segment are set forth below:

INVESTMENT BANKING. Goldman Sachs provides a broad range of investment banking services to a diverse group of corporations, financial institutions, governments and individuals. Our investment banking activities are divided into two categories:

- **FINANCIAL ADVISORY.** Financial Advisory includes advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, restructurings and spin-offs; and
- **UNDERWRITING.** Underwriting includes public offerings and private placements of equity and debt securities.

TRADING AND PRINCIPAL INVESTMENTS. Our Trading and Principal Investments business facilitates transactions with a diverse group of corporations, financial institutions, governments and individuals and takes proprietary positions through market making in and trading of fixed income and equity

products, currencies, commodities, and swaps and other derivatives. Trading and Principal Investments is divided into three categories:

- FICC. We make markets in and trade fixed income products, currencies and commodities, structure and enter into a wide variety of derivative transactions, and engage in proprietary trading and arbitrage activities;

- EQUITIES. We make markets in and trade equities and equity-related products, structure and enter into equity derivative transactions, and engage in proprietary trading and equity arbitrage; and
- PRINCIPAL INVESTMENTS. Principal Investments primarily represents net revenues from our merchant banking investments.

Net revenues from Principal Investments do not include management fees and the increased share of the income and gains from our merchant banking funds to which Goldman Sachs is entitled when the return on investments exceeds certain threshold returns to fund investors. These management fees and increased shares of income and gains are included in the net revenues of Asset Management and Securities Services.

Substantially all of our inventory is marked-to-market daily and, therefore, its value and our net revenues are subject to fluctuations based on market movements. In addition, net revenues derived from our principal investments in privately held concerns and in real estate may fluctuate significantly depending on the revaluation or sale of these investments in any given period.

The following table sets forth the net revenues of our Global Capital Markets segment:

GLOBAL CAPITAL MARKETS NET REVENUES

<Table>
<Caption>

	YEAR ENDED NOVEMBER		
	1999	1998	1997
	(IN MILLIONS)		
<S>	<C>	<C>	<C>
Financial Advisory.....	\$ 2,270	\$1,774	\$1,184
Underwriting.....	2,089	1,594	1,403
Investment Banking.....	4,359	3,368	2,587
FICC.....	2,862	1,438	2,055
Equities.....	1,961	795	573
Principal Investments.....	950	146	298
Trading and Principal Investments.....	5,773	2,379	2,926
Total.....	<u>\$10,132</u>	<u>\$5,747</u>	<u>\$5,513</u>

</Table>

1999 VERSUS 1998. Net revenues in Global Capital Markets were \$10.13 billion, an increase of 76% compared with 1998, reflecting substantial growth in all major components of the business. Pre-tax earnings were \$3.90 billion in 1999 compared with \$1.77 billion in 1998. Operating expenses increased 57%, principally due to the inclusion of compensation expense related to services rendered by managing directors who, prior to our conversion to corporate form, were profit participating limited partners, higher levels of incentive compensation commensurate with growth in net revenues, and increased costs associated with global expansion and higher levels of business activity.

INVESTMENT BANKING. Investment Banking generated net revenues of \$4.36 billion for the full year, a 29% increase over 1998. Net revenue growth was strong in both Financial Advisory and Underwriting as our global presence and strong client base enabled us to capitalize on record levels of global mergers and acquisitions and new issue activity. Net revenue growth was driven by strong performances across all regions, particularly in the communications, media and entertainment, high technology, energy and power, and healthcare sectors.

Financial Advisory revenues increased 28% compared with 1998. Goldman Sachs maintained its leading position in the advisory business and benefited from an increase in mergers and acquisitions activity across many industry sectors, in both Europe and the United States. Worldwide mergers and acquisitions activity rose to record levels with transactions valued at over \$3 trillion announced during the period from January 1, 1999 to November 30, 1999.(1) Underwriting

revenues increased 31% compared with 1998. Equity underwriting revenues benefited from favorable global economic conditions, which led major equity market indices higher and new issue activity to record levels. Our debt underwriting business

(1) Source: Thomson Financial Securities Data, formerly known as Securities Data Company.

generally benefited from a more stable economic environment in 1999.

TRADING AND PRINCIPAL INVESTMENTS. Net revenues in Trading and Principal Investments were \$5.77 billion compared with \$2.38 billion in 1998, as substantially all components of the business recovered from the global market turmoil of the second half of 1998.

Net revenues in FICC nearly doubled compared with 1998, primarily due to growth in our credit-sensitive businesses and commodities that was partially offset by lower net revenues in currencies. The credit-sensitive businesses (which include high-yield debt, bank loans and investment-grade corporate debt) benefited from improved economic conditions as credit spreads and market liquidity returned to more normal levels following the dislocation experienced during the second half of 1998. Net revenue growth in commodities benefited from increased customer activity, while reduced activity and volatility in the global foreign exchange markets contributed to a decline in net revenues from currencies.

The significant net revenue growth in Equities was primarily due to strength in arbitrage and convertibles and increased customer flow in derivatives and global shares. Net revenue growth in arbitrage and convertibles was driven by improved market conditions following the turmoil in global markets during the second half of 1998 and by increased mergers and acquisitions and other corporate activity. Equity derivatives net revenues were substantially higher primarily as a result of increased customer activity worldwide. Increased transaction volumes in global equity markets contributed to the net revenue growth in our global shares businesses.

Net revenues from Principal Investments increased dramatically due to mark-to-market gains on certain merchant banking investments, particularly in the high technology and telecommunications sectors.

1998 VERSUS 1997. Net revenues in Global Capital Markets were \$5.75 billion, an increase of 4% compared with 1997, as strong net revenue growth in Investment Banking was substantially offset by a reduction in net revenues in Trading and Principal Investments. Pre-tax earnings were \$1.77 billion in 1998, a 23% decrease compared with 1997, as many of our businesses were adversely affected by market conditions from mid-August 1998 to mid-October 1998. Operating expenses increased 23%, primarily due to increased compensation related to growth in employment levels and additional expenses associated with temporary staff and consultants.

INVESTMENT BANKING. Investment Banking achieved net revenues of \$3.37 billion in 1998, an increase of 30% compared with 1997. Net revenue growth was strong in Financial Advisory and, to a lesser extent, in Underwriting as we capitalized on higher levels of activity in many industry groups, including communications, media and entertainment, financial institutions, general industrials and retail. Net revenue growth in Investment Banking was strong in all major regions in 1998 compared with the prior year.

Financial Advisory revenues increased 50% compared with 1997, due to increased revenues from mergers and acquisitions advisory assignments, which principally resulted from consolidation within various industries and generally favorable U.S. and European stock markets. Despite a substantial decrease in the number of industry-wide underwriting transactions in August and September of 1998, Underwriting revenues increased 14% for the year, primarily due to increased revenues from equity and high-yield corporate debt underwriting activities.

TRADING AND PRINCIPAL INVESTMENTS. Net revenues in Trading and Principal Investments were \$2.38 billion in 1998, a decrease of 19% compared with 1997. This decrease in net revenues was concentrated in the second half of the year, when the Russian economic crisis, the turmoil in Asian and Latin American emerging markets, and the resulting move to higher credit quality fixed income securities by many investors led to substantial declines in global financial markets. For the full year, significant net revenue reductions in FICC and Principal Investments were partially offset by increased net revenues in Equities.

Net revenues in FICC decreased 30% compared with 1997 due to an extraordinarily difficult environment in the second half of 1998. The net revenue reduction in FICC was concentrated in fixed income arbitrage and high-yield debt trading, which experienced losses in 1998 due to a reduction in

liquidity and widening credit spreads in the second half of the year. An increase in net revenues from market making and trading in fixed income derivatives, currencies and commodities partially offset this decline.

Net revenues in Equities increased 39% compared with 1997 as higher net revenues in derivatives and European shares were partially offset by losses in equity arbitrage. The derivatives business generated significantly higher

net revenues due, in part, to strong customer demand for over-the-counter products, particularly in Europe. Net revenues from European shares increased as Goldman Sachs benefited from generally favorable equity markets and increased customer demand. The equity arbitrage losses were due principally to the underperformance of various equity positions versus their benchmark hedges, to widening of spreads in a variety of relative value trades, and to lower prices for event-oriented securities resulting from a reduction in announced mergers and acquisitions and other corporate activity in the second half of 1998.

Net revenues from Principal Investments declined 51% compared with 1997 as investments in certain publicly held companies decreased in value during the second half of 1998. This decrease was partially offset by an increase in gains on the disposition of investments compared with the prior year.

ASSET MANAGEMENT AND SECURITIES SERVICES

The components of the Asset Management and Securities Services segment are set forth below:

- ASSET MANAGEMENT. Asset Management generates management fees by providing investment advisory services to a diverse client base of institutions and individuals;
- SECURITIES SERVICES. Securities Services includes prime brokerage, financing services and securities lending, and our matched book businesses, all of which generate revenue primarily in the form of fees or interest rate spreads; and
- COMMISSIONS. Commissions includes agency transactions for clients on major stock and futures exchanges and revenues from the increased share of the income and gains derived from our merchant banking funds.

The following table sets forth the net revenues of our Asset Management and Securities Services segment:

ASSET MANAGEMENT AND SECURITIES SERVICES NET REVENUES

<Table>
<Caption>

	YEAR ENDED NOVEMBER		
	1999	1998	1997
	(IN MILLIONS)		
	<C>	<C>	<C>
Asset Management.....	\$ 919	\$ 675	\$ 458
Securities Services.....	772	730	487
Commissions.....	1,522	1,368	989
Total.....	<u>\$3,213</u>	<u>\$2,773</u>	<u>\$1,934</u>

</Table>

Our assets under supervision consist of assets under management and other client assets. Assets under management typically generate fees based on a percentage of their value and include our mutual funds, separate accounts managed for institutional and individual investors, our merchant banking funds and other alternative investment funds. Other client assets consist of assets in brokerage accounts of primarily high-net-worth individuals, on which we earn commissions.

The following table sets forth our assets under supervision:

ASSETS UNDER SUPERVISION

<Table>
<Caption>

	AS OF NOVEMBER		
	1999	1998	1997
	(IN MILLIONS)		
	<C>	<C>	<C>

Assets under management.....	\$258,045	\$194,821	\$135,929
Other client assets.....	227,424	142,018	102,033
	-----	-----	-----
Total.....	\$485,469	\$336,839	\$237,962
	=====	=====	=====

</Table>

1999 VERSUS 1998. Net revenues in Asset Management and Securities Services were \$3.21 billion, an increase of 16% compared with 1998. All major components of the business contributed to the net revenue growth in 1999. Pre-tax earnings in Asset Management and Securities Services were \$817 million in 1999 compared with

\$1.15 billion in 1998. Operating expenses increased, principally due to the inclusion of compensation expense related to services rendered by managing directors who, prior to our conversion to corporate form, were profit participating limited partners and increased costs associated with the continuing expansion of the business.

Asset Management revenues increased 36%, primarily reflecting a 32% increase in average assets under management as well as favorable changes in the composition of assets managed. In 1999, approximately 55% of the increase in assets under management was attributable to net asset inflows, with the remaining 45% reflecting market appreciation. Securities Services net revenues increased 6%, due to higher average customer balances in securities lending and margin lending, partially offset by reduced spreads in our fixed income matched book. Commissions rose by 11% as fees earned on higher transaction volumes in global equity markets were partially offset by a reduction in our increased share of gains from our merchant banking funds.

1998 VERSUS 1997. Net revenues in Asset Management and Securities Services were \$2.77 billion in 1998, an increase of 43% compared with 1997. All major components of the segment exhibited strong net revenue growth. Pre-tax earnings were \$1.15 billion in 1998, an increase of 58% compared with 1997. Operating expenses increased 35% as higher employment levels led to increased compensation and benefits expenses.

Asset Management revenues increased 47% during this period, reflecting a 41% increase in average assets under management compared with 1997. In 1998, approximately 80% of the increase in assets under management was attributable to net asset inflows, with the remaining 20% reflecting market appreciation. Net revenues from Securities Services increased 50%, primarily due to growth in our securities borrowing and lending businesses. Commissions increased 38% as generally strong and highly volatile equity markets resulted in increased transaction volumes in listed equity securities. Revenues from the increased share of income and gains from our merchant banking funds also contributed significantly to the increase in Commissions.

OPERATING EXPENSES

In recent years, our operating expenses have increased as a result of numerous factors, including higher levels of employment and compensation, expansion of our asset management business, increased worldwide activities, greater levels of business complexity, and additional systems and consulting costs relating to various technology initiatives.

Our operating expenses in 1999, excluding the nonrecurring charges associated with our initial public offering, increased significantly in part because, as a corporation, payments for services rendered by managing directors who, prior to our conversion to corporate form, were profit participating limited partners are included in compensation and benefits expense. In prior years, these payments were accounted for as distributions of partners' capital rather than as compensation and benefits expense. As a result, our 1998 and 1997 compensation and benefits expense understate the cost of doing business in corporate form.

The following table sets forth our operating expenses and number of employees:

OPERATING EXPENSES AND EMPLOYEES

<Table>
<Caption>

	YEAR ENDED NOVEMBER		
	1999	1998	1997
	(\$ IN MILLIONS)		
<S>	<C>	<C>	<C>
Compensation and benefits, excluding employee initial public offering awards.....	\$ 6,459	\$3,838	\$3,097
Nonrecurring employee initial public offering awards(1).....	2,257	--	--
Amortization of employee initial public offering awards.....	268	--	--
Brokerage, clearing and exchange fees.....	446	424	357
Market development.....	364	287	206
Communications and technology.....	306	265	208
Depreciation and amortization.....	337	242	178
Occupancy.....	314	207	168
Professional services and other.....	402	336	219
Charitable contribution.....	200	--	--
Total operating expenses.....	<u>\$11,353</u>	<u>\$5,599</u>	<u>\$4,433</u>
Employees at year end(2).....	15,361	13,033	10,622

(1) Includes expense of \$666 million related to the initial irrevocable contribution of shares of common stock to a defined contribution plan.

(2) Excludes employees of Goldman Sachs' property management subsidiaries. Substantially all of the costs of these employees are reimbursed to Goldman Sachs by the real estate investment funds to which these subsidiaries provide property management services.

1999 VERSUS 1998. Operating expenses were \$11.35 billion in 1999, a substantial increase over 1998, primarily due to nonrecurring charges associated with Goldman Sachs' conversion to corporate form and related transactions, the inclusion of compensation expense related to services rendered by managing directors who were profit participating limited partners, higher levels of compensation commensurate with higher net revenues and amortization of employee initial public offering awards. The nonrecurring charges included \$2.26 billion for employee initial public offering awards and \$200 million for the charitable contribution to The Goldman Sachs Foundation made at the time of our initial public offering.

Compensation and benefits expense was \$6.46 billion, an increase of 68% compared with 1998. The ratio of compensation and benefits to net revenues was 48% in 1999. Employment levels increased 18% during the year, reflecting growth in our core businesses. Expenses associated with our temporary staff and consultants were \$430 million in 1999, an increase of 30% compared with 1998, reflecting increased global expansion and consulting costs associated with technology initiatives, including preparations for the Year 2000.

Brokerage, clearing and exchange fees increased 5%, primarily due to higher transaction volumes in equity derivatives, U.S. and European equities, and commodities. Market development expenses increased 27%, principally due to higher levels of business activity and increased spending on advertising. Communications and technology expenses increased 15%, reflecting higher telecommunications and market data costs associated with growth in employment levels and additional spending on technology initiatives, including preparations for the Year 2000. Depreciation and amortization increased 39%, due to additional capital expenditures on leasehold improvements and technology-related and telecommunications

equipment in support of higher levels of business activity. Occupancy expenses increased 52%, reflecting additional office space needed to accommodate growth in employment levels. Professional services and other expenses increased 20% due to Goldman Sachs' increased business activity.

1998 VERSUS 1997. Operating expenses were \$5.60 billion in 1998, an increase of 26% over 1997, primarily due to increased compensation and benefits expense.

Compensation and benefits increased as a percentage of net revenues to 45% from 42% in 1997, principally as a result of increases in employment levels and in expenses associated with temporary staff and consultants. Employment levels increased 23% during the year, with particularly strong growth in asset management. Expenses associated with our temporary staff and consultants were \$330 million in 1998, an increase of 85% compared with 1997, reflecting greater business activity, Goldman Sachs' global expansion, and consulting costs associated with various technology initiatives, including preparations for the Year 2000 and the establishment of the EMU.

Brokerage, clearing and exchange fees increased 19%, primarily due to higher transaction volumes in European and U.S. equities and futures contracts. Market development expenses increased 39% and professional services and other expenses increased 53%, due to higher levels of business activity and Goldman Sachs' global expansion. Communications and technology expenses increased 27%, reflecting higher telecommunications and market data costs associated with higher employment levels and additional spending on technology initiatives. Depreciation and amortization increased 36%, principally due to capital expenditures on telecommunications and technology-related equipment and leasehold improvements. Occupancy expenses increased 23%, reflecting additional office space needed to accommodate higher employment levels.

PROVISION FOR TAXES

The net tax benefit of \$716 million in 1999 included nonrecurring net benefits of \$1.78 billion recognized during the second quarter. These nonrecurring net benefits included \$825 million related to our conversion to corporate form, \$880 million related to the granting of employee initial public offering awards and \$80 million related to the contribution of \$200 million to The Goldman Sachs Foundation made at the time of our initial public offering. Goldman Sachs' effective tax rate for the period from May 7, 1999 to the end of 1999, excluding the effect of these nonrecurring items, was 40%. Our effective tax rate can vary from year to year depending on, among other factors, the geographic and business mix of our earnings. See Note 11 to the consolidated financial statements for further information regarding our provision for taxes.

Prior to our conversion to corporate form, we generally were not subject to U.S. federal and state income taxes. As a partnership, we were primarily subject to local unincorporated business taxes and taxes in non-U.S. jurisdictions on certain of our operations.

PRO FORMA OPERATING RESULTS

The following table sets forth our pro forma condensed consolidated statement of earnings for the year ended November 1999:

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF EARNINGS

<Table>
<Caption>

	YEAR ENDED NOVEMBER 1999		
	ACTUAL	PRO FORMA ADJUSTMENTS	PRO FORMA
	(\$ IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		
<S>	<C>	<C>	<C>
Total revenues.....	\$25,363	\$ --	\$25,363
Interest expense.....	12,018	7 (a)	12,025
	-----	-----	-----
Revenues, net of interest expense.....	13,345	(7)	13,338
Compensation and benefits, excluding employee initial public offering awards.....	6,459	--	6,459
Nonrecurring employee initial public offering awards.....	2,257	(2,257) (b)	--
Amortization of employee initial public offering awards.....	268	192 (c)	460
Other operating expenses.....	2,369	(200) (d)	2,169
	-----	-----	-----
Total operating expenses.....	11,353	(2,265)	9,088
Pre-tax earnings.....	1,992	2,258	4,250
(Benefit)/provision for taxes.....	(716)	2,416 (e)	1,700
	-----	-----	-----
Net earnings.....	\$ 2,708	\$ (158)	\$ 2,550
	=====	=====	=====
Ratio of earnings to fixed charges.....	1.16x		1.35x
Average common shares outstanding			
Basic.....	475,883,756	(505,283) (f)	475,378,473
Diluted.....	485,803,960	(1,877,905) (g)	483,926,055
Earnings per share			
Basic.....	\$5.69		\$5.36
Diluted.....	5.57		5.27

</Table>

BASIS OF PRESENTATION. The pro forma condensed consolidated statement of earnings was prepared as if our conversion to corporate form and related transactions had taken place at the beginning of 1999.

For purposes of calculating the ratio of earnings to fixed charges, "earnings" represent pre-tax earnings plus fixed charges and "fixed charges" represent interest expense plus that portion of rent expense that, in our opinion, approximates the interest factor included in rent expense.

The pro forma adjustments are based upon available information and certain assumptions that management believes are reasonable. The pro forma condensed consolidated statement of earnings and accompanying notes should be read in conjunction with the consolidated financial statements and their notes.

The pro forma condensed consolidated statement of earnings is not necessarily indicative of the results of operations that might have occurred had our conversion to corporate form and related transactions actually taken place at the beginning of 1999, or that may be expected to occur in the future.

NOTES TO PRO FORMA ADJUSTMENTS

(a) Adjustment to reflect the additional interest expense on junior subordinated debentures issued to retired limited partners in exchange for their interests in The Goldman Sachs Group, L.P. and certain affiliates.

(b) Adjustment to eliminate the nonrecurring effect of the expense related to restricted stock units, awarded to employees in connection with our conversion to corporate form, for which future service is not required as a condition to the delivery of the underlying common stock, and the initial irrevocable contribution of shares of common stock to our defined contribution plan.

(c) Adjustment to reflect additional amortization for the full fiscal year related to certain restricted stock units awarded to employees in connection with our conversion to corporate form, which vest in equal installments in years three, four and five following the date of grant (May 7, 1999). These restricted stock units had a value of \$1.76 billion at date of grant, approximately 26% of which will be amortized as a noncash expense, after giving effect to forfeitures, in the 12 months following the date of grant. The remaining 74% of the value of these restricted stock units will be amortized over the next four years as follows: 26%, 26%, 15% and 7% in years two, three, four and five, respectively.

(d) Adjustment to eliminate the expense related to the charitable contribution to The Goldman Sachs Foundation made at the time of our initial public offering.

(e) Adjustment to reflect a pro forma provision for taxes for Goldman Sachs in corporate form at an effective tax rate of 40%.

(f) Adjustment to reflect the effect of share activity, primarily related to the acquisition of The Hull Group in September 1999, which is averaged over the period beginning on May 4, 1999 (the day trading in our common stock commenced) for actual purposes, and over the entire year for pro forma purposes.

(g) Adjustment to diluted average common shares outstanding, which includes both common stock and nonvoting common stock outstanding, to reflect the additional dilutive effect of the common stock deliverable pursuant to the restricted stock units and stock options, awarded to employees in connection with our conversion to corporate form, for which future service is required as a condition to the delivery of the underlying common stock. For purposes of calculating pro forma diluted average common shares outstanding, we used the initial public offering price of \$53 per share from the beginning of 1999 until May 4, 1999. Thereafter, we used actual daily closing prices.

GEOGRAPHIC DATA

For a summary of the net revenues, pre-tax earnings and identifiable assets of Goldman Sachs by geographic region, see Note 13 to the consolidated financial statements.

CASH FLOWS

Our cash flows are primarily related to the operating and financing activities undertaken in connection with our trading and market-making transactions.

YEAR ENDED NOVEMBER 1999. Cash and cash equivalents increased to \$3.06 billion in 1999. Cash of \$12.59 billion was used for operating activities, primarily to fund higher net trading assets due to increased levels of business activity. Cash of \$654 million was used for investing activities, primarily for the purchase of telecommunications and technology-related equipment, leasehold improvements and the acquisition of The Hull Group in September 1999. Financing activities provided \$13.46 billion of cash, reflecting an increase in long-term borrowings and net repurchase agreements, and proceeds from the issuance of common stock.

YEAR ENDED NOVEMBER 1998. Cash and cash equivalents increased to \$2.84 billion in 1998. Cash of \$62 million was provided by operating activities. Cash of \$656 million was used for investing activities, primarily for leasehold improvements and the purchase of telecommunications and technology-related equipment and certain financial instruments. Financing activities provided \$2.10

billion of cash, reflecting an increase in the net issuance of long-term and short-term borrowings, partially offset by a decrease in net repurchase agreements, distributions to partners, cash outflows related to partners' capital allocated for income taxes and potential withdrawals, and the termination of our profit participation plans.

YEAR ENDED NOVEMBER 1997. Cash and cash equivalents decreased to \$1.33 billion in 1997. Operating activities provided cash of \$70 million. Cash of \$693 million was used for investing activities, primarily for the purchase of certain financial instruments and technology-related equipment. Cash of \$258 million was used for financing activities, principally due to a decrease in net repurchase agreements, distributions to partners, and cash outflows related to partners' capital allocated for income taxes and potential withdrawals, partially offset by the net issuance of long-term and short-term borrowings.

LIQUIDITY

MANAGEMENT OVERSIGHT OF LIQUIDITY

Management believes that one of the most important issues for a company in the financial services sector is access to liquidity. Accordingly, Goldman Sachs has established a comprehensive structure to oversee its liquidity and funding policies.

The Finance Committee has responsibility for establishing and assuring compliance with our asset and liability management policies and has oversight responsibility for managing liquidity risk, the size and composition of our balance sheet, and our credit ratings. See "-- Risk Management -- Risk Management Structure" below for a further description of the committees that participate in our risk management process. The Finance Committee meets monthly, and more often when necessary, to evaluate our liquidity position and funding requirements.

Our Treasury Department manages our capital structure, funding, liquidity, and relationships with creditors and rating agencies on a global basis. The Treasury Department works jointly with our global funding desk in managing our borrowings. The global funding desk is primarily responsible for our transactional short-term funding activity.

LIQUIDITY POLICIES

In order to maintain an appropriate level of liquidity, management has implemented several liquidity policies as outlined below.

DIVERSIFICATION OF FUNDING SOURCES AND LIQUIDITY PLANNING. Goldman Sachs seeks to maintain diversified funding sources with both banks and nonbank lenders globally. Management believes that Goldman Sachs' relationships with its lenders are critical to its liquidity.

Goldman Sachs also has access to diversified funding sources with numerous creditors, including banks, insurance companies, mutual funds, bank trust departments and other asset managers. We monitor our creditors to maintain broad and diversified credit.

We access liquidity in a variety of markets in the United States as well as in Europe and Asia. We make extensive use of the repurchase agreement markets and have raised debt publicly as well as in the private placement and commercial paper markets, and through Eurobonds, money broker loans, commodity-based financings, letters of credit and promissory notes. We seek to structure our liabilities to avoid significant amounts of debt coming due on any one day or during any single week or year. In addition, we maintain and update annually a liquidity crisis plan that provides guidance in the event of a liquidity crisis. The annual update of this plan is reviewed and approved by our Finance Committee.

ASSET LIQUIDITY. Goldman Sachs maintains a highly liquid balance sheet. Many of our assets are readily funded in the repurchase agreement markets, which generally have proven to be a consistent source of funding, even in periods of market stress. A substantial portion of our inventory turns over rapidly and is marked-to-market daily. We maintain long-term borrowings and stockholders' equity substantially in excess of our less liquid assets.

DYNAMIC LIQUIDITY MANAGEMENT. Goldman Sachs seeks to manage the composition of its asset base and the maturity profile of its funding to ensure that it can liquidate its assets prior to its liabilities coming due, even in times of liquidity stress. We have traditionally been able to fund our liquidity needs through security-based and collateralized funding, such as repurchase transactions and securities lending, as well as short-term and long-term

borrowings and equity capital. To further evaluate the adequacy of our liquidity management policies and guidelines, we perform weekly "stress funding" simulations of disruptions to our access to unsecured credit.

EXCESS LIQUIDITY. In addition to maintaining a highly liquid balance sheet and a significant amount of longer term liabilities to assure liquidity even during adverse conditions, we seek to maintain a liquidity cushion that consists principally of unencumbered U.S. government and agency obligations to ensure the availability of immediate liquidity. This pool of highly liquid assets averaged \$17.99 billion during 1999 and \$14.17 billion during 1998.

LIQUIDITY RATIO MAINTENANCE. It is Goldman Sachs' policy to further manage its liquidity by maintaining a "liquidity ratio" of at least 100%. This ratio measures the relationship between the loan value of our unencumbered assets and our short-term unsecured liabilities. The maintenance of this liquidity ratio is intended to ensure that we could fund our positions on a fully secured basis in the event that we were unable to replace our unsecured debt maturing within one year. Under this policy, we seek to maintain unencumbered assets in an amount that, if pledged or sold, would provide the funds necessary to replace unsecured obligations that are scheduled to mature (or where holders have the option to redeem) within the coming year.

INTERCOMPANY FUNDING. Most of the liquidity of Goldman Sachs is raised by the parent company, The Goldman Sachs Group, Inc. The parent company then lends the necessary funds to its subsidiaries and affiliates. We carefully manage our intercompany exposure by generally requiring intercompany loans to have maturities equal to or shorter than the maturities of the aggregate borrowings of the parent company. This policy ensures that the subsidiaries' obligations to the parent company will generally mature in advance of the parent company's third-party long-term borrowings. In addition, many of the advances made to our subsidiaries and affiliates are secured by marketable securities or other liquid collateral. We generally fund our equity investments in subsidiaries with equity capital.

THE BALANCE SHEET

Goldman Sachs maintains a highly liquid balance sheet that fluctuates significantly between financial statement dates. In the fourth quarter of 1998, we temporarily decreased our total assets to reduce risk and increase liquidity in response to difficult conditions in the global financial markets. The following table sets forth our total assets, adjusted assets, leverage ratios and book value per share:

<Table>
<Caption>

	AS OF NOVEMBER	
	1999	1998
	(\$ IN BILLIONS, EXCEPT PER SHARE AMOUNTS)	
	<C>	<C>
Total assets.....	\$ 250	\$ 217
Adjusted assets(1).....	188	145
Leverage ratio(2).....	24.7x	34.5x
Adjusted leverage ratio(3).....	18.5x	23.0x
Book value per share(4).....	\$20.94	--

(1) Adjusted assets represent total assets less securities purchased under agreements to resell, certain securities borrowed transactions and the increase in total assets related to certain provisions of Statement of Financial Accounting Standards No. 125.

(2) Leverage ratio equals total assets divided by equity capital.

(3) Adjusted leverage ratio equals adjusted assets divided by equity capital.

(4) Book value per share was based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 484,566,184 as of November 1999.

As of November 1999 and November 1998, we held \$2.62 billion and \$2.21 billion, respectively, in high-yield debt and emerging market securities and \$1.80 billion and \$1.59 billion, respectively, in bank loans. These assets may be relatively illiquid during times of market stress. We seek to diversify our holdings of these assets by industry and by geographic location.

As of November 1999, the aggregate carrying value of our principal investments held directly or through our merchant banking funds was \$2.88 billion, which consisted of corporate principal investments with an aggregate carrying value of \$1.95 billion and real estate investments with an aggregate carrying value of \$928 million.

CREDIT RATINGS

Goldman Sachs relies upon the debt capital markets to fund a significant portion of its day-to-day operations. The cost and availability of debt financing is influenced by our credit ratings. Credit ratings are also important to us when competing in certain markets and when seeking to engage in longer term transactions, including over-the-counter derivatives. A reduction in our credit ratings could increase our borrowing costs and limit our access to the

capital markets. This, in turn, could reduce our earnings and adversely affect our liquidity.

The following table sets forth our credit ratings as of November 1999:

<Table>
<Caption>

	SHORT-TERM DEBT	LONG-TERM DEBT
	-----	-----
<S>	<C>	<C>
Moody's Investors Service, Inc.....	P-1	A1
Standard & Poor's Ratings Services...	A-1+	A+
Fitch IBCA, Inc.....	F1+	AA-
CBRS Inc.....	A-1 (High)	A+

LONG-TERM DEBT

As of November 1999, our consolidated long-term borrowings were \$20.95 billion. Substantially all of these borrowings were unsecured and consisted principally of senior borrowings with maturities extending to 2024. The weighted average maturity of our long-term borrowings as of November 1999 was approximately five years. Substantially all of our long-term borrowings are swapped into U.S. dollar obligations with short-term floating rates of interest in order to minimize our exposure to interest rates and foreign exchange movements. See Note 5 to the consolidated financial statements for further information regarding our long-term borrowings.

REGULATED SUBSIDIARIES

Many of our principal subsidiaries are subject to extensive regulation in the United States and elsewhere. Goldman, Sachs & Co., a registered U.S. broker-dealer, is regulated by the SEC, the Commodity Futures Trading Commission, the Chicago Board of Trade, the NYSE and the NASD. Goldman Sachs International, a registered U.K. broker-dealer, is subject to regulation by the Securities and Futures Authority Limited and the Financial Services Authority. Goldman Sachs (Japan) Ltd., a Tokyo-based broker-dealer, is subject to regulation by the Japanese Ministry of Finance, the Financial Supervisory Agency, the Tokyo Stock Exchange, the Tokyo International Financial Futures Exchange and the Japan Securities Dealers Association. Several other subsidiaries of Goldman Sachs are regulated by securities, investment advisory, banking, and other regulators and authorities around the world, such as the Bundesbank of Germany. Compliance with the rules of these regulators may prevent us from receiving distributions, advances or repayment of liabilities from these subsidiaries. See Note 12 to the consolidated financial statements for further information regarding our regulated subsidiaries.

RISK MANAGEMENT

Goldman Sachs has a comprehensive risk management process to monitor, evaluate and manage the principal risks assumed in conducting its activities. These risks include market, credit, liquidity, operational, legal and reputational exposures.

RISK MANAGEMENT STRUCTURE

Goldman Sachs seeks to monitor and control its risk exposure through a variety of separate but complementary financial, credit, operational and legal reporting systems. We believe that we have effective procedures for evaluating and managing the market, credit and other risks to which we are exposed. Nonetheless, the effectiveness of our policies and procedures for managing risk exposure can never be completely or accurately predicted or fully assured. For example, unexpectedly large or rapid movements or disruptions in one or more markets or other unforeseen developments can have a material adverse effect on our results of operations and financial condition. The consequences of these developments can include losses due to adverse changes in inventory values, decreases in the liquidity of trading positions, higher volatility in our earnings, increases in our credit exposure to customers and counterparties, and increases in general systemic risk.

Goldman Sachs has established risk control procedures at several levels throughout the organization. Trading desk managers have the first line of responsibility for managing risk within prescribed limits. These managers have in-depth knowledge of the primary sources of risk in their individual markets and the instruments available to hedge our exposures.

In addition, a number of committees are responsible for establishing trading limits, for monitoring adherence to these limits and for general oversight of our risk management process. These committees, which are described below, meet regularly and consist of senior members of

both our revenue-producing units and departments that are independent of our revenue-producing units.

MANAGEMENT COMMITTEE. All risk control functions ultimately report to the Management Committee. Through both direct and delegated authority, the Management Committee approves all of Goldman Sachs' operating activities, trading risk parameters, and customer review guidelines.

RISK COMMITTEES. The Firmwide Risk Committee:

- reviews the activities of existing businesses;
- approves new businesses and products;
- approves divisional market risk limits and reviews business unit market risk limits;
- approves inventory position limits for selected country exposures and business units;
- approves sovereign credit risk limits and credit risk limits by ratings group; and
- reviews scenario analyses based on abnormal or "catastrophic" market movements.

The FICC Risk Committee sets market risk limits for individual business units and sets issuer-specific net inventory position limits. The Equities Risk Committee sets market risk limits for individual business units that consist of gross and net inventory position limits and, for equity derivatives, limits based on market move scenario analyses. The Asset Management Control Oversight and the Asset Management Risk committees oversee various operational, credit, pricing and business practice issues.

GLOBAL COMPLIANCE AND CONTROL COMMITTEE. The Global Compliance and Control Committee provides oversight of our compliance and control functions, including internal audit; reviews our legal, reputational, operational and control risks; and periodically reviews the activities of existing businesses.

COMMITMENTS COMMITTEE. The Commitments Committee approves equity and non-investment-grade debt underwriting commitments, loans extended by Goldman Sachs, and unusual financing structures and transactions that involve significant capital exposure. The Commitments Committee has delegated to the Credit Department the authority to approve underwriting commitments for investment-grade debt and certain other products.

CREDIT POLICY COMMITTEE. The Credit Policy Committee establishes and reviews broad credit policies and parameters that are implemented by the Credit Department.

FINANCE COMMITTEE. The Finance Committee is responsible for oversight of our capital, liquidity and funding needs and for setting certain inventory position limits.

Segregation of duties and management oversight are fundamental elements of our risk management process. In addition to the committees described above, departments that are independent of the revenue-producing units, such as the Firmwide Risk, Credit, Controllers, Global Operations, Central Compliance, Management Controls and Legal departments, in part perform risk management functions, which include monitoring, analyzing and evaluating risk. Furthermore, the Controllers Department, in conjunction with the Firmwide Risk Department, independently reviews, on a regular basis, internal valuation models and the pricing of positions determined by individual business units.

RISK LIMITS

Business unit risk limits are established by the various risk committees and may be further allocated by the business unit managers to individual trading desks.

Market risk limits are monitored on a daily basis by the Firmwide Risk Department and are reviewed regularly by the appropriate risk committee. Limit violations are reported to the appropriate risk committee and the appropriate

business unit managers.

Inventory position limits are monitored by the Controllers Department and position limit violations are reported to the appropriate business unit managers and the Finance Committee. When inventory position limits are used to monitor market risk, they are also monitored by the Firmwide Risk Department, and violations are reported to the appropriate risk committee.

MARKET RISK

The potential for changes in the market value of our trading positions is referred to as "market risk." Our trading positions result from underwriting, market-making and proprietary trading activities.

Categories of market risk include exposures to interest rates, currency rates, equity prices and commodity prices.

A description of each market risk category is set forth below:

- Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, mortgage prepayment speeds and credit spreads.
- Currency rate risks result from exposures to changes in spot prices, forward prices and volatilities of currency rates.
- Equity price risks result from exposures to changes in prices and volatilities of individual equities, equity baskets and equity indices.
- Commodity price risks result from exposures to changes in spot prices, forward prices and volatilities of commodities, such as electricity, natural gas, crude oil, petroleum products, and precious and base metals.

We seek to manage these risk exposures through diversifying exposures, controlling position sizes and establishing hedges in related securities or derivatives. For example, we may hedge a portfolio of common stock by taking an offsetting position in a related equity-index futures contract. The ability to manage an exposure may, however, be limited by adverse changes in the liquidity of the security or the related hedge instrument and in the correlation of price movements between the security and related hedge instrument.

In addition to applying business judgment, senior management uses a number of quantitative tools to manage our exposure to market risk. These tools include:

- risk limits based on a summary measure of market risk exposure referred to as Value-at-Risk (VaR);
- risk limits based on a scenario analysis that measures the potential effect on our trading net revenues of a significant widening of credit spreads;
- inventory position limits for selected business units and country exposures; and
- scenario analyses that measure the potential effect on our trading net revenues of abnormal market movements.

We also estimate the broader potential impact of certain macroeconomic scenarios, including a sustained downturn, on our investment banking and merchant banking activities.

VAR. VaR is the potential loss in value of Goldman Sachs' trading positions due to adverse market movements over a defined time horizon with a specified confidence level.

For the VaR numbers reported below, a one-day time horizon and a 95% confidence level were used. This means that there is a one in 20 chance that daily trading net revenues will fall below the expected daily trading net revenues by an amount at least as large as the reported VaR. Thus, shortfalls from expected trading net revenues on a single trading day greater than the reported VaR would be anticipated to occur, on average, about once a month. Shortfalls on a single day can exceed reported VaR by significant amounts. Shortfalls can also accumulate over a longer time horizon such as a number of consecutive trading days.

The VaR numbers below are shown separately for interest rate, currency, equity and commodity products, as well as for our overall trading positions. These VaR numbers include the underlying product positions and related hedges, which may include positions in other product areas. For example, the hedge of a foreign exchange forward may include an interest rate futures position and the hedge of a long corporate bond position may include a short position in the related equity.

The modeling of the risk characteristics of our trading positions involves a number of assumptions and approximations. While management believes that these assumptions and approximations are reasonable, there is no uniform industry methodology for estimating VaR, and different assumptions and/or approximations could produce materially different VaR estimates.

We use historical data to estimate our VaR, and, to better reflect asset volatilities and correlations, these historical data are weighted to give greater importance to more recent observations. Given its reliance on historical data, VaR is most effective in estimating risk exposures in markets in which there are no sudden fundamental changes or shifts in market conditions. An inherent limitation of VaR is that past changes in market risk factors, even when weighted toward more recent observations, may not produce accurate predictions of future market risk. Moreover, VaR calculated for a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day.

VaR also should be evaluated in light of the methodology's other limitations. For example, when calculating the VaR numbers shown below, we assume that asset returns are normally distributed. Nonlinear risk exposures on options and the potentially mitigating impact of intraday changes in related hedges would likely produce nonnormal asset returns. Different distributional assumptions could produce a materially different VaR.

The following table sets forth the daily VaR for substantially all of our trading positions:

DAILY VAR

<Table>
<Caption>

RISK CATEGORIES	AS OF NOVEMBER		YEAR ENDED NOVEMBER 1999		
	1999	1998	AVERAGE	HIGH	LOW
			(IN MILLIONS)		
<S>	<C>	<C>	<C>	<C>	<C>
Interest rates.....	\$ 13	\$ 27	\$ 23	\$35	\$10
Currency rates.....	4	9	9	25	4
Equity prices.....	18	25	23	37	18
Commodity prices.....	12	7	9	13	3
Diversification effect(1).....	(22)	(25)	(25)	--	--
Firmwide.....	\$ 25(2)	\$ 43	\$ 39	56	23

</Table>

(1) Equals the difference between firmwide daily VaR and the sum of the daily VaRs for the four risk categories. This effect arises because the four market risk categories are not perfectly correlated.

(2) Not necessarily indicative of future VaR levels.

The following chart sets forth the daily VaR for substantially all of our trading positions during 1999:

FIRMWIDE VAR

[CHART APPEARS HERE]

Description of VaR Chart: Depicted on page 42 of the Annual Report is a chart setting forth the daily VaR for substantially all of our trading positions during 1999. The horizontal axis is marked to indicate the start of each fiscal quarter. The vertical axis is marked to indicate VaR in millions of dollars. The values displayed in the chart start the fiscal year at \$43 million, and end the fiscal year at \$25 million. The maximum VaR, of approximately \$56 million, was reached on February 16, 1999, and the minimum VaR, of approximately \$23 million, was reached on November 24, 1999.

The general decline in our VaR during 1999 reflects lower levels of market volatility and a decrease in trading exposures, particularly with respect to interest rates. As described above, the historical data used to estimate VaR is weighted to give greater importance to more recent observations and, accordingly, our VaR levels in the beginning of 1999 were significantly affected by the market turmoil of the second half of 1998.

TRADING NET REVENUES DISTRIBUTION

Substantially all of our inventory positions are marked-to-market on a daily basis and changes are recorded in net revenues. The following chart sets forth the frequency distribution for substantially all of our daily trading net revenues for the year ended November 1999:

DAILY TRADING REVENUES

<Table> <Caption> Daily Trading Net Revenues (\$ in millions)		Number of Days
-----		-----
<S>		<S>
Less than (20)		2
(20)-(10)		6
(10)-0		19
0-10		40
10-20		58
20-30		60
30-40		40
40-50		17
Greater than 50		9
</Table>		

As part of our overall risk control process, daily trading net revenues are compared with the VaR calculated as of the end of the prior business day. During 1999, trading losses incurred on a single day exceeded our 95% one-day VaR on only one occasion.

NONTRADING RISK

The market risk on our nontrading financial instruments, including our merchant banking investments, is measured using a sensitivity analysis that estimates the potential reduction in our net revenues associated with a 10% decline in the S&P 500. This sensitivity analysis is based on certain assumptions regarding the relationship between changes in the S&P 500 and changes in the fair value of the individual nontrading financial instruments. Different assumptions could produce materially different risk estimates. As of November 1999, our nontrading market risk was approximately \$200 million.

CREDIT RISK

Credit risk represents the loss that we would incur if a counterparty, or an issuer of securities or other instruments we hold, fails to perform under its contractual obligations to us. To reduce our credit exposures, we seek to enter into netting agreements with counterparties that permit us to offset receivables and payables with such counterparties. In addition, we attempt to further reduce credit risk by entering into agreements that enable us to obtain collateral from a counterparty or to terminate or reset the terms of transactions after specified time periods or upon the occurrence of credit-related events, by seeking third-party guarantees of the counterparty's obligations, and through the use of credit derivatives.

For most businesses, counterparty credit limits are established by the Credit Department, which is independent of the revenue-producing departments, based on guidelines set by the Firmwide Risk and Credit Policy committees. For most products, we measure and limit credit exposures by reference to both current and potential exposure. We measure potential exposure based on projected worst-case market movements over the life of a transaction

within a 95% confidence interval. We further seek to measure credit exposure through the use of scenario analyses and other quantitative tools. Our global credit management systems monitor current and potential credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. The systems also provide management, including the Firmwide Risk and Credit Policy committees, with information regarding overall credit risk by product, industry sector, country and region.

DERIVATIVE CONTRACTS

Derivative contracts are financial instruments, such as futures, forwards, swaps or option contracts, that derive their value from underlying assets, indices, reference rates or a combination of these factors. Derivative instruments may be entered into by Goldman Sachs in privately negotiated contracts, which are often referred to as over-the-counter derivatives, or they may be listed and traded on an exchange.

Most of our derivative transactions are entered into for trading purposes. We use derivatives in our trading activities to facilitate customer transactions, to take proprietary positions and as a means of risk management. We also enter into nontrading derivative contracts to manage the interest rate and currency exposure on our long-term borrowings.

Derivatives are used in many of our businesses, and we believe that the associated market risk can only be understood relative to the underlying assets or risks being hedged, or as part of a broader trading strategy. Accordingly, the market risk of derivative positions is managed with all of our other nonderivative risk.

Derivative contracts are reported on a net-by-counterparty basis on our consolidated statements of financial condition where management believes a legal right of setoff exists under an enforceable netting agreement. For an over-the-counter derivative, our credit exposure is directly with our counterparty and continues until the maturity or termination of such contract.

The following table sets forth the distribution, by credit rating, of substantially all of our credit exposure with respect to over-the-counter derivatives as of November 1999, after taking into consideration the effect of netting agreements. The categories shown reflect our internally determined public rating agency equivalents.

OVER-THE-COUNTER DERIVATIVE CREDIT EXPOSURES

<Table>
<Caption>

CREDIT RATING EQUIVALENT	EXPOSURE	COLLATERAL HELD(2)	EXPOSURE NET OF COLLATERAL	PERCENTAGE OF EXPOSURE NET OF COLLATERAL
-----	-----	-----	-----	-----
<S>	<C>	<C>	(\$ IN MILLIONS)	<C>
AAA/Aaa.....	\$ 2,603	\$ 452	\$ 2,151	11%
AA/Aa2.....	5,132	557	4,575	24
A/A2.....	9,663	2,211	7,452	39
BBB/Baa2.....	3,246	516	2,730	14
BB/Ba2 or lower.....	2,618	625	1,993	11
Unrated(1).....	2,486	2,228	258	1
	-----	-----	-----	---
	\$25,748	\$6,589	\$19,159	100%
	=====	=====	=====	===

</Table>

-
- (1) In lieu of making an individual assessment of the credit of unrated counterparties, we make a determination that the collateral held in respect of such obligations is sufficient to cover a substantial portion of our exposure. In making this determination, we take into account various factors, including legal uncertainties and market volatility.
 - (2) Collateral consists predominantly of cash and U.S. government and agency securities and is usually received under agreements entitling Goldman Sachs to require additional collateral upon specified increases in exposure or the occurrence of adverse credit events.

Derivative transactions may also involve the legal risk that they are not authorized or appropriate for a counterparty, that documentation has not been properly executed or that executed agreements may not be enforceable against the

counterparty. We attempt to minimize these risks by obtaining advice of counsel on the enforceability of agreements as well as on the authority of a counterparty to effect the derivative transaction.

OPERATIONAL RISKS

OPERATIONAL RISK. Goldman Sachs may face reputational damage, financial loss or regulatory risk in the event of an operational failure or error. A systems failure or failure to enter a trade properly into our records may result in an inability to settle transactions in a timely manner or a breach of regulatory requirements. Settlement errors or delays may cause losses due to damages owed to counterparties or movements in prices. These operational and systems risks may arise in connection with our own systems or as a result of the failure of an agent acting on our behalf.

The Global Operations Department is responsible for establishing, maintaining and approving policies and controls with respect to the accurate inputting and processing of transactions, clearance and settlement of transactions, the custody of securities and other instruments, and the detection and prevention of employee errors or improper or fraudulent activities. Its personnel work closely with Information Technology in creating systems to enable appropriate supervision and management of its policies. The Global Operations Department is also responsible, together with other areas of Goldman Sachs, including the Legal and Compliance departments, for ensuring compliance with applicable regulations with respect to the clearance and settlement of transactions and the margining of positions. The Network Management Department oversees our relationships with our clearance and settlement agents, regularly reviews agents' performance and meets with these agents to review operational issues.

YEAR 2000. Goldman Sachs has dedicated resources over the past several years to address the potential hardware, software, and other computer and technology issues and related concerns associated with the transition to the Year 2000 and to confirm that our service providers took similar measures. As a result of those efforts, we have not experienced any material disruptions in our operations in connection with, or following, the transition to the Year 2000. We currently estimate that our Year 2000 costs will total approximately \$185 million, of which \$170 million had been spent through November 1999.

ACCOUNTING DEVELOPMENTS

In June 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of Financial Accounting Standards Board Statement No. 133 -- an amendment of Financial Accounting Standards Board Statement No. 133," which deferred to fiscal years beginning after June 15, 2000 the effective date of the accounting and reporting requirements of Statement of Financial Accounting Standards No. 133. Statement of Financial Accounting Standards No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. This Statement requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. The accounting for changes in the fair value of a derivative instrument depends on its intended use and the resulting designation. We intend to adopt the provisions of Statement of Financial Accounting Standards No. 133 deferred by Statement of Financial Accounting Standards No. 137 in fiscal 2001 and are currently assessing their effect.

In March 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," effective for fiscal years beginning after December 15, 1998. Statement of Position No. 98-1 requires that certain costs of computer software developed or obtained for internal use be capitalized and amortized over the useful life of the related software. We previously expensed the cost of all software development in the period it was incurred. The adoption of Statement of Position No. 98-1 is not expected to have a material effect on our results of operations or financial condition. We intend to adopt the provisions of Statement of Position No. 98-1 in fiscal 2000.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Directors and Shareholders,
The Goldman Sachs Group, Inc.:

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of earnings, changes in stockholders' equity and partners' capital, cash flows and comprehensive income present fairly, in all material respects, the consolidated financial position of The Goldman Sachs Group, Inc. and Subsidiaries (the "firm") as of November 26, 1999 and November 27, 1998, and the results of their consolidated operations and their consolidated cash flows for each of the three fiscal years in the period ended November 26, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the firm's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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.

/s/ PRICEWATERHOUSECOOPERS LLP

New York, New York
January 21, 2000.

CONSOLIDATED STATEMENTS OF EARNINGS

<Table>

<Caption>

	YEAR ENDED NOVEMBER		
	1999	1998	1997
	(IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS)		
<S>	<C>	<C>	<C>
Revenues			
Global capital markets			
Investment banking.....	\$ 4,359	\$ 3,368	\$ 2,587
Trading and principal investments.....	5,758	2,015	2,303
Asset management and securities services.....	2,524	2,085	1,456
Interest income.....	12,722	15,010	14,087
Total revenues.....	25,363	22,478	20,433
Interest expense.....	12,018	13,958	12,986
Revenues, net of interest expense.....	13,345	8,520	7,447
Operating expenses			
Compensation and benefits, excluding employee initial public offering awards.....	6,459	3,838	3,097
Nonrecurring employee initial public offering awards(1).....	2,257	--	--
Amortization of employee initial public offering awards.....	268	--	--
Brokerage, clearing and exchange fees.....	446	424	357
Market development.....	364	287	206
Communications and technology.....	306	265	208
Depreciation and amortization.....	337	242	178
Occupancy.....	314	207	168
Professional services and other.....	402	336	219
Charitable contribution.....	200	--	--
Total operating expenses.....	11,353	5,599	4,433
Pre-tax earnings.....	1,992	2,921	3,014
(Benefit)/provision for taxes.....	(716)	493	268
Net earnings.....	\$ 2,708	\$ 2,428	\$ 2,746
Earnings per share			
Basic.....	\$ 5.69	--	--
Diluted.....	5.57	--	--
Average common shares outstanding			
Basic.....	475,883,756	--	--
Diluted.....	485,803,960	--	--

</Table>

(1) Includes expense of \$666 million related to the initial irrevocable contribution of shares of common stock to a defined contribution plan.

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

<Table>
<Caption>

	AS OF NOVEMBER	
	1999	1998
	(IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS)	
<S>	<C>	<C>
Assets		
Cash and cash equivalents.....	\$ 3,055	\$ 2,836
Cash and securities segregated in compliance with U.S. federal and other regulations.....	9,135	7,887
Receivables from brokers, dealers and clearing organizations.....	4,490	4,321
Receivables from customers and counterparties.....	30,140	14,953
Securities borrowed.....	78,418	69,158
Securities purchased under agreements to resell.....	37,106	37,484
Right to receive securities.....	1,604	7,564
Financial instruments owned, at fair value		
Commercial paper, certificates of deposit and time deposits.....	1,435	1,382
U.S. government, federal agency and sovereign obligations.....	22,193	24,789
Corporate debt.....	9,821	10,744
Equities and convertible debentures.....	16,381	11,066
State, municipal and provincial obligations.....	756	918
Derivative contracts.....	30,661	21,299
Physical commodities.....	562	481
Other assets.....	4,734	2,498
	<u>\$250,491</u>	<u>\$217,380</u>
Liabilities and Equity		
Short-term borrowings, including commercial paper.....	\$ 37,756	\$ 27,430
Payables to brokers, dealers and clearing organizations.....	2,129	730
Payables to customers and counterparties.....	57,405	46,208
Securities loaned.....	9,169	11,088
Securities sold under agreements to repurchase.....	40,183	36,257
Obligation to return securities.....	1,595	9,783
Financial instruments sold, but not yet purchased, at fair value		
U.S. government, federal agency and sovereign obligations....	19,170	22,360
Corporate debt.....	2,642	1,441
Equities and convertible debentures.....	14,002	6,406
Derivative contracts.....	28,488	24,722
Physical commodities.....	586	966
Other liabilities and accrued expenses.....	6,269	3,699
Long-term borrowings.....	20,952	19,906
	<u>240,346</u>	<u>210,996</u>
Commitments and contingencies		
Partners' capital allocated for income taxes and potential withdrawals.....	--	74
Partners' capital.....	--	6,310
Preferred stock, par value \$0.01 per share; 150,000,000 shares authorized, no shares issued and outstanding.....	--	--
Common stock, par value \$0.01 per share; 4,000,000,000 shares authorized, 441,421,899 shares issued and outstanding.....	4	--
Restricted stock units; 76,048,404 units issued and outstanding.....	4,339	--
Nonvoting common stock, par value \$0.01 per share; 200,000,000 shares authorized, 7,440,362 shares issued and outstanding.....	--	--
Additional paid-in capital.....	7,359	--
Retained earnings.....	444	--
Unearned compensation.....	(2,038)	--
Accumulated other comprehensive income.....	37	--

-----	-----
10,145	6,310
-----	-----
\$250,491	\$217,380
=====	=====

</Table>

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS'
EQUITY AND PARTNERS' CAPITAL

<Table>
<Caption>

	YEAR ENDED NOVEMBER		
	1999	1998	1997
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		
	<C>	<C>	<C>
Partners' capital			
Balance, beginning of year.....	\$ 6,310	\$ 6,107	\$ 5,309
Transfer of beginning partners' capital allocated for income taxes and potential withdrawals.....	74	--	--
Net earnings.....	2,264 (1)	2,428	2,746
Capital contributions.....	48	9	89
Return on capital and certain distributions to partners...	(306)	(619)	(557)
Termination of profit participation plans.....	--	(368)	--
Transfers to partners' capital allocated for income taxes and potential withdrawals, net.....	--	(1,247)	(1,480)
Distributions of remaining partners' capital.....	(4,520)(2)	--	--
Exchange of partnership interests for shares of common stock.....	(3,901)	--	--
Transfer to accumulated other comprehensive income.....	31	--	--
Balance, end of year.....	--	6,310	6,107
Common stock, par value \$0.01 per share			
Balance, beginning of year.....	--	--	--
Common stock issued.....	4	--	--
Balance, end of year.....	4	--	--
Restricted stock units			
Balance, beginning of year.....	--	--	--
Restricted stock units granted, net of forfeitures of \$42 million.....	4,339	--	--
Balance, end of year.....	4,339	--	--
Nonvoting common stock, par value \$0.01 per share			
Balance, beginning of year.....	--	--	--
Nonvoting common stock issued.....	--	--	--
Balance, end of year.....	--	--	--
Additional paid-in capital			
Balance, beginning of year.....	--	--	--
Exchange of partnership interests for shares of common stock.....	3,901	--	--
Issuance of common stock.....	2,891	--	--
Issuance of common stock contributed to a defined contribution plan.....	674	--	--
Dividends paid.....	(107)(3)	--	--
Balance, end of year.....	7,359	--	--
Retained earnings			
Balance, beginning of year.....	--	--	--
Net earnings.....	444 (4)	--	--
Balance, end of year.....	444	--	--
Unearned compensation			
Balance, beginning of year.....	--	--	--
Restricted stock units granted, net of forfeitures of \$23 million.....	(2,311)	--	--
Amortization of restricted stock units.....	273	--	--
Balance, end of year.....	(2,038)	--	--
Accumulated other comprehensive income			
Balance, beginning of year.....	--	--	--
Transfer from partners' capital.....	(31)	--	--
Currency translation adjustment.....	68	--	--
Balance, end of year.....	37	--	--
	\$10,145	\$ 6,310	\$ 6,107
	=====	=====	=====

</Table>

-
- (1) Represents net earnings of the partnership from November 28, 1998 through May 6, 1999.
- (2) Represents the retired limited partners' exchanges of partnership interests for cash and junior subordinated debentures, the redemption of senior limited partnership interests for cash and other distributions of partners' capital in accordance with the partnership agreement.
- (3) Represents two quarterly dividends of \$0.12 per common share each.

(4) Represents net earnings of the corporation from May 7, 1999 through November 26, 1999.

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<Table>
<Caption>

	YEAR ENDED NOVEMBER		
	1999	1998	1997
	----	----	----
	(IN MILLIONS)		
<S>	<C>	<C>	<C>
Cash flows from operating activities			
Net earnings.....	\$ 2,708	\$ 2,428	\$ 2,746
Noncash items included in net earnings			
Depreciation and amortization.....	337	242	178
Deferred income taxes.....	(1,387)	23	32
Stock-based compensation.....	2,989	--	--
Changes in operating assets and liabilities			
Cash and securities segregated in compliance with U.S. federal and other regulations.....	(1,248)	(2,984)	(670)
Net receivables from brokers, dealers and clearing organizations.....	1,453	(789)	(1,599)
Net payables to customers and counterparties.....	(3,990)	14,664	5,029
Securities borrowed, net.....	(11,179)	(21,158)	(10,814)
Financial instruments owned, at fair value.....	(13,718)	148	(7,439)
Financial instruments sold, but not yet purchased, at fair value.....	9,059	7,559	11,702
Other, net.....	2,387	(71)	905
Net cash (used for)/provided by operating activities....	(12,589)	62	70
Cash flows from investing activities			
Property, leasehold improvements and equipment.....	(656)	(476)	(259)
Financial instruments owned, at fair value.....	189	(180)	(360)
Acquisitions, net of cash acquired.....	(187)	--	(74)
Net cash used for investing activities.....	(654)	(656)	(693)
Cash flows from financing activities			
Short-term borrowings, net.....	755	2,193	1,082
Securities sold under agreements to repurchase, net.....	4,304	(5,909)	(4,717)
Issuance of long-term borrowings.....	11,000	10,527	7,734
Repayment of long-term borrowings.....	(753)	(2,058)	(1,855)
Capital contributions.....	48	9	89
Dividends paid.....	(107)	--	--
Returns on capital and certain distributions to partners.....	(306)	(619)	(557)
Termination of the profit participation plans.....	--	(368)	--
Proceeds from issuance of common stock.....	2,633	--	--
Partners' capital distributions, net.....	(4,112)	--	--
Partners' capital allocated for income taxes and potential withdrawals.....	--	(1,673)	(2,034)
Net cash provided by/(used for) financing activities....	13,462	2,102	(258)
Net increase/(decrease) in cash and cash equivalents....	219	1,508	(881)
Cash and cash equivalents, beginning of year.....	2,836	1,328	2,209
Cash and cash equivalents, end of year.....	\$ 3,055	\$ 2,836	\$ 1,328

</Table>

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest approximated the related expense for each of the fiscal years presented. Payments of income taxes were \$463 million for the year ended November 1999 and were immaterial for the years ended November 1998 and 1997.

Noncash activities:

In connection with the firm's conversion to corporate form, junior subordinated debentures of \$371 million were issued to retired limited partners in exchange for their partnership interests.

Common stock issued in connection with acquisitions was \$245 million in 1999.

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<Table>
<Caption>

	YEAR ENDED NOVEMBER		
	1999	1998	1997
	(IN MILLIONS)		
<S>	<C>	<C>	<C>
Net earnings.....	\$2,708	\$2,428	\$2,746
Other comprehensive income, net of tax			
Currency translation adjustment.....	37	(31)	(28)
Comprehensive income.....	<u>\$2,745</u>	<u>\$2,397</u>	<u>\$2,718</u>

</Table>

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1/DESCRIPTION OF BUSINESS

The Goldman Sachs Group, Inc. (Group Inc.), a Delaware corporation, together with its consolidated subsidiaries (collectively, the firm), is a global investment banking and securities firm that provides a wide range of financial services worldwide to a substantial and diversified client base. On May 7, 1999, the firm converted from a partnership to a corporation and completed its initial public offering.

The firm's activities are divided into two business segments:

GLOBAL CAPITAL MARKETS. This segment comprises Investment Banking, which includes Financial Advisory and Underwriting, and Trading and Principal Investments, which includes Fixed Income, Currency and Commodities (FICC), Equities and Principal Investments (Principal Investments primarily represents net revenues from the firm's merchant banking investments); and

ASSET MANAGEMENT AND SECURITIES SERVICES. This segment comprises Asset Management, Securities Services and Commissions.

NOTE 2/SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Group Inc. and its U.S. and international subsidiaries including Goldman, Sachs & Co. (GS&Co.) and J. Aron & Company in New York, Goldman Sachs International (GSI) in London and Goldman Sachs (Japan) Ltd. (GSJL) in Tokyo. Certain reclassifications have been made to prior-year amounts to conform to the current-year presentation. All material intercompany transactions and balances have been eliminated.

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles that require management to make estimates and assumptions regarding trading inventory valuations, the outcome of pending litigation, and other matters that affect the consolidated financial statements and related disclosures. These estimates and assumptions are based on judgment and available information and, consequently, actual results could be materially different from these estimates.

Unless otherwise stated herein, all references to 1999, 1998 and 1997 refer to the firm's fiscal year ended, or the date, as the context requires, November 26, 1999, November 27, 1998 and November 28, 1997, respectively.

CASH AND CASH EQUIVALENTS

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business.

REPURCHASE AGREEMENTS AND COLLATERALIZED FINANCING ARRANGEMENTS

Securities purchased under agreements to resell and securities sold under agreements to repurchase, principally U.S. government, federal agency and investment-grade non-U.S. sovereign obligations, represent short-term collateralized financing transactions and are carried at their contractual amounts plus accrued interest. These amounts are presented on a net-by-counterparty basis where management believes a legal right of setoff exists under an enforceable netting agreement. The firm takes possession of securities purchased under agreements to resell, monitors the market value of these securities on a daily basis and obtains additional collateral as appropriate.

Securities borrowed and loaned are recorded on the statements of financial condition based on the amount of cash collateral advanced or received. These transactions are generally collateralized by either cash, securities or letters of credit. The firm takes possession of securities borrowed, monitors the market value of securities loaned and obtains additional collateral as appropriate. Income or expense is recognized as interest over the life of the transaction.

FINANCIAL INSTRUMENTS

Gains and losses on financial instruments and commission income and related expenses are recorded on a trade date basis in the consolidated statements of earnings. The consolidated statement of financial condition as of November 1999 generally reflects purchases and sales of financial instruments, including agency transactions, on a trade date basis. The consolidated statement of financial condition as of November 1998 generally reflects these transactions on a settlement date basis. Recording these transactions on a trade date basis would not have resulted in a material adjustment to the consolidated statement of financial condition as of November 1998.

Substantially all financial instruments used in the firm's trading and nontrading activities are carried at fair value or amounts that approximate fair value, and unrealized gains and losses are recognized in earnings. Fair value is based generally on listed market prices or broker or dealer price quotations. To the extent that prices are not readily available, or if liquidating the firm's position is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time. Certain over-the-counter (OTC) derivative instruments are valued using pricing models that consider, among other factors, current and contractual market prices, time value, and yield curve and/or volatility factors of the underlying positions. The fair value of the firm's trading and nontrading assets and liabilities is discussed further in Notes 3, 4 and 5.

PRINCIPAL INVESTMENTS

Principal investments are carried at fair value, generally based upon quoted market prices or comparable substantial third-party transactions. Where fair value is not readily ascertainable, principal investments are recorded at cost or management's estimate of the realizable value.

The firm is entitled to receive merchant banking overrides (i.e., an increased share of a fund's income and gains) when the return on the fund's investments exceeds certain threshold returns. Overrides are based on investment performance over the life of each merchant banking fund, and future investment underperformance may require amounts previously distributed to the firm to be returned to the funds. Accordingly, overrides are recognized in earnings only when management determines that the probability of return is remote. Overrides are included in "Asset management and securities services" on the consolidated statements of earnings.

DERIVATIVE CONTRACTS

Derivatives used for trading purposes are reported at fair value and are included in "Derivative contracts" on the consolidated statements of financial condition. Gains and losses on derivatives used for trading purposes are generally included in "Trading and principal investments" on the consolidated statements of earnings.

Derivatives used for nontrading purposes include interest rate futures contracts and interest rate and currency swap agreements, which are primarily utilized to convert a substantial portion of the firm's fixed rate debt into U.S. dollar-based floating rate obligations. Gains and losses on these derivatives are generally deferred and recognized as adjustments to interest expense over the life of the derivative contract. Gains and losses resulting from the early termination of derivatives used for nontrading purposes are generally deferred and recognized over the remaining life of the underlying debt. If the underlying debt is terminated prior to its stated maturity, gains and losses on these transactions, including the associated hedges, are recognized in earnings immediately.

Derivatives are reported on a net-by-counterparty basis on the consolidated statements of financial condition where management believes a legal right of setoff exists under an enforceable netting agreement.

PROPERTY, LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Depreciation and amortization generally are computed using accelerated cost recovery methods for all property and equipment and for leasehold improvements where the term of the lease is greater than the economic useful life of the

asset. All other leasehold improvements are amortized on a straight-line basis over the term of the lease.

GOODWILL

The cost of acquired companies in excess of the fair value of net assets at acquisition date is recorded as goodwill and amortized over periods of 15 to 20 years on a straight-line basis.

INVESTMENT BANKING

Underwriting revenues and fees from mergers and acquisitions and other corporate finance advisory assignments are recorded when the underlying transaction is completed under the terms of the engagement. Syndicate expenses related to securities offerings in which the firm acts as an underwriter or agent are deferred until the related revenue is recognized.

EARNINGS PER SHARE

Earnings per share (EPS) is computed in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share." Basic EPS is calculated by dividing net earnings by the weighted average number of common shares outstanding. Common shares outstanding includes common stock and nonvoting common stock as well as restricted stock units for which no future service is required as a condition to the delivery of the underlying common stock. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect of common stock deliverable pursuant to the restricted stock units and stock options for which future service is required as a condition to the delivery of the underlying common stock.

STOCK-BASED COMPENSATION

The firm has elected to account for stock-based employee compensation plans in accordance with Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees," as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation." In accordance with APB No. 25, compensation expense is not recognized for stock options that have no intrinsic value on the date of grant. Compensation expense is recognized immediately for restricted stock units for which future service is not required as a condition to the delivery of the underlying shares of common stock. For restricted stock units with future service requirements, compensation expense is recognized over the relevant vesting period using an accelerated amortization methodology.

INCOME TAXES

The firm accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of tax benefits or expenses on the temporary differences between the financial reporting and tax bases of its assets and liabilities. As a partnership, the firm was primarily subject to unincorporated business taxes and taxes in foreign jurisdictions on certain of its operations. As a corporation, the earnings of the firm are subject to U.S. federal, foreign, state and local taxes. As a result of its conversion to corporate form, the firm recognized the tax effect of the change in its income tax rate on both its deferred tax assets and liabilities and the earnings attributable to the period from May 7, 1999 to the end of the fiscal year. The firm's tax assets and liabilities are presented as a component of "Other assets" and "Other liabilities and accrued expenses," respectively, on the consolidated statements of financial condition.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the date of the statement of financial condition, and revenues and expenses are translated at average rates of exchange for the fiscal year. Gains or losses on translation of the financial statements of a non-U.S. operation, where the functional currency is other than the U.S. dollar, are reflected as a separate component of equity. Gains or losses on foreign currency transactions are included in the consolidated statements of earnings.

As a partnership, the firm reported the cumulative translation adjustment as a component of "Partners' capital allocated for income taxes and potential withdrawals" on the consolidated statement of financial condition. Effective with the firm's conversion to corporate form, the cumulative translation adjustment is reported as "Accumulated other comprehensive income" on the

consolidated statement of financial condition.

ACCOUNTING DEVELOPMENTS

In June 1999, the Financial Accounting Standards Board issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133 -- an amendment of FASB Statement No. 133," which deferred to fiscal years beginning after June 15, 2000 the effective date of the accounting and reporting requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively, referred to as derivatives), and for hedging activities. This Statement requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. The accounting for changes in the fair value of a derivative instrument depends on its intended use and the resulting designation. The firm intends to adopt the provisions of SFAS No. 133 deferred by SFAS No. 137 in fiscal 2001 and is currently assessing their effect.

In March 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position (SOP) No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," effective for fiscal years beginning after December 15, 1998. SOP No. 98-1 requires that certain costs of computer software developed or obtained for internal use be capitalized and amortized over the useful life of the related software. The firm previously expensed the cost of all software development in the period it was incurred. The adoption of SOP No. 98-1 is not expected to have a material effect on the firm's results of operations or financial condition. The firm intends to adopt the provisions of SOP No. 98-1 in fiscal 2000.

NOTE 3/FINANCIAL INSTRUMENTS

Financial instruments, including both cash instruments and derivatives, are used to manage market risk, facilitate customer transactions, engage in proprietary transactions and meet financing objectives. These instruments can be either executed on an exchange or negotiated in the OTC market.

Transactions involving financial instruments sold, but not yet purchased, entail an obligation to purchase a financial instrument at a future date. The firm may incur a loss if the market value of the financial instrument subsequently increases prior to the purchase of the instrument.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Substantially all of the firm's assets and liabilities are carried at fair value or amounts that approximate fair value.

Trading assets and liabilities, including derivative contracts used for trading purposes, are carried at fair value and reported as financial instruments owned and financial instruments sold, but not yet purchased, on the consolidated statements of financial condition. Nontrading assets and liabilities are generally carried at fair value or amounts that approximate fair value.

Nontrading assets include cash and cash equivalents; cash and securities segregated in compliance with U.S. federal and other regulations; receivables from brokers, dealers and clearing organizations; receivables from customers and counterparties; securities borrowed; securities purchased under agreements to resell; right to receive securities; and certain investments, primarily those made in connection with the firm's merchant banking activities.

Nontrading liabilities include short-term borrowings; payables to brokers, dealers and clearing organizations; payables to customers and counterparties; securities loaned; securities sold under agreements to repurchase; obligation to return securities; other liabilities and accrued expenses; and long-term borrowings. The fair value of the firm's long-term borrowings and associated hedges is discussed in Note 5.

TRADING AND PRINCIPAL INVESTMENTS

The firm's Trading and Principal Investments business, a component of the Global Capital Markets segment, facilitates customer transactions and takes

proprietary positions through market making in and trading of securities, currencies, commodities and swaps, and other derivatives. Derivative financial instruments are often used to hedge cash instruments or other derivative financial instruments as an integral part of the firm's strategies. As a result, it is necessary to view the results of any activity on a fully integrated basis, including cash positions, the

effect of related derivatives and the financing of the underlying positions.

Net revenues include allocations of interest income and expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, the underlying positions.

The following table sets forth the net revenues of Trading and Principal Investments:

<Table>
<Caption>

	YEAR ENDED NOVEMBER		
	1999	1998	1997
	(IN MILLIONS)		
<S>	<C>	<C>	<C>
FICC.....	\$2,862	\$1,438	\$2,055
Equities.....	1,961	795	573
Principal Investments.....	950	146	298
Total.....	\$5,773	\$2,379	\$2,926

</Table>

RISK MANAGEMENT

The firm seeks to monitor and control its risk exposure through a variety of separate but complementary financial, credit, operational and legal reporting systems. Management believes that it has effective procedures for evaluating and managing the market, credit and other risks to which it is exposed. The Management Committee, the firm's primary decision-making body, determines (both directly and through delegated authority) the types of business in which the firm engages, approves guidelines for accepting customers for all product lines, outlines the terms under which customer business is conducted and establishes the parameters for the risks that the firm is willing to undertake in its business.

The Firmwide Risk Committee, which reports to senior management and meets weekly, is responsible for managing and monitoring all of the firm's risk exposures. In addition, the firm maintains segregation of duties, with credit review and risk-monitoring functions performed by groups that are independent from revenue-producing departments.

MARKET RISK. The potential for changes in the market value of the firm's trading positions is referred to as "market risk." The firm's trading positions result from underwriting, market-making and proprietary trading activities.

Categories of market risk include exposures to interest rates, currency rates, equity prices and commodity prices. A description of each market risk category is set forth below:

- Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, mortgage prepayment speeds and credit spreads.
- Currency rate risks result from exposures to changes in spot prices, forward prices and volatilities of currency rates.
- Equity price risks result from exposures to changes in prices and volatilities of individual equities, equity baskets and equity indices.
- Commodity price risks result from exposures to changes in spot prices, forward prices and volatilities of commodities, such as electricity, natural gas, crude oil, petroleum products, and precious and base metals.

These risk exposures are managed through diversification, by controlling position sizes and by establishing hedges in related securities or derivatives. For example, the firm may hedge a portfolio of common stock by taking an offsetting position in a related equity-index futures contract. The ability to manage these exposures may, however, be limited by adverse changes in the liquidity of the security or the related hedge instrument and in the correlation of price movements between the security and the related hedge instrument.

CREDIT RISK. Credit risk represents the loss that the firm would incur if a counterparty or issuer of securities or other instruments held by the firm fails to perform its contractual obligations to the firm. To reduce credit exposures, the firm seeks to enter into netting agreements with counterparties that permit the firm to offset receivables and payables with such counterparties. In addition, the firm attempts to further reduce credit risk by entering into agreements that enable us to obtain collateral from a counterparty, to terminate or reset the terms of transactions after specified time periods or upon the occurrence of credit-related events, by seeking third-party guarantees of the counterparty's obligations, and through the use of credit derivatives.

Credit concentrations may arise from trading, underwriting and securities borrowing activities and may be impacted by changes in economic, industry or political factors. The firm's concentration of credit risk is monitored actively by the Credit Policy Committee. As of

November 1999 and 1998, U.S. government and federal agency obligations represented 7% of the firm's total assets. In addition, most of the firm's securities purchased under agreements to resell are collateralized by U.S. government, federal agency and other sovereign obligations.

DERIVATIVE ACTIVITIES

Most of the firm's derivative transactions are entered into for trading purposes. The firm uses derivatives in its trading activities to facilitate customer transactions, to take proprietary positions and as a means of risk management. The firm also enters into nontrading derivative contracts to manage the interest rate and currency exposure on its long-term borrowings. Nontrading derivatives related to the firm's long-term borrowings are discussed in Note 5.

Derivative contracts are financial instruments, such as futures, forwards, swaps or option contracts, that derive their value from underlying assets, indices, reference rates or a combination of these factors. Derivatives may involve future commitments to purchase or sell financial instruments or commodities, or to exchange currency or interest payment streams. The amounts exchanged are based on the specific terms of the contract with reference to specified rates, securities, commodities or indices.

Derivative contracts exclude certain cash instruments, such as mortgage-backed securities, interest-only and principal-only obligations, and indexed debt instruments, that derive their values or contractually required cash flows from the price of some other security or index. Derivatives also exclude option features that are embedded in cash instruments, such as the conversion features and call provisions embedded in bonds. The firm has elected to include commodity-related contracts in its derivative disclosure, although not required to do so, as these contracts may be settled in cash or are readily convertible into cash.

The gross notional (or contractual) amounts of derivative financial instruments represent the volume of these transactions and not the amounts potentially subject to market risk. In addition, measurement of market risk is meaningful only when all related and offsetting transactions are taken into consideration.

Gross notional (or contractual) amounts of derivative financial instruments used for trading purposes with off-balance-sheet market risk are set forth below:

<Table>
<Caption>

	AS OF NOVEMBER	
	1999	1998
	(IN MILLIONS)	
	<C>	<C>
Interest Rate		
Financial futures and forward settlement contracts.....	\$ 422,465	\$ 406,302
Swap agreements.....	2,581,100	1,848,977
Written option contracts.....	509,841	423,561
Equity		
Financial futures and forward settlement contracts.....	10,082	7,405
Swap agreements.....	3,423	2,752
Written option contracts.....	113,653	54,856
Currency and Commodity		
Financial futures and forward settlement contracts.....	460,941	420,138
Swap agreements.....	110,159	51,502
Written option contracts.....	193,989	183,929

</Table>

Market risk on purchased option contracts is limited to the market value of the option; therefore, purchased option contracts have no off-balance-sheet market risk.

The gross notional (or contractual) amounts of purchased option contracts used for trading purposes are set forth below:

<Table>
<Caption>

AS OF NOVEMBER		
	1999	1998
	(IN MILLIONS)	
	<C>	<C>
Purchased Option Contracts		
Interest rate.....	\$484,104	\$509,770
Equity.....	114,680	59,571
Currency and commodity.....	210,421	186,748

The firm utilizes replacement cost as a measure of derivative credit risk. Replacement cost, as reported in "Financial instruments owned, at fair value" on the consolidated statements of financial condition, represents amounts receivable from various counterparties, net of any unrealized losses, owed where management believes a legal right of setoff exists under an enforceable netting agreement. Replacement cost for purchased option contracts is the market value of the contract. The firm controls its credit risk through an established credit approval process, by monitoring counterparty limits, obtaining collateral where appropriate and, in some cases, entering into enforceable netting agreements.

The fair value of derivative financial instruments used for trading purposes, computed in accordance with the firm's netting policy, is set forth below:

<Table>
<Caption>

AS OF NOVEMBER				
1999		1998		
ASSETS	LIABILITIES	ASSETS	LIABILITIES	
(IN MILLIONS)				
<C>	<C>	<C>	<C>	
Year End				
Forward settlement contracts.....	\$ 4,555	\$ 4,625	\$ 4,061	\$ 4,201
Swap agreements.....	12,052	11,587	10,000	11,475
Option contracts.....	14,018	12,274	7,140	9,038
Total.....	\$30,625	\$28,486	\$21,201	\$24,714
	=====	=====	=====	=====
Monthly Average				
Forward settlement contracts.....	\$ 3,877	\$ 3,619	\$ 4,326	\$ 3,979
Swap agreements.....	10,414	11,210	7,340	8,158
Option contracts.....	9,249	9,707	6,696	8,958
Total.....	\$23,540	\$24,536	\$18,362	\$21,095
	=====	=====	=====	=====

</Table>

NOTE 4/SHORT-TERM BORROWINGS

The firm obtains secured short-term financing principally through the use of repurchase agreements and securities lending agreements, collateralized mainly by U.S. government, federal agency, investment-grade foreign sovereign obligations and equity securities. The firm obtains unsecured short-term borrowings through issuance of commercial paper, promissory notes and bank loans. The carrying value of these short-term obligations approximates fair value due to their short-term nature.

Short-term borrowings are set forth below:

<Table>
<Caption>

	AS OF NOVEMBER	
	1999	1998
	(IN MILLIONS)	
<S>	<C>	<C>
Commercial paper.....	\$ 9,403	\$10,008
Promissory notes.....	11,061	10,763
Bank loans and other(1).....	17,292	6,659
Total(2).....	<u>\$37,756</u>	<u>\$27,430</u>

</Table>

-
- (1) As of November 1999 and November 1998, short-term borrowings included \$10.82 billion and \$2.96 billion, respectively, of long-term borrowings maturing within one year.
- (2) As of November 1999 and November 1998, weighted average interest rates for short-term borrowings, including commercial paper, were 5.66% and 5.19%, respectively.

The firm maintains unencumbered securities with a market value in excess of all uncollateralized short-term borrowings.

NOTE 5/LONG-TERM BORROWINGS

The firm's long-term borrowings are set forth below:

<Table>
<Caption>

	AS OF NOVEMBER	
	1999	1998
	(IN MILLIONS)	
<S>	<C>	<C>
Fixed Rate Obligations(1)		
U.S. dollar.....	\$ 8,236	\$ 5,260
Non-U.S. dollar.....	1,980	2,066
Floating Rate Obligations(2)		
U.S. dollar.....	9,697	11,858
Non-U.S. dollar.....	1,039	722
Total(3).....	<u>\$20,952</u>	<u>\$19,906</u>

</Table>

-
- (1) During 1999 and 1998, interest rates on U.S. dollar fixed rate obligations ranged from 5.56% to 12.00% and from 5.74% to 10.10%, respectively. During 1999 and 1998, non-U.S. dollar fixed rate obligations interest rates ranged from 0.85% to 9.51% and from 1.90% to 9.51%, respectively.
- (2) Floating interest rates generally are based on LIBOR, the U.S. treasury bill rate or the federal funds rate. Certain equity-linked and indexed instruments are included in floating rate obligations.

- (3) Long-term borrowings bear fixed or floating interest rates and have maturities that range from one to 30 years from the date of issue.

Long-term borrowings by maturity date are set forth below:

<Table>

<Caption>

	AS OF NOVEMBER					
	1999			1998		
	U.S. DOLLAR	NON-U.S. DOLLAR	TOTAL	U.S. DOLLAR	NON-U.S. DOLLAR	TOTAL
	(IN MILLIONS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Maturity Dates						
1999.....	\$ --	\$ --	\$ --	\$ 2,443	\$ 199	\$ 2,642
2000.....	2,527	114	2,641	4,293	272	4,565
2001.....	3,145	327	3,472	2,261	148	2,409
2002.....	1,638	594	2,232	1,669	265	1,934
2003.....	1,522	404	1,926	1,409	412	1,821
2004.....	1,857	134	1,991	1,310	43	1,353
2005 - Thereafter.....	7,244	1,446	8,690	3,733	1,449	5,182
Total.....	\$17,933	\$3,019	\$20,952	\$17,118	\$2,788	\$19,906

</Table>

The firm enters into nontrading derivative contracts, such as interest rate and currency swap agreements, to effectively convert a substantial portion of its fixed rate long-term borrowings into U.S. dollar-based floating rate obligations. Accordingly, the aggregate carrying value of these long-term borrowings and related hedges approximates fair value.

The effective weighted average interest rates for long-term borrowings, after hedging activities, are set forth below:

<Table>

<Caption>

	AS OF NOVEMBER			
	1999		1998	
	AMOUNT	RATE	AMOUNT	RATE
	(\$ IN MILLIONS)			
<S>	<C>	<C>	<C>	<C>
Fixed rate obligations.....	\$ 650	10.17%	\$ 222	8.09%
Floating rate obligations.....	20,302	6.03	19,684	5.63
Total.....	\$20,952	6.16	\$19,906	5.66

</Table>

As of November 1999 and November 1998, the notional amounts of the related swap agreements used for nontrading purposes were \$12.94 billion and \$10.21 billion, respectively.

The fair value and carrying value of these agreements are set forth below:

<Table>

<Caption>

	AS OF NOVEMBER			
	1999		1998	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
	(IN MILLIONS)			
<S>	<C>	<C>	<C>	<C>
Fair value.....	\$ 3	\$159	\$519	\$7
Carrying value.....	36	2	98	8

</Table>

NOTE 6/COMMITMENTS AND CONTINGENCIES

LITIGATION

The firm is involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of its businesses. Management believes, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on the firm's financial condition, but might be material to the firm's operating results for any particular period, depending, in part, upon the operating results for such period.

LEASES

The firm has obligations under long-term noncancelable lease agreements, principally for office space, expiring on various dates through 2019. Certain agreements are subject to periodic escalation charges for increases in real estate taxes and other charges. Minimum rental commitments, net of minimum sublease rentals, under noncancelable leases for 2000 and the succeeding four years and thereafter and rent charged to operating expense for the last three years are set forth below:

<Table> <Caption>		(IN MILLIONS)
<S>		<C>
Minimum Rental Commitments		
2000.....	\$	203
2001.....		183
2002.....		182
2003.....		181
2004.....		154
2005 - Thereafter.....		836
Total.....		----- \$1,739 =====
Net Rent Expense		
1999.....	\$	154
1998.....		104
1997.....		87
</Table>		

OTHER COMMITMENTS

The firm acts as an investor in merchant banking transactions, which includes making long-term investments in equity and debt securities in privately negotiated transactions, corporate acquisitions and real estate transactions. In connection with these activities, the firm had commitments to invest up to \$1.09 billion and \$1.39 billion in corporate and real estate merchant banking investment funds and a bridge loan fund as of November 1999 and November 1998, respectively.

In connection with loan origination and participation, the firm had loan commitments of \$9.38 billion and \$1.51 billion as of November 1999 and November 1998, respectively. These commitments are agreements to lend to counterparties, have fixed termination dates and are contingent on all conditions to borrowing set forth in the contract having been met. Since these commitments may expire unused, the total commitment amount does not necessarily reflect the actual future cash flow requirements.

The firm also had outstanding guarantees of \$575 million and \$790 million relating to its fund management activities as of November 1999 and November 1998, respectively.

The firm had pledged securities of \$35.83 billion and \$22.88 billion as collateral for securities borrowed of approximately equivalent value as of November 1999 and November 1998, respectively.

The firm had commitments to enter into repurchase and resale agreements of \$30.58 billion and \$46.26 billion as of November 1999 and November 1998, respectively.

The firm provides letters of credit issued by various banks to counterparties in lieu of securities or cash to satisfy various collateral and margin deposit requirements. Letters of credit outstanding were \$10.30 billion and \$8.81 billion as of November 1999 and November 1998, respectively.

NOTE 7/EQUITY CAPITAL

On May 7, 1999, the firm converted from a partnership to a corporation and completed its initial public offering. In that offering, the firm sold 51,000,000 shares of common stock. In addition, the firm completed a number of transactions to have Group Inc. succeed to the business of The Goldman Sachs Group, L.P. These transactions included the exchange of the partnership interests of the participating limited partners (PLPs), retired limited partners, Sumitomo Bank Capital Markets, Inc. and Kamehameha Activities Association for shares of common stock. As of November 1999, the firm had equity of \$10.15 billion.

Shares of nonvoting common stock are convertible into shares of common stock on a one-for-one basis upon transfer by Sumitomo Bank Capital Markets, Inc., the beneficial owner of such shares as of November 1999, to a third party, and in certain other circumstances.

As of November 1998, the firm had \$6.31 billion in partners' capital, which included both the general partner's and limited partners' capital. Partners' capital allocated for income taxes and potential withdrawals represented management's estimate of net amounts distributable, primarily to the PLPs, under the Partnership Agreement, for items including, among other things, income taxes and capital withdrawals.

NOTE 8/EARNINGS PER SHARE

The computations of basic and diluted EPS are set forth below:

<Table>
<Caption>

	YEAR ENDED NOVEMBER 1999
	(IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS)
<S>	<C>
Numerator for basic and diluted EPS -- earnings available to common stockholders.....	\$2,708
Denominator for basic EPS -- weighted average number of common shares.....	475,883,756
Effect of dilutive securities	
Restricted stock units.....	5,657,350
Stock options.....	4,262,854
Dilutive potential common shares.....	9,920,204
Denominator for diluted EPS -- weighted average number of common shares and dilutive potential common shares.....	485,803,960
Basic EPS.....	\$ 5.69
Diluted EPS.....	5.57

</Table>

NOTE 9/EMPLOYEE BENEFIT PLANS

The firm sponsors various pension plans and certain other postretirement benefit plans, primarily healthcare and life insurance, which cover most employees worldwide. The firm also provides certain benefits to former or inactive employees prior to retirement. A summary of these plans is set forth below:

DEFINED BENEFIT PENSION PLANS AND POSTRETIREMENT PLANS

The firm maintains a defined benefit pension plan for substantially all U.S. employees. Employees of certain non-U.S. subsidiaries participate in various local defined benefit plans. These plans generally provide benefits based on years of credited service and a percentage of the employee's eligible compensation. In addition, the firm has unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees, employees and dependents in the United States.

The following tables provide a summary of the changes in the plans' projected benefit obligations and the fair value of assets for 1999 and 1998, and a statement of the funded status of the plans as of November 1999 and November 1998:

<Table>
<Caption>

	NOVEMBER 1999			NOVEMBER 1998		
	U. S. PENSION	NON-U. S. PENSION	POST- RETIREMENT	U. S. PENSION	NON-U. S. PENSION	POST- RETIREMENT
	(IN MILLIONS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Benefit Obligation						
Balance, beginning of year.....	\$108	\$120	\$ 60	\$ 90	\$ 77	\$ 52
Service cost.....	4	15	3	3	11	2
Interest cost.....	8	5	4	7	4	4
Actuarial (gain)/loss.....	(10)	(4)	(4)	10	30	4
Benefits paid.....	(2)	(4)	(2)	(2)	(1)	(2)
Effect of foreign exchange rates.....	--	6	--	--	(1)	--
Balance, end of year.....	\$108	\$138	\$ 61	\$108	\$120	\$ 60
	=====	=====	=====	=====	=====	=====
Fair Value of Plan Assets						
Balance, beginning of year.....	\$133	\$ 75	\$ --	\$131	\$ 56	\$ --
Actual return on plan assets.....	17	11	--	4	11	--
Firm contributions.....	--	26	2	--	10	3
Benefits paid.....	(2)	(4)	(2)	(2)	(1)	(3)
Effect of foreign exchange rates.....	--	2	--	--	(1)	--
Balance, end of year.....	\$148	\$110	\$ --	\$133	\$ 75	\$ --
	=====	=====	=====	=====	=====	=====
Prepaid/(Accrued) Benefit Cost						
Funded Status.....	\$ 40	\$(28)	\$(61)	\$ 25	\$(45)	\$(60)
Unrecognized actuarial loss.....	2	14	5	20	23	9
Unrecognized transition obligation.....	(37)	23	--	(40)	22	--
Unrecognized prior service cost.....	--	--	(2)	--	--	(2)
Prepaid/(accrued) benefit cost.....	\$ 5	\$ 9	\$(58)	\$ 5	\$ --	\$(53)
	=====	=====	=====	=====	=====	=====

</Table>

For plans in which the accumulated benefit obligation exceeded plan assets, the projected benefit obligation and aggregate accumulated benefit obligation was \$138 million and \$121 million as of November 1999, respectively, and \$85 million and \$85 million as of November 1998, respectively. The fair value of plan assets for these plans was \$110 million and \$57 million as of November 1999 and November 1998, respectively. For plans in which the accumulated benefit obligation exceeded the fair value of plan assets, the effect of recognizing this amount would not have been material to the consolidated statements of financial condition or comprehensive income.

The components of pension expense/(income) and postretirement expense are set forth below:

<Table>

<Caption>

	YEAR ENDED NOVEMBER 1999			YEAR ENDED NOVEMBER 1998		
	U.S. PENSION	NON-U.S. PENSION	POST- RETIREMENT	U.S. PENSION	NON-U.S. PENSION	POST- RETIREMENT
	(IN MILLIONS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Service cost.....	\$ 4	\$15	\$3	\$ 3	\$11	\$2
Interest cost.....	8	5	4	7	4	4
Expected return on plan assets.....	(10)	(5)	--	(10)	(4)	--
Net amortization.....	(2)	3	--	(3)	2	--
Total.....	\$ --	\$18	\$7	\$ (3)	\$13	\$6
	====	===	==	=====	===	==

</Table>

The weighted average assumptions used to develop net periodic pension cost and the actuarial present value of the projected benefit obligation are set forth below. The assumptions represent a weighted average of the assumptions used for the U.S. and international plans and are based on the economic environment of each applicable country.

<Table>

<Caption>

	YEAR ENDED NOVEMBER		
	1999	1998	1997
	----	----	----
<S>	<C>	<C>	<C>
Defined Benefit Pension Plans			
U.S. Plans			
Discount rate.....	7.5%	7.0%	7.5%
Rate of increase in future compensation levels.....	5.0	5.0	5.0
Expected long-term rate of return on plan assets.....	7.5	7.5	7.5
International Plans			
Discount rate.....	4.6	5.0	5.7
Rate of increase in future compensation levels.....	4.3	4.7	5.3
Expected long-term rate of return on plan assets.....	6.0	6.0	7.0
Postretirement Plans			
Discount rate.....	7.5	7.0	7.5
Rate of increase in future compensation levels.....	5.0	5.0	5.0

</Table>

For measurement purposes, a 6.6% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for the fiscal year ending November 2000. The rate was assumed to decrease gradually to 5.0% for the fiscal year ending November 2008 and remain at that level thereafter.

The assumed cost of healthcare has an effect on the amounts reported for the firm's healthcare plans. A 1% change in the assumed healthcare cost trend rate would have the following effects:

<Table>
<Caption>

	1% INCREASE		1% DECREASE	
	1999	1998	1999	1998
	(IN MILLIONS)			
<S>	<C>	<C>	<C>	<C>
Cost.....	\$1	\$1	\$(1)	\$(1)
Obligation.....	9	9	(8)	(7)

</Table>

DEFINED CONTRIBUTION PLANS

The firm contributes to employer-sponsored U.S. and international defined contribution plans. The firm's contribution to these plans was \$94 million, \$70 million and \$68 million for 1999, 1998 and 1997, respectively.

The firm has also established a nonqualified defined contribution plan (the Plan) for certain senior employees. Shares of common stock contributed to the Plan in 1999 and outstanding as of November 1999 were 12,660,685. The shares of common stock will vest and generally be distributable to the participant on specified future dates if the participant satisfies certain conditions and the participant's employment with the firm has not been terminated, with certain exceptions for terminations of employment due to death or a change in control. Dividends on the underlying shares of common stock are paid currently to the participants. Forfeited shares remain in the Plan and are reallocated to other participants. Contributions to the Plan are expensed on the date of grant. Plan expense in 1999 was \$674 million, including \$666 million granted in connection with the firm's initial public offering.

NOTE 10/EMPLOYEE INCENTIVE PLANS

STOCK INCENTIVE PLAN

The firm sponsors a stock incentive plan that provides for grants of incentive stock options, nonqualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock units and other stock-based awards. The stock incentive plan also permits the making of loans to purchase shares of common stock.

The total number of shares of common stock that may be issued under the stock incentive plan through fiscal 2002 may not exceed 300,000,000 shares and, in each fiscal year thereafter, may not exceed 5% of the issued and outstanding shares of common stock, determined as of the last day of the immediately preceding fiscal year, increased by the number of shares available for awards in previous fiscal years but not covered by awards granted in such years. As of November 1999, 183,440,631 shares were available for grant under the stock incentive plan.

RESTRICTED STOCK UNITS

The firm issued restricted stock units to employees in 1999 under the stock incentive plan, primarily in connection with its initial public offering and as part of year-end compensation. Of the total restricted stock units outstanding as of November 1999, (i) 40,344,481 units required future service as a condition to the delivery of the underlying shares of common stock, and (ii) 35,703,923 units did not require future service. In all cases, delivery of the underlying shares of common stock is conditioned on the grantee's satisfying certain other requirements outlined in the award agreements.

The activity related to these restricted stock units during 1999 is set forth below:

<Table>
<Caption>

	RESTRICTED STOCK UNITS OUTSTANDING	
	NO FUTURE SERVICE REQUIRED	FUTURE SERVICE REQUIRED
	(IN MILLIONS, EXCEPT <C>)	UNIT AMOUNTS) <C>
<S>		
Outstanding, beginning of year.....	--	--
Granted.....	36,127,314	40,780,999
Forfeited.....	(355,177)	(436,518)
Delivered.....	(68,214)	--
Outstanding, end of year.....	35,703,923	40,344,481
Noncash compensation expense, net of forfeitures.....	=====	=====
	\$2,042	\$273

</Table>

The future noncash compensation expense related to the restricted stock units for which future service is required is set forth below:

<Table>
<Caption>

	COMPENSATION EXPENSE
	(IN MILLIONS)
	<C>
<S>	
2000.....	\$ 733
2001.....	610
2002.....	429
2003.....	214
2004.....	52
Total.....	=====
	\$2,038

</Table>

STOCK OPTIONS

Stock options granted to employees during 1999 will generally become exercisable in equal installments on or about the third, fourth and fifth anniversaries of the date of grant if the grantee has satisfied certain conditions and the grantee's employment with the firm has not been terminated, with certain exceptions for terminations of employment due to death, retirement, extended absence or a change in control. Once service requirements have been met, these options will generally remain exercisable, subject to satisfaction of certain conditions, until the tenth anniversary of the date of grant. Pursuant to APB No. 25, compensation expense was not recognized for those options that had no intrinsic value on the date of grant. The dilutive effect of these options is included in diluted common shares outstanding under SFAS No. 128.

The activity of these stock options during 1999 is set forth below:

<Table>
<Caption>

	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING LIFE (YEARS)
	-----	-----	-----
	<C>	<C>	<C>
<S>			
Outstanding, beginning of year.....	--	\$ --	--
Granted.....	40,863,172	52.91	--
Exercised.....	--	--	--
Forfeited.....	(503,506)	53.00	--
Outstanding, end of year.....	40,359,666	52.91	9.42
	=====		

</Table>

The weighted average fair value of options granted through November 1999 was \$16.13 per option. Fair value is estimated as of the grant date based on a binomial option pricing model using the following weighted average assumptions:

<Table>	
<S>	
Risk-free interest rate.....	<C> 6.1%
Expected life.....	7 years
Expected volatility.....	30.0%
Dividend yield.....	1.0%
</Table>	

PRO FORMA EFFECT OF SFAS NO. 123

If the firm were to recognize compensation expense under the fair value-based method of SFAS No. 123 with respect to options granted, net earnings would have decreased resulting in pro forma net earnings and EPS as follows:

<Table>	
<Caption>	
	YEAR ENDED NOVEMBER 1999

	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)
<S>	
Net earnings, as reported.....	<C> \$2,708
Pro forma net earnings.....	2,650
EPS, as reported	
Basic.....	\$ 5.69
Diluted.....	5.57
Pro forma EPS	
Basic.....	\$ 5.57
Diluted.....	5.45
</Table>	

In the table above, pro forma compensation expense associated with option grants is recognized over the relevant vesting period. The effect of applying SFAS No. 123 in the pro forma disclosure above is not representative of the potential pro forma effect on net earnings in future periods.

NOTE 11/INCOME TAXES

Prior to its conversion to corporate form, the firm operated as a partnership and generally was not subject to U.S. federal and state income taxes. The earnings of the firm, however, were subject to local unincorporated business taxes. In addition, certain non-U.S. subsidiaries were subject to income taxes in their local jurisdictions. The partners of the firm's predecessor partnership were taxed on their proportionate share of the partnership's taxable income or loss. Effective with the conversion from a partnership to a corporation on May 7, 1999, the firm became subject to U.S. federal, state and local corporate income taxes.

The components of the net tax (benefit)/expense reflected on the consolidated statements of earnings are set forth below:

<Table>
<Caption>

	YEAR ENDED NOVEMBER		
	1999	1998	1997
	(IN MILLIONS)		
	<C>	<C>	<C>
Current Taxes			
U.S. federal.....	\$ 16	\$ 16	\$ 5
State and local.....	67	28	87
Non-U.S.	588	426	144
Total current tax expense.....	671	470	236
Deferred Taxes			
U.S. federal.....	(688)	--	--
State and local.....	(342)	(3)	(4)
Non-U.S.	(357)	26	36
Total deferred tax (benefit)/expense.....	(1,387)	23	32
Net tax (benefit)/expense.....	\$ (716)	\$493	\$268

</Table>

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities. These temporary differences result in taxable or deductible amounts in future years and are measured using the tax rates and laws that will be in effect when such differences are expected to reverse. In connection with the conversion from a partnership to a corporation, the firm recognized a deferred tax benefit related to the revaluation of net deferred tax assets recorded as a partnership. Additionally, deferred tax assets were recorded as a result of acquisitions during 1999.

Significant components of the firm's deferred tax assets and liabilities are set forth below:

<Table>
<Caption>

	AS OF NOVEMBER	
	1999	1998
	(IN MILLIONS)	
	<C>	<C>
Deferred Tax Assets		
Compensation and benefits.....	\$1,397	\$44
Foreign tax credits.....	140	--
Depreciation and amortization.....	57	14
Other, net.....	226	14
	1,820	72
Less: valuation allowance(1).....	(83)	--
Total deferred tax assets.....	1,737	72
Deferred Tax Liabilities		
Unrealized gains.....	257	33
Total deferred tax liabilities.....	257	33
Net deferred tax assets.....	\$1,480	\$39

</Table>

(1) Relates primarily to the ability to recognize tax benefits associated with non-U.S. operations.

A reconciliation of the U.S. federal statutory income tax rate to the firm's effective income tax rate is set forth below:

<Table>
<Caption>

	YEAR ENDED NOVEMBER		
	1999	1998)(1)	1997(1)
<S>	<C>	<C>	<C>
U.S. federal statutory income tax rate.....	35.0%	--%	--%
Increase related to:			
State and local taxes, net of U.S. income tax effects.....	5.0	0.9	2.8
Foreign.....	--	15.5	6.0
Other.....	--	0.5	0.1
	----	----	----
Rate before one-time events.....	40.0	16.9	8.9
Revaluation of deferred tax assets upon change in tax status.....	(41.4)(2)	--	--
Rate benefit for partnership period.....	(37.7)(3)	--	--
Other.....	3.2	--	--
	----	----	----
Total tax (benefit)/expense.....	<u>(35.9)%</u>	<u>16.9%</u>	<u>8.9%</u>

</Table>

-
- (1) The U.S. federal statutory income tax rate is not applicable to 1998 or 1997 because the firm operated as a partnership and generally was not subject to corporate federal income taxes. U.S. federal taxes paid by subsidiary corporations are included in "Other" for 1998 and 1997.
 - (2) The deferred tax benefit recognized upon the firm's change in tax status from partnership to corporate form primarily reflects the revaluation of the deferred tax assets and liabilities at the firm's corporate income tax rate.
 - (3) The rate benefit for the partnership period relates to the firm's earnings prior to its conversion to corporate form, which generally were not subject to corporate income taxes.

NOTE 12/REGULATED SUBSIDIARIES

GS&Co. is a registered U.S. broker-dealer subsidiary, which is subject to the Securities and Exchange Commission's "Uniform Net Capital Rule," and has elected to compute its net capital in accordance with the "Alternative Net Capital Requirement" of that rule. As of November 1999 and November 1998, GS&Co. had regulatory net capital, as defined, of \$2.92 billion and \$3.25 billion, respectively, which exceeded the amounts required by \$2.31 billion and \$2.70 billion, respectively.

GSI, a registered U.K. broker-dealer and subsidiary of Group Inc., is subject to the capital requirements of the Securities and Futures Authority Limited, and GSJL, a Tokyo-based broker-dealer, is subject to the capital requirements of the Japanese Ministry of Finance and the Financial Supervisory Agency. As of November 1999 and November 1998, GSI and GSJL were in compliance with their local capital adequacy requirements.

Certain other subsidiaries of the firm are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of November 1999 and November 1998, these subsidiaries were in compliance with their local capital adequacy requirements.

NOTE 13/BUSINESS SEGMENTS

In reporting to management, the firm's operating results are categorized into the following two principal segments: Global Capital Markets; and Asset Management and Securities Services.

GLOBAL CAPITAL MARKETS

The Global Capital Markets segment includes services related to the following:

INVESTMENT BANKING. The firm provides a broad range of investment banking services to a diverse group of corporations, financial institutions, governments and individuals. The firm's investment banking activities are divided into two categories:

- FINANCIAL ADVISORY. Financial Advisory includes advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, restructurings and spin-offs; and
- UNDERWRITING. Underwriting includes public offerings and private placements of equity and debt securities.

TRADING AND PRINCIPAL INVESTMENTS. The firm's Trading and Principal Investments business facilitates transactions with a diverse group of corporations, financial institutions, governments and individuals and takes proprietary positions through market making in and trading of fixed income and equity products, currencies, commodities, and swaps and other derivatives. Trading and Principal Investments is divided into three categories:

- FICC. The firm makes markets in and trades fixed income products, currencies and commodities, structures and enters into a wide variety of derivative transactions, and engages in proprietary trading and arbitrage activities;
- EQUITIES. The firm makes markets in and trades equities and equity-related products, structures and enters into equity derivative transactions, and engages in proprietary trading and equity arbitrage; and
- PRINCIPAL INVESTMENTS. Principal Investments primarily represents net revenues from the firm's merchant banking investments.

ASSET MANAGEMENT AND SECURITIES SERVICES

The Asset Management and Securities Services segment includes services related to the following:

- ASSET MANAGEMENT. Asset Management generates management fees by providing investment advisory services to a diverse client base of institutions and individuals;
- SECURITIES SERVICES. Securities Services includes prime brokerage, financing services and securities lending and the firm's matched book businesses, all of which generate revenue primarily in the form of fees or interest rate spreads; and
- COMMISSIONS. Commissions include agency transactions for clients on major stock and futures exchanges and revenues from the increased share of the income and gains derived from the firm's merchant banking funds.

BASIS OF PRESENTATION

In reporting segments, certain of the firm's business lines have been aggregated where they have similar economic characteristics and are similar in each of the following areas: (i) the nature of the services they provide, (ii) their methods of distribution, (iii) the types of clients they serve and (iv) the regulatory environments in which they operate.

The firm allocates revenues and expenses between the two segments. Due to the integrated nature of the business segments, estimates and judgments have been made in allocating certain revenue and expense items. Transactions between segments are based on specific criteria or approximate third-party rates. Total operating expenses include corporate items that have not been allocated to either business segment. The allocation process is based on the manner in which management views the business of the firm.

The segment information presented in the table below is prepared according to the following methodologies:

- Revenues and expenses directly associated with each segment are included in determining pre-tax earnings.
- Net revenues in the firm's segments include allocations of interest income and expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, the underlying positions. Net interest is allocated to the Trading and Principal Investments component of Global Capital Markets and the Securities Services component of Asset Management and Securities Services. Net interest is included within segment net revenues as it is consistent with the way in which management assesses segment performance.
- Overhead expenses not directly allocable to specific segments are allocated ratably based on direct segment expenses.
- The nonrecurring expenses associated with the firm's conversion to

corporate form and related transactions are not allocated to individual segments as management excludes them in evaluating segment performance.

SEGMENT OPERATING RESULTS

Management believes that the following information provides a reasonable representation of each segment's contribution to consolidated pre-tax earnings and total assets:

<Table>

<Caption>

	YEAR ENDED NOVEMBER		
	1999	1998	1997
	(IN MILLIONS)		
<S>	<C>	<C>	<C>
Global Capital Markets			
Net revenues(1).....	\$ 10,132	\$ 5,747	\$ 5,513
Operating expenses(2).....	6,232	3,978	3,228
Pre-tax earnings(3).....	\$ 3,900	\$ 1,769	\$ 2,285
Segment assets.....	\$127,515	\$102,724	\$ 99,974
Asset Management and Securities Services			
Net revenues(1).....	\$ 3,213	\$ 2,773	\$ 1,934
Operating expenses(2).....	2,396	1,621	1,205
Pre-tax earnings(3).....	\$ 817	\$ 1,152	\$ 729
Segment assets.....	\$121,693	\$114,293	\$ 78,193
Total			
Net revenues(1).....	\$ 13,345	\$ 8,520	\$ 7,447
Operating expenses(2).....	11,353(5)	5,599	4,433
Pre-tax earnings.....	\$ 1,992	\$ 2,921	\$ 3,014
Total assets(4).....	\$250,491	\$217,380	\$178,401

</Table>

(1) Net revenues include net interest as set forth in the table below:

<Table>

<Caption>

	YEAR ENDED NOVEMBER		
	1999	1998	1997
	(IN MILLIONS)		
<S>	<C>	<C>	<C>
Global Capital Markets.....	\$ 15	\$ 364	\$ 623
Asset Management and Securities Services.....	689	688	478
Total net interest.....	\$704	\$1,052	\$1,101

</Table>

(2) Operating expenses include depreciation and amortization as set forth in the table below:

<Table>

<Caption>

	YEAR ENDED NOVEMBER		
	1999	1998	1997
	(IN MILLIONS)		
<S>	<C>	<C>	<C>
Global Capital Markets.....	\$228	\$158	\$119
Asset Management and Securities Services.....	109	84	59
Total depreciation and amortization.....	\$337	\$242	\$178

</Table>

- (3) The pre-tax earnings of the firm's segments in 1999 reflect payments for services rendered by managing directors who, prior to the firm's conversion to corporate form, were profit participating limited partners. In prior years, these payments were accounted for as distributions of partners' capital rather than as compensation and benefits expense. As a result, these payments are not reflected in the operating expenses of the firm's segments in 1998 and 1997 and, therefore, the pre-tax earnings of the firm's segments in these years are not comparable with 1999.
- (4) Includes deferred tax assets relating to the firm's conversion to corporate form and certain other assets that management believes are not allocable to a particular segment.
- (5) Includes the following expenses that have not been allocated to the firm's segments: (i) nonrecurring employee initial public offering awards of \$2.26 billion, (ii) the ongoing amortization of employee initial public offering awards of \$268 million and (iii) the charitable contribution to The Goldman Sachs Foundation of \$200 million made at the time of the firm's initial public offering.

The following table sets forth the net revenues of the firm's two segments:

<Table>
<Caption>

	YEAR ENDED NOVEMBER		
	1999	1998	1997
	(IN MILLIONS)		
<S>	<C>	<C>	<C>
Financial Advisory.....	\$ 2,270	\$1,774	\$1,184
Underwriting.....	2,089	1,594	1,403
Investment Banking.....	4,359	3,368	2,587
FICC.....	2,862	1,438	2,055
Equities.....	1,961	795	573
Principal Investments.....	950	146	298
Trading and Principal Investments.....	5,773	2,379	2,926
Total Global Capital Markets.....	10,132	5,747	5,513
Asset Management.....	919	675	458
Securities Services.....	772	730	487
Commissions.....	1,522	1,368	989
Total Asset Management and Securities Services.....	3,213	2,773	1,934
Total net revenues.....	\$13,345	\$8,520	\$7,447

</Table>

GEOGRAPHIC INFORMATION

Due to the highly integrated nature of international financial markets, the firm manages its businesses based on the profitability of the enterprise as a whole. Accordingly, management believes that profitability by geographic region is not necessarily meaningful.

The firm's revenues, expenses and identifiable assets are generally allocated based on the country of domicile of the legal entity providing the service.

The following table sets forth the total net revenues, pre-tax earnings, and identifiable assets of the firm and its consolidated subsidiaries by geographic region allocated on the basis described above:

<Table>
<Caption>

	YEAR ENDED NOVEMBER		
	1999	1998	1997
	(IN MILLIONS)		
<S>	<C>	<C>	<C>
Net Revenues			
United States.....	\$ 8,536	\$ 5,133	\$ 4,724
Other Americas.....	327	308	379
United Kingdom.....	3,103	1,893	1,570
Other Europe.....	375	333	190
Asia.....	1,004	853	584
Total net revenues.....	<u>\$ 13,345</u>	<u>\$ 8,520</u>	<u>\$ 7,447</u>
Pre-tax Earnings(1)			
United States.....	\$ 2,878	\$ 1,315	\$ 1,737
Other Americas.....	184	209	302
United Kingdom.....	1,203	746	625
Other Europe.....	198	216	89
Asia.....	254	435	261
Other.....	(2,725)(3)	--	--
Total pre-tax earnings.....	<u>\$ 1,992</u>	<u>\$ 2,921</u>	<u>\$ 3,014</u>
Identifiable Assets			
United States.....	\$ 238,875	\$ 213,971	\$ 189,622
Other Americas.....	6,118	6,596	8,512
United Kingdom.....	119,350	94,025	69,260
Other Europe.....	11,737	8,820	7,555
Asia.....	18,088	19,536	13,085
Eliminations and other(2).....	(143,677)	(125,568)	(109,633)
Total identifiable assets.....	<u>\$ 250,491</u>	<u>\$ 217,380</u>	<u>\$ 178,401</u>

</Table>

(1) The pre-tax earnings of the firm in 1999 reflect payments for services rendered by managing directors who, prior to the firm's conversion to corporate form, were profit participating limited partners. In prior years, these payments were accounted for as distributions of partners' capital rather than as compensation and benefits expense. As a result, these payments are not reflected in the firm's operating expenses in 1998 and 1997 and, therefore, the pre-tax earnings in these years are not comparable with 1999.

(2) Reflects eliminations and certain assets that are not allocable to a particular geographic region.

(3) Includes the following expenses that have not been allocated to the firm's geographic regions: (i) nonrecurring employee initial public offering awards of \$2.26 billion, (ii) the ongoing amortization of employee initial public offering awards of \$268 million and (iii) the charitable contribution to The Goldman Sachs Foundation of \$200 million made at the time of the firm's initial public offering.

NOTE 14/SUBSEQUENT EVENTS

On December 20, 1999, the Board of Directors of Group Inc. declared a dividend of \$0.12 per share to be paid on February 24, 2000 to voting and nonvoting common shareholders of record on January 24, 2000.

SUPPLEMENTAL FINANCIAL INFORMATION

QUARTERLY RESULTS (UNAUDITED)

The following represents the firm's unaudited quarterly results for 1999 and 1998. These quarterly results conform with generally accepted accounting principles and reflect all adjustments, consisting only of normal recurring adjustments, that are, in the opinion of management, necessary for a fair presentation of the results.

<Table>

<Caption>

	1999 FISCAL QUARTER			
	FIRST	SECOND	THIRD	FOURTH
	(IN MILLIONS, EXCEPT PER SHARE DATA)			
<S>	<C>	<C>	<C>	<C>
Total revenues.....	\$5,856	\$ 6,355	\$6,440	\$6,712
Interest expense.....	2,861	2,886	3,032	3,239
Revenues, net of interest expense.....	2,995	3,469	3,408	3,473
Operating expenses.....	1,807	4,956	2,326	2,264
Pre-tax earnings/(loss).....	1,188	(1,487)(1)	1,082	1,209
Provision/(benefit) for taxes.....	181	(1,827)(2)	444	486
Net earnings.....	\$1,007	\$ 340	\$ 638	\$ 723
Earnings per share				
Basic.....	--	\$ 0.72	\$ 1.34	\$ 1.51
Diluted.....	--	0.71	1.32	1.48
Dividends paid per share.....	--	--	0.12	0.12

</Table>

- (1) Includes nonrecurring expenses of \$2.26 billion associated with the firm's conversion to corporate form and the firm's charitable contribution to The Goldman Sachs Foundation of \$200 million made at the time of the firm's initial public offering.
- (2) Includes a net tax benefit of \$825 million related to the firm's conversion to corporate form, a benefit of \$880 million related to the granting of employee initial public offering awards and a benefit of \$80 million related to the charitable contribution to The Goldman Sachs Foundation.

<Table>

<Caption>

	1998 FISCAL QUARTER			
	FIRST	SECOND	THIRD	FOURTH
	(IN MILLIONS)			
<S>	<C>	<C>	<C>	<C>
Total revenues.....	\$5,903	\$6,563	\$5,735	\$4,277
Interest expense.....	3,431	3,574	3,591	3,362
Revenues, net of interest expense.....	2,472	2,989	2,144	915
Operating expenses.....	1,450	1,952	1,389	808
Pre-tax earnings.....	1,022	1,037	755	107
Provision for taxes.....	138	190	102	63
Net earnings.....	\$ 884	\$ 847	\$ 653	\$ 44

</Table>

STOCK PRICE RANGE

Our common stock commenced trading on the New York Stock Exchange under the symbol "GS" on May 4, 1999. Prior to that date, there was no public market for our common stock. The following table sets forth, for the periods indicated, the high and low closing prices per share for our common stock as reported by the Consolidated Tape Association:

<Table>

<Caption>

1999 FISCAL QUARTER							
FIRST		SECOND		THIRD		FOURTH	
HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW

<S>	-----	-----	-----	-----	-----	-----	-----	-----
Closing price (in dollars).....	<C> --	<C> --	<C> 74.13	<C> 64.50	<C> 72.25	<C> 55.81	<C> 82.81	<C> 57.69

</Table>

Significant Subsidiaries of the Registrant

The following are significant subsidiaries of The Goldman Sachs Group, Inc. as of November 26, 1999 and the states or jurisdictions in which they are organized. Indentation indicates the principal parent of each subsidiary. Except as otherwise specified, in each case The Goldman Sachs Group, Inc. owns, directly or indirectly, at least 99% of the voting securities of each subsidiary. The names of particular subsidiaries have been omitted because, considered in the aggregate as a single subsidiary, they would not constitute, as of the end of the year covered by this report, a "significant subsidiary" as that term is defined in Rule 1-02(w) of Regulation S-X under the Securities Exchange Act of 1934.

Name	State or Jurisdiction of Entity
-----	-----
The Goldman Sachs Group, Inc.	Delaware
Goldman, Sachs & Co.	New York
Goldman Sachs (Asia) Finance Holdings L.L.C.	Delaware
Goldman Sachs (Asia) Finance	Mauritius
Goldman Sachs (UK) L.L.C.	Delaware
Goldman Sachs Holdings (U.K.)	United Kingdom
Goldman Sachs International	United Kingdom
J. Aron & Company (U.K.)	United Kingdom
Goldman Sachs Equity Securities (U.K.)	United Kingdom
Goldman Sachs International Finance	United Kingdom
Goldman Sachs Capital Markets, L.P.	Delaware
Goldman Sachs (Japan) Ltd.	British Virgin Islands
J. Aron Holdings, L.P.	Delaware
J. Aron & Company	New York
Goldman Sachs Mortgage Company	New York
Goldman Sachs Canada	Canada
Goldman Sachs Credit Partners, L.P.	Bermuda
Goldman Sachs Holdings (Netherlands) B.V.	Netherlands
Goldman Sachs Mitsui Marine Derivative	
Products, L.P. (1)	Delaware
GS Equity Markets, L.P. (Bermuda)	Bermuda
Goldman Sachs Holdings L.L.C. (2)	Delaware
Goldman Sachs International Bank	United Kingdom
Goldman Sachs (Cayman) Holding Company	Cayman Islands
Goldman Sachs & Co. Bank	Switzerland
Goldman, Sachs & Co. oHG	Germany
Goldman Sachs Financial Markets, L.P.	Delaware
GS Hull Holding, Inc.	Delaware
Hull and Associates, L.L.C.	Illinois
Hull Trading Co. L.L.C.	Delaware
-----	-----

(1) Represents a joint venture owned by Goldman Sachs Holdings (Netherlands) B.V. (49%), Mitsui Marine and Fire Insurance Co., Ltd. (50%) and GSMDPGP, Inc. (1%).

(2) Represents a limited liability company owned by Goldman Sachs London Holdings LLC (49%), Caterpillar Financial Services Corp. (50%) and The Goldman Sachs Group, Inc. (1%).

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-80839) of our report dated January 21, 2000 relating to the financial statements of The Goldman Sachs Group, Inc. and Subsidiaries (the "firm"), which appears in the 1999 Annual Report to Shareholders and is incorporated by reference in this Annual Report on Form 10-K for the year ended November 26, 1999. We also consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-80839) of our reports dated January 21, 2000 relating to the Financial Statement Schedule and Selected Consolidated Financial Data which appear in this Annual Report on Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

New York, New York
February 11, 2000.

<ARTICLE> BD		<F1>
<MULTIPLIER> 1,000,000		
<TABLE>		
<S>	<C>	
<PERIOD-TYPE>	12-MOS	
<FISCAL-YEAR-END>		NOV-26-1999
<PERIOD-START>		NOV-30-1998<F2>
<PERIOD-END>		NOV-26-1999
<CASH>		12,190<F3>
<RECEIVABLES>		34,630
<SECURITIES-RESALE>		37,106
<SECURITIES-BORROWED>		78,418
<INSTRUMENTS-OWNED>		81,809
<PP&E>		1,646<F4>
<TOTAL-ASSETS>		250,491
<SHORT-TERM>		37,756
<PAYABLES>		59,534
<REPOS-SOLD>		40,183
<SECURITIES-LOANED>		9,169
<INSTRUMENTS-SOLD>		64,888
<LONG-TERM>		20,952
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		4
<OTHER-SE>		10,141
<TOTAL-LIABILITY-AND-EQUITY>		250,491
<TRADING-REVENUE>		5,758<F5>
<INTEREST-DIVIDENDS>		12,722
<COMMISSIONS>		1,522<F6>
<INVESTMENT-BANKING-REVENUES>		4,359
<FEE-REVENUE>		1,002<F6>
<INTEREST-EXPENSE>		12,018
<COMPENSATION>		8,984<F7>
<INCOME-PRETAX>		1,992
<INCOME-PRE-EXTRAORDINARY>		1,992
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		2,708
<EPS-BASIC>		5.69
<EPS-DILUTED>		5.57
<FN>		

<F1>The amounts disclosed in the financial data summary should be read in conjunction with the consolidated financial statements and the notes thereto.

<F2>Represents the first Monday of the period.

<F3>Includes cash and cash equivalents and cash and securities segregated in compliance with U.S. federal and other regulations as disclosed on the consolidated statement of financial condition.

<F4>Included in other assets on the consolidated statement of financial condition.

<F5>Includes revenues from principal investments, which mainly represents revenues from the Firm's merchant banking investments.

<F6>Included in revenues from asset management and securities services on the consolidated statement of earnings.

<F7>Includes non-recurring employee initial public offering awards and amortization of employee initial public offerings awards.

</FN>

</TABLE>

REPORT OF INDEPENDENT ACCOUNTANTS

To the Directors and Shareholders,
The Goldman Sachs Group, Inc.:

We have audited the consolidated financial statements of The Goldman Sachs Group, Inc. and Subsidiaries (the "firm") as of November 26, 1999 and November 27, 1998, and for each of the three fiscal years in the period ended November 26, 1999 and have issued our report thereon, which expresses an unqualified opinion, dated January 21, 2000. Such consolidated statements and our report thereon are incorporated by reference in Part II, Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

We have also previously audited, in accordance with generally accepted auditing standards, the consolidated statements of financial condition as of November 28, 1997, November 29, 1996 and November 24, 1995, and the related consolidated statements of earnings, changes in partners' capital and cash flows for the years ended November 29, 1996 and November 24, 1995 (none of which are presented herein); and we expressed unqualified opinions on those consolidated financial statements. In our opinion, the information set forth in the selected consolidated financial data for each of the five years in the period ended November 26, 1999, appearing on pages 25 to 26 of this Annual Report on Form 10-K, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

/s/ PRICEWATERHOUSECOOPERS LLP

New York, New York
January 21, 2000.