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 24, 2000 **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:

Title of each class:	Name of each exchange on which registered:
Common stock, par value $.01 per share, and attached Shareholder Protection Rights	New York Stock Exchange
Medium-Term Notes, Series B, Index-Linked Notes due 2002 (Linked to the Nikkei 225); 0.25% Exchangeable Notes due 2007 (Exchangeable for Common Stock of EMC Corporation); Index-Linked Notes due 2004 (Linked to the Nasdaq-100 Index®); 1% Exchangeable Notes due 2007 (Exchangeable for Common Stock of Enron Corporation); 8% Reset YES Notes due 2002 (Yield-Enhanced Securities Subject to Mandatory Exchange for Common Stock of Brocade Communications Systems, Inc.); 0.50% Exchangeable Notes due 2007 (Exchangeable for Common Stock of Texas Instruments, Inc.); 0.75% Exchangeable Notes due 2005 (Exchangeable for Common Stock of American Express Company); 0.25% Exchangeable Index-Linked Notes due 2005 (Linked to the Nasdaq-100 Index®); 0.25% Exchangeable Index-Linked Notes due November 7, 2005 (Linked to the Nasdaq-100 Index®); and 1% Exchangeable Basket-Linked Notes due 2007 (Linked to a Basket of Three Stocks)	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; 7.50% Notes due 2005; and 7.80% Notes due 2010	New York Stock Exchange
Medium-Term Notes, Series B, Callable Index-Linked Notes due 2003 (Linked to the GSTI™ 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 February 5, 2001, there were 481,577,437 shares of the registrant's common stock outstanding.

As of February 5, 2001, the aggregate market value of the common stock of the registrant held by non-affiliates of the registrant was approximately $48.5 billion.

Documents incorporated by reference: Portions of The Goldman Sachs Group, Inc.'s 2000 Annual Report to Shareholders are incorporated by reference in this Form 10-K in response to Part II, Items 5, 6, 7, 7A and 8, and Part IV, Item 14. Portions of The Goldman Sachs Group, Inc.'s Proxy Statement to be dated on or about February 22, 2001, for its 2001 Annual Meeting of Shareholders to be held on April 6, 2001, 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 24, 2000

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. As of November 24, 2000, we operated offices in over 20 countries and approximately 35% of our 22,627 employees were based outside the United States.

Goldman Sachs is the successor to a commercial paper business founded in 1869 by Marcus Goldman. On May 7, 1999, we converted from a partnership to a corporation and completed an initial public offering of our common stock.

All references to 2000, 1999 and 1998 refer to our fiscal year ended, or the date, as the context requires, November 24, 2000, November 26, 1999 and November 27, 1998, respectively.

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

Financial information concerning our business segments and geographic regions for each of 2000, 1999 and 1998 is set forth in ''Management's Discussion and Analysis'', and the consolidated financial statements and the notes thereto, in our 2000 Annual Report to Shareholders, which are incorporated by reference in Part II, Items 5, 6, 7, 7A and 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 — Financial restructuring advisory services — Mergers and acquisitions advisory services — Real estate advisory services	— Bank loans — Commodities — Currencies — Equity and fixed income derivatives — Equity and fixed income securities — Principal investments — Proprietary arbitrage — Specialist in securities and options	— Commissions — Institutional and high-net-worth asset management — Margin lending — Matched book — Merchant banking fees — Increased share of merchant banking fund income and gains — Mutual funds — Prime brokerage — Securities lending — Securities and options clearing services

Global Capital Markets

The Global Capital Markets segment, which represented 72% of 2000 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 32% of 2000 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 strength, 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 40% of 2000 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 addition, we engage in floor-based market making as a specialist on U.S. equities and options exchanges. 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 from our competitors and substantially enhances our client relationships.

Trading and Principal Investments is divided into three categories:

- **Fixed Income, Currency and Commodities.** 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, act as a specialist for, 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.

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 its customer-driven business, FICC strives to deliver high-quality service by offering broad market-making, research and market knowledge to our clients on a global basis and by creating innovative solutions to complex client problems by drawing upon our structuring and trading expertise. In addition, we use our expertise to take positions in markets to facilitate customer transactions when we believe the return is at least commensurate with the risk.

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.

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 and the United Kingdom. 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 is active in the execution of large block trades (trades of 50,000 or more shares). Block transactions, however, expose us to increased risks, including those arising from holding large and concentrated positions. We are also facing decreasing spreads for these trades.

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.

Our equity arbitrage trading businesses include risk arbitrage (which focuses on event-oriented special situations such as mergers and acquisitions, corporate restructurings, recapitalizations, and legal and regulatory events) and statistical arbitrage (which involves trading strategies based on analyses of historical price relationships among sectors of the equity markets).

On October 31, 2000, we completed our combination with SLK LLC. The combination expanded our existing clearing, off-floor market making and options specialist businesses and resulted in our entering the floor-based securities specialist business.

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 2000 Annual Report to Shareholders, which is incorporated by reference in Part II, Items 7 and 7A 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 2000, we managed merchant banking funds with total equity capital commitments from our clients and from Goldman Sachs of $30.85 billion, including funded amounts. Of that total, Goldman Sachs had outstanding commitments to invest up to $1.74 billion. The funds' investments generate capital appreciation or depreciation and, upon disposition, realized gains or losses. See ''— Asset Management and Securities Services — Asset Management — Merchant Banking'' for a discussion of our merchant banking funds. As of November 2000, the aggregate carrying value of our principal investments held directly or through our merchant banking funds was approximately $3.52 billion, which consisted of corporate principal investments with an aggregate carrying value of approximately $2.51 billion and real estate investments with an aggregate carrying value of approximately $1.01 billion.

Asset Management and Securities Services

The components of the Asset Management and Securities Services segment, which represented 28% of 2000 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 clearing and agency transactions for clients on major stock, options and futures exchanges and revenues from the increased share of the income and gains derived from our merchant banking funds.

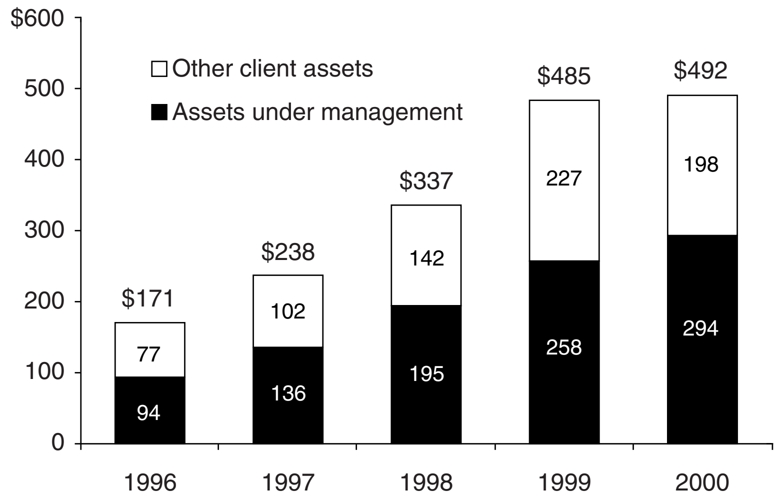
Asset Management

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). We have devoted, and continue to devote, significant resources to our asset management business.

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. Substantially all assets under supervision are valued as of calendar month-end.

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

Assets Under Supervision
(in billions)



As of November 30, 2000, equities and alternative investments represented 56% 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:

Assets Under Management by Asset Class
(in billions)

	As of November		
	2000	**1999**	**1998**
Asset Class			
Equity	$107	$ 98	$ 69
Fixed income and currency	57	58	50
Money markets	72	48	46
Alternative investments(1)	58	54	30
Total	$294	$258	$195

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

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 30, 2000:

Assets Under Supervision by Distribution Channel
(in billions)

	Assets Under Supervision(1)	Primary Investment Vehicles
• Directly distributed		
— Institutional	$132	Separate managed accounts
— High-net-worth individuals	274	Commingled vehicles Brokerage accounts Limited partnerships Separate managed accounts
• Third-party distributed		
— Institutional and retail	67	Mutual funds
Total	$473	

(1) Excludes $19 billion in our merchant banking funds.

Merchant Banking. Goldman Sachs has also established a successful record in the corporate and real estate merchant banking business, sponsoring funds with $30.85 billion of committed capital as of November 2000, of which $19.27 billion has been funded. We have provided a portion of those amounts, as we describe above under ''— Global Capital Markets — Trading and Principal Investments — Principal Investments.'' Our clients, including pension plans, endowments, charitable institutions and high-net-worth individuals, have provided the remainder.

Our strategy with respect to our merchant banking funds generally 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 2000, our corporate merchant banking funds had total committed capital of $21.23 billion. Other funds, with total committed capital of $9.62 billion as of November 2000, invest in real estate operating companies, debt and equity interests in real estate assets, and other real estate-related investments.

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, 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. Finally, after the 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 income and gains from the fund's investments. Revenues from the increased share of the funds' income and gains are included in Commissions.

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 49 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 broker-to-broker securities lending business and the third-party agency lending business.

Commissions

Goldman Sachs generates commissions by executing clearing and agency transactions on major stock, options and futures exchanges worldwide. We effect agency transactions for clients located throughout the world. 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 ''— Asset Management — Merchant Banking'' above.

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.

Global Investment Research employs a team approach that as of November 2000 provided research coverage of approximately 2,400 companies worldwide, over 50 economies and 25 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.

Technology and Internet Strategy

Technology, in general, and the Internet, in particular, are 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.

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, in 1999 we acquired The Hull Group, a leading global electronic market maker in exchange-traded equity derivatives and an active market maker in equity securities worldwide. In October 2000 we combined with SLK. The SLK transaction extended our leadership in the development and application of sophisticated trading, execution and clearing technology. For example, SLK is a leading handler of electronic order flow on the New York Stock Exchange and a leader in developing advanced trading technology, such as its proprietary suite of REDI® products. The REDI® products give clients real-time electronic access to equity and options markets.

We believe that Internet technology and electronic commerce will, over time, change the ways that securities and other financial products are traded and distributed, which will create 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, equity and mutual fund products 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 are developing a more advanced Internet platform to enhance the services we provide to our high-net-worth clients and in our wealth management business.

Externally, we have invested in several electronic commerce concerns that provide new trading platforms and services. Through these investments, we gain an increased understanding of business developments and opportunities for increased automation and efficiency.

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 2000, we had 22,627 employees, which includes employees of our SLK subsidiaries but 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. Moreover, we have faced, and expect to continue to face, pressure to retain market share by committing capital to businesses or transactions on terms that offer returns that may not be commensurate with their risks.

U.S. federal financial modernization legislation has expanded 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. In order to take advantage of some of our most significant challenges and opportunities, we will have to compete successfully with financial institutions that are larger and better capitalized and that may have a stronger local presence and longer operating history outside the United States.

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 competitive 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. Our principal broker-dealer in the United States is Goldman, Sachs & Co., which 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 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. Spear, Leeds & Kellogg, L.P. and certain of its affiliates are registered U.S. broker-dealers and futures commission merchants, and are regulated by the SEC, the NYSE and the NASD.

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, regulatory bodies 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 CFTC is the federal agency charged with the administration of the Commodity Exchange Act and the regulations thereunder. Several of Goldman Sachs' subsidiaries, including Goldman, Sachs & Co., are registered with the CFTC and act as futures commission merchants, commodity pool operators or commodity trading advisors. The rules and regulations of various self-regulatory organizations, such as the Chicago Board of

Trade, other futures exchanges and the National Futures Association, govern the futures and futures options businesses of these entities.

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 a significant 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 13 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, limit 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.

Our specialist businesses are subject to extensive regulation by a number of securities exchanges. The rules of these exchanges generally require our specialists to maintain orderly markets in the securities in which they are specialists. These requirements, in turn, may require us to commit significant amounts of capital to our specialist businesses.

Recently enacted commodities and futures legislation makes significant changes to the commodities and futures markets, as well as to the over-the-counter derivative markets. This legislation contemplates the development of new exchanges to trade commodity and futures products and removes a broad range of over-the-counter derivatives from SEC and CFTC regulation. This legislation, which increases legal certainty for over-the-counter derivative products and hybrid securities, may increase the types of products we offer and may also lead to an increase in competition with respect to some of these products.

Goldman Sachs Financial Markets, L.P. is registered with the SEC as an over-the-counter derivatives dealer and conducts certain over-the-counter derivatives businesses previously conducted by 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 establishing 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, derivatives and commodities exchanges of which they are members. It is expected, however, that during 2001, all 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 CFTC 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 Services Agency, the Tokyo Stock Exchange, the Osaka Securities Exchange, the Nagoya 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 and other regulatory authorities 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, specialist 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. Over the last year, the financial markets in the United States and elsewhere have exhibited increased volatility and a number of financial indices have declined substantially from their record levels. Also, it is unclear how much longer the U.S. economic expansion will continue.

Uncertain or unfavorable economic and market conditions may adversely affect our businesses and profitability in many ways, including the following:

- We generally maintain large trading, specialist and investment positions. Market fluctuations and volatility may adversely affect the value of our trading, specialist and investment positions, including our merchant banking and real estate investments, and our fixed income, currency, commodity and equity positions.
- The number and size of transactions in which we provide underwriting, mergers and acquisitions advisory, and other services may decline. In particular, a decline in the investment banking services we provide to the technology and related sectors, including communications, media and entertainment, may adversely affect our results of operations.
- The volume of transactions that we execute for our customers and as a specialist may decline, which would reduce the revenues we receive from commissions and spreads. We may also suffer a decline in the fees we earn for managing assets. Moreover, even in the absence of uncertain or unfavorable economic or market conditions, investment performance by our asset management business below the performance of benchmarks or competitors 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, merchant banking, underwriting and lending businesses and may continue to do so in the future.
- In our specialist businesses, we may be obligated by stock exchange rules to maintain an orderly market, including by purchasing shares in a declining market. This may result in our incurring trading losses and an increase in our need for liquidity.
- A prolonged period of uncertain or unfavorable economic or market conditions could impair our operating results for a long period of time. In such a case, our revenues may

decline and, if we were unable to reduce expenses at the same pace, our profit margins would erode.

In addition to the foregoing, we face a number of other risks that may adversely affect our business, financial condition and results.

For example, 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 our competitive position and could 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 we take. As a clearing member firm, we finance our customer positions and we could be held responsible for the defaults or misconduct of our customers. 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.

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.

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 increase market share by reducing prices. In recent years, there has been substantial consolidation and convergence among companies in the financial services industry. U.S. federal financial modernization 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.

Technology is fundamental to our overall business strategy. The rapid growth of the Internet and e-commerce, and the introduction of new technologies, is changing our business and presenting us with new challenges. Among other things:

- We have made a significant commitment to providing investment banking advisory and underwriting services to the technology and related sectors and have made substantial investments in technology and related businesses through our merchant banking activities. Volatility or a downturn in any of these sectors has in the past affected adversely, and is likely in the future to affect adversely, our investment banking and advisory revenues and the value of our investments.

- In addition, 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. Some of these alternative trading systems compete with our trading businesses, including our specialist businesses. A dramatic increase in computer-based or other electronic trading may adversely affect our commission and trading revenues, including our market-making revenues, reduce our participation in the trading markets and associated access to market information and lead to the creation of new and stronger competitors. These developments may also require us to make additional investments in technology or trading systems.

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 employees may not be effective. In addition, growth in the number of our employees may lead to an increase in our compensation and non-compensation expenses that may exceed the growth in our revenues.

We expect to achieve growth in our core businesses principally through internal expansion and also through acquisitions. To the extent we make acquisitions or enter into combinations, such as our combination with SLK LLC, we face numerous risks and uncertainties combining the businesses and systems, including the need to combine accounting and data processing systems and management controls and to integrate relationships with customers and business partners. We may not be able to meet these operational and business challenges.

Because The Goldman Sachs Group, Inc. is a holding company, it depends on dividends, distributions and other payments from its subsidiaries to fund dividend payments and to fund all payments on its obligations, including debt obligations. Many of our subsidiaries, including Goldman, Sachs & Co., our principal U.S. subsidiary, are subject to laws that authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to The Goldman Sachs Group, Inc. Regulatory action of that kind could impede access to funds The Goldman Sachs Group, Inc. needs to make dividend payments or payments on obligations, including debt obligations.

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.

A significant amount of our outstanding shares of common stock are held by our former limited partners. While these shares are subject to restrictions on transfer, our board of directors and/or the shareholders' committee under our shareholders' agreement have in the past waived, and may in the future from time to time waive, these transfer restrictions. Future sales of substantial amounts of common stock, or the perception that such sales may occur, could adversely affect the prevailing market price of our common stock.

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 options to renew for up to 20 additional years). We also occupy over 675,000 square feet at One New York Plaza, and over 520,000 square feet at 10 Hanover Square, in New York, New York, pursuant to lease agreements expiring in September 2004 (with options to renew for up to ten additional years) and June 2018, respectively. Additionally, we have a 15-year lease for approximately 768,000 square feet at 180 Maiden Lane in New York, New York, that expires in March 2014 (with options to renew for up to ten additional years). In total, we lease over 4.4 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 1.5 million 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. This project is being developed 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 1.7 million square feet as of the end of January 2001. Our largest presence in Europe is in London, where we leased approximately 1.4 million square feet through various leases as of January 2001, with the majority of the leased space at Peterborough Court, River Court and Christ Church Court. The Peterborough Court lease expires in 2016, and the River Court and Christ Church Court leases expire in 2025.

In Asia, we have offices that total approximately 955,000 square feet. Our largest offices in this region are in Tokyo and Hong Kong. In Tokyo, we currently lease approximately 382,000 square feet under renewable leases with current terms extending, in some cases, to June 2005. In Hong Kong, we currently lease approximately 302,000 square feet under a lease, the majority of which expires in 2012.

Our space requirements have increased significantly over the last several years. Currently, we have adequately met the significant demand for space in all of the regions where we have offices.

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.

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. The defendants moved to dismiss the amended complaint on May 7, 1999, the motion was granted by a decision dated December 7, 2000, and the plaintiffs' motion for reconsideration of that decision was denied by an order dated January 22, 2001.

Several other actions were commenced, beginning on November 3, 1998 by purchasers of securities in public offerings as well as certain purported issuers of such offerings, 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 purchaser plaintiffs filed a consolidated amended complaint. The defendants moved to dismiss the consolidated amended complaint on April 29, 1999. On February 14, 2001, the Court granted with prejudice the defendants' motion to dismiss the claims asserted by the purchasers of securities. Defendants have not yet responded to the claims asserted by the issuer plaintiffs.

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. and Spear, Leeds & Kellogg, L.P., affiliates of The Goldman Sachs Group, Inc., are among the 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.

Certain of the parties, including Hull Trading Co. L.L.C. and Spear, Leeds & Kellogg, L.P., have entered into a stipulation of settlement, subject to court approval, pursuant to which Hull Trading Co. L.L.C. will be required to pay an aggregate of $2.48 million and Spear, Leeds & Kellogg, L.P. an aggregate of $19.59 million. On February 14, 2001, the Court granted the motion of certain defendants for summary judgment.

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 merchant banking 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 been granted leave to amend the complaint as to the remanded claim, and the defendants have renewed their motion to dismiss with respect to the amended complaint.

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

Matters Relating to Municipal Securities

Goldman, Sachs & Co. is 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 that 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 also asserts that The Goldman Sachs Group, L.P. and the Goldman, Sachs & Co. managing director are liable as controlling persons of AMF Bowling, Inc. under the federal securities laws because certain merchant banking 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.

Laidlaw Bondholders Litigation

Goldman, Sachs & Co. has been named as a defendant in purported class actions filed beginning on September 22, 2000 in the U.S. District Court for the Southern District of New York arising from certain offerings of debentures by Laidlaw, Inc. from 1997 to 1999. The defendants include Laidlaw, certain of its officers and directors, the lead underwriters for the offerings (including Goldman, Sachs & Co., which was lead manager in the offerings), and Laidlaw's outside auditors. The offerings included a total of $1.125 billion principal amount of debentures, of which Goldman, Sachs & Co. underwrote $286.25 million.

The lawsuits, brought by certain institutional purchasers of the debentures as well as purchasers and sellers of options exercisable for the debentures, allege that the prospectuses issued in connection with the offerings were false and misleading in violation of the disclosure requirements of the federal securities laws. The plaintiffs are seeking, among other things, unspecified damages.

World Online Litigation

Goldman Sachs has become aware that a Dutch shareholders' association intends to initiate legal proceedings in the Netherlands courts based on alleged misstatements and omissions relating to the initial public offering of World Online in March 2000. Goldman Sachs and ABN AMRO Rothschild served as joint global coordinators of the offering, which raised approximately $2.9 billion. Goldman Sachs International underwrote 20,268,846 shares and Goldman, Sachs & Co. underwrote 6,756,282 shares for a total offering price of approximately €1.16 billion. Goldman Sachs has not been informed of the amount of damages that may be sought.

On September 11, 2000, several Dutch World Online shareholders as well as a Dutch entity purporting to represent the interests of certain World Online shareholders commenced a proceeding in Amsterdam District Court against ''ABN AMRO Bank N.V., also acting under the name of ABN AMRO Rothschild'', alleging misrepresentations and omissions relating to the initial public offering of World Online. The lawsuit seeks, among other things, the return of the purchase price of the shares purchased by the plaintiffs or unspecified damages. Neither Goldman, Sachs & Co. nor Goldman Sachs International has been named in the proceeding.

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 24, 2000.

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 as of February 1, 2001, all of whom have been appointed by and serve at the pleasure of our board of directors.

Henry M. Paulson, Jr., 54

Mr. Paulson has been Chairman and Chief Executive Officer of The Goldman Sachs Group, Inc. since May 1999, and has been a director since August 1998. 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. Mr. Paulson is a member of the Board of Directors of the NYSE and a member of the Board of Directors of the Peregrine Fund, Inc. He is also 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, 55

Mr. Hurst has been Vice Chairman of The Goldman Sachs Group, Inc. since May 1999, and has been a director since August 1998. 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, IDB Holding Corporation Ltd., Constellation Energy Group, Inc. and AirClic Inc. 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, a trustee and vice president of the Whitney Museum of American Art, a member of the Trustees' Council of the National Gallery of Art and a director of the National Foundation for Teaching Entrepreneurship.

John A. Thain, 45

Mr. Thain has been President and Co-Chief Operating Officer of The Goldman Sachs Group, Inc. since May 1999, and has been a director since August 1998. 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. Mr. Thain is also a member of MIT Corporation, the Dean's Advisory Council — MIT / Sloan School of Management, INSEAD — U.S. National Advisory Board, the James Madison Council of the Library of Congress, the Federal Reserve Bank of New York's International Capital Markets Advisory Committee, the French-American Foundation and the Board of Trustees of the National Urban League, as well as a governor of the New York-Presbyterian Foundation, Inc. and a trustee of New York-Presbyterian Hospital.

John L. Thornton, 47

Mr. Thornton has been President and Co-Chief Operating Officer of The Goldman Sachs Group, Inc. since May 1999, and has been a director since August 1998. 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. Mr. Thornton is also a director of the Ford Motor Company, BSkyB PLC and the Pacific Century Group, Inc. In addition, he is a member of the Council on Foreign Relations and a director or trustee of several organizations, including the Asia Society, the Brookings Institution, The Goldman Sachs Foundation, the Hotchkiss School, Morehouse College, the Tsinghua University School of Economics and Management, the Yale University Investment Committee and the Yale School of Management.

Gregory K. Palm, 52

Mr. Palm has been General Counsel and an Executive Vice President of The Goldman Sachs Group, Inc., and Head or Co-Head of the Legal Department, since May 1999. He was General Counsel of The Goldman Sachs Group, L.P. and Co-Head of the Legal Department from 1992 to May 1999. He also has senior oversight responsibility for the firm's Compliance, Management Controls and Tax Departments and is Co-Chairman of the Global Compliance and Control Committee. Mr. Palm 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 the law firm of Sullivan & Cromwell.

Esta E. Stecher, 43

Ms. Stecher has been General Counsel and an Executive Vice President of The Goldman Sachs Group, Inc., and Co-Head of the Legal Department, since December 2000, and has senior oversight responsibility for the firm's Compliance, Management Controls and Tax Departments. She was head of the Tax Department of The Goldman Sachs Group, L.P. from July 1994 to May 1999 and of The Goldman Sachs Group, Inc. from May 1999 to December 2000. She is a member of the Board of Directors of The Goldman Sachs Foundation. From 1990 to 1994, Ms. Stecher was a partner in the law firm of Sullivan & Cromwell.

Leslie C. Tortora, 44

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 has headed Goldman Sachs' global technology efforts since 1994. Ms. Tortora is also a member of the Board of Directors of the Institute for Student Achievement.

David A. Viniar, 45

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, 47

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 Chairman of the Board of Managers of Haverford College, a member of the Board of Directors of the Juvenile Law Center and a member of the Board of Trustees of Liberty Science Center.

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 ''Supplemental Financial Information — Common Stock Price Range'' on page 74 of the 2000 Annual Report to Shareholders, which is incorporated herein by reference. As of February 5, 2001, there were 1,917 holders of record of our common stock.

During fiscal 1999 and 2000, dividends of $0.12 per share of common stock (and nonvoting common stock with respect to dividends declared prior to August 2000, when the nonvoting stock was converted into voting common stock) were declared on June 23, 1999, September 20, 1999, December 20, 1999, March 20, 2000, June 19, 2000 and September 18, 2000. The holders of our common stock and, prior to August 2000, 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 March 20, 2000, our board of directors approved a common stock repurchase program authorizing the repurchase of up to 15 million shares of The Goldman Sachs Group, Inc.'s common stock. The repurchase program is being effected from time to time, depending on market conditions and other factors, through open market purchases and privately negotiated transactions. As of February 5, 2001, The Goldman Sachs Group, Inc. had repurchased 9.5 million shares pursuant to this program.

On October 31, 2000, we issued 35.3 million shares of common stock in connection with our combination with SLK LLC. 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 Selected Financial Data table is set forth on page 75 of the 2000 Annual Report to Shareholders and is incorporated herein by reference.

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 26 to 45 of the 2000 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 38 to 45 of the 2000 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 4 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 2000 Annual Report to Shareholders on pages 46 to 72, and are incorporated herein by reference. In addition, the information on page 73 of the 2000 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*

See Item 13 below.

Item 11. *Executive Compensation*

See Item 13 below.

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

See Item 13 below.

Item 13. *Certain Relationships and Related Transactions*

Information related to Goldman Sachs' executive officers is included on pages 23 to 25 of this Annual Report on Form 10-K. Pursuant to Instruction G(3) to Form 10-K, we incorporate by reference, to our definitive proxy statement for the annual meeting of stockholders to be held on April 6, 2001, the remainder of the information to be provided in response to Items 10, 11, 12 and 13 of Form 10-K (other than information pursuant to Items 306 and 402 (k) and (l) of Regulation S-K and Item 7(e)(3) of Schedule 14A). We will file our proxy statement with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of November 24, 2000, the close of our 2000 fiscal year.

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 2000 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.**
2.4	Amended and Restated Agreement and Plan of Merger, dated as of September 10, 2000, and amended and restated as of October 31, 2000, among The Goldman Sachs Group, Inc., SLK LLC and SLK Acquisition L.L.C. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K, filed on November 15, 2000).
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 the Kamehameha Letter Agreement, 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 the Sumitomo Letter Agreement, 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 (No. 005-56295)).

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.***+

10.46 Letter Agreement, dated as of June 27, 2000, between The Goldman Sachs Group, Inc. and Mr. John L. Weinberg (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended May 26, 2000).+

10.47 Lease Agreement, dated as of June 21, 2000, between 30 Hudson Street Lessor Urban Renewal L.L.C., 50 Hudson Street Lessor Urban Renewal L.L.C., GSJC 30 Hudson Urban Renewal L.L.C. and GSJC 50 Hudson Urban Renewal L.L.C. (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended May 26, 2000).

10.48 Parent Guaranty, dated as of June 21, 2000, made by The Goldman Sachs Group, Inc., in favor of the Beneficiaries named therein (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the period ended May 26, 2000).

10.49 Construction Agency Agreement, dated as of June 21, 2000, among 30 Hudson Street Lessor Urban Renewal L.L.C., 50 Hudson Street Lessor Urban Renewal L.L.C., GSJC 30 Hudson Urban Renewal L.L.C. and GSJC 50 Hudson Urban Renewal L.L.C. (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the period ended May 26, 2000).

10.50 Participation Agreement, dated as of June 21, 2000, among GSJC 30 Hudson Urban Renewal L.L.C., GSJC 50 Hudson Urban Renewal L.L.C., The Goldman Sachs Group, Inc., GSJC Land LLC, Hudson Street Lessor L.L.C., 30 Hudson Street Lessor Urban Renewal L.L.C., 50 Hudson Street Lessor Urban Renewal L.L.C., Various financial institutions named in Schedule II thereto, Hudson Street Lessor Investment Trust 2000-1, Wilmington Trust Company, Hudson Street Funding Corporation, Goldman, Sachs & Co., Hatteras Funding Corporation, Bank of America, National Association, Various Financial Institutions and The Chase Manhattan Bank (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the period ended May 26, 2000).

10.51 Form of Indemnification Agreement, dated as of July 5, 2000 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended August 25, 2000).

10.52 Pledge Agreement, dated as of May 7, 1999 (incorporated by reference to Exhibit F to Amendment No. 4 to Schedule 13D, filed July 11, 2000, relating to the Registrant's common stock).

10.53 Form of Amendment No. 1, dated as of July 10, 2000, to the Pledge Agreement (filed as Exhibit 10.52) (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended August 25, 2000).

10.54 Amendment No. 1, dated as of September 5, 2000, to the Tax Indemnification Agreement, dated as of May 7, 1999 (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the period ended August 25, 2000).

10.55 Form of Non-Employee Director Option Agreement.+

10.56 Form of Non-Employee Director RSU Agreement.+

10.57 Supplemental Registration Rights Instrument, dated as of July 31, 2000 (incorporated by reference to Exhibit S to Amendment No. 5 to Schedule 13D, filed August 2, 2000, relating to the Registrant's common stock).

10.58 Supplemental Registration Rights Instrument, dated as of December 21, 2000 (incorporated by reference to Exhibit AA to Amendment No. 12 to Schedule 13D, filed January 23, 2001, relating to the Registrant's common stock).

10.59 Amendment to the KAA Letter Agreement, dated August 1, 2000, among Kamehameha Activities Association, The Trustees of the Estate of Bernice Pauahi Bishop and The Goldman Sachs Group, Inc.

10.60 Amendment to the Sumitomo Letter Agreement, dated August 1, 2000, among The Sumitomo Bank, Limited, Sumitomo Bank Capital Markets, Inc., The Goldman Sachs Group, Inc. and Goldman, Sachs & Co.

10.61 Amendment to the KAA Letter Agreement, dated February 6, 2001, among Kamehameha Activities Association, The Trustees of the Estate of Bernice Pauahi Bishop, The Goldman Sachs Group, Inc. and Goldman, Sachs & Co.

10.62 Amendment to the Sumitomo Letter Agreement, dated February 6, 2001, among The Sumitomo Bank, Limited, Sumitomo Bank Capital Markets, Inc. and The Goldman Sachs Group, Inc.

10.63 Letter, dated February 6, 2001, from The Goldman Sachs Group, Inc. to Dr. Ruth J. Simmons.+

10.64 Letter, dated February 6, 2001, from The Goldman Sachs Group, Inc. to Mr. John H. Bryan.+

10.65 Letter, dated February 6, 2001, from The Goldman Sachs Group, Inc. to Mr. James A. Johnson.+

10.66 Letter, dated February 6, 2001, from The Goldman Sachs Group, Inc. to Sir John Browne.+

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 2000 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 26 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 72).

13.3 ''Supplemental Financial Information — Quarterly Results'' and ''— Stock Price Range'' (pages 73 and 74).

13.4 Selected Financial Data (page 75).

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).

99.1 Opinion of PricewaterhouseCoopers LLP with respect to the Selected Financial Data, which is incorporated by reference in Part II, Item 6 hereof.

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* 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 Annual Report on Form 10-K for the fiscal year ended November 26, 1999.

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

(b) Reports on Form 8-K:

On September 11, 2000, we filed a Current Report on Form 8-K attaching our press release announcing the agreement to combine with SLK LLC.

On September 19, 2000, we filed a Current Report on Form 8-K reporting our net earnings for our fiscal third quarter ended August 25, 2000.

On November 15, 2000, we filed a Current Report on Form 8-K reporting the closing of our combination with SLK LLC and on January 16, 2001, we amended the Form 8-K to include the pro forma and historical financial statements required by Form 8-K.

On December 19, 2000, we filed a Current Report on Form 8-K reporting our net earnings for our fiscal fourth quarter ending November 24, 2000.

THE GOLDMAN SACHS GROUP, INC.

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

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

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 2000 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 19, 2001 appearing in the 2000 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 on page F-1 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 19, 2001.

THE GOLDMAN SACHS GROUP, INC.

CONDENSED STATEMENTS OF EARNINGS (PARENT COMPANY ONLY)

	Year Ended November		
	2000	1999	1998
		(in millions)	
Revenues			
Equity in earnings of subsidiaries	$3,986	$1,231	$1,780
Principal investments	561	1,139	540
Interest income	4,577	3,305	4,369
Total revenues	9,124	5,675	6,689
Interest expense	4,806	3,338	4,201
Revenues, net of interest expense	4,318	2,337	2,488
Operating expenses			
Compensation and benefits	186	251	9
Other	133	109	43
Charitable contribution	—	200	—
Total operating expenses	319	560	52
Pre-tax earnings	3,999	1,777	2,436
Provision / (benefit) for taxes	932	(931)	8
Net earnings	$3,067	$2,708	$2,428

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

THE GOLDMAN SACHS GROUP, INC.

CONDENSED STATEMENTS OF FINANCIAL CONDITION (PARENT COMPANY ONLY)

	As of November 2000	As of November 1999
	(in millions, except share and per share amounts)	
Assets		
Cash and cash equivalents	$ —	$ 1
Financial instruments owned, at fair value	4,352	3,476
Receivables from affiliates	42,380	41,511
Subordinated loan receivables from affiliates	12,406	9,048
Investments in subsidiaries	14,670	7,526
Other assets	3,018	2,284
	$76,826	$63,846
Liabilities and Shareholders' Equity		
Short-term borrowings, including commercial paper	$28,585	$32,286
Payables to affiliates	134	207
Other liabilities and accrued expenses	1,102	572
Long-term borrowings		
With third parties	30,166	20,262
With affiliates	309	374
	60,296	53,701
Commitments and contingencies		
Shareholders' Equity		
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, 489,964,838 and 441,421,899 shares issued, as of November 2000 and November 1999, respectively	5	4
Restricted stock units	4,760	4,339
Nonvoting common stock, par value $0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding as of November 2000; 7,440,362 shares issued and outstanding as of November 1999	—	—
Additional paid-in capital	11,127	7,359
Retained earnings	3,294	444
Unearned compensation	(1,878)	(2,038)
Accumulated other comprehensive (loss)/income	(130)	37
Treasury stock, at cost, par value $0.01 per share; 6,490,145 shares as of November 2000	(648)	—
Total shareholders' equity	16,530	10,145
	$76,826	$63,846

The accompanying notes are 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		
	2000	1999	1998
		(in millions)	
Cash flows from operating activities			
Net earnings	$ 3,067	$ 2,708	$ 2,428
Noncash items included in net earnings			
Equity in earnings of subsidiaries	(3,986)	(1,231)	(1,780)
Depreciation and amortization	108	71	35
Deferred income taxes	(240)	(1,030)	—
Stock-based compensation	1,345	2,990	—
Other, net	(10)	46	—
Changes in operating assets and liabilities			
Financial instruments owned, at fair value	(711)	(1,575)	(8)
Other, net	(228)	553	(501)
Net cash (used for)/provided by operating activities	(655)	2,532	174
Cash flows from investing activities			
Financial instruments owned, at fair value	(165)	246	(243)
Receivables from affiliates, net	(744)	(9,406)	(8,235)
Subordinated loan receivables from affiliates	(3,358)	(380)	(1,779)
Investment in subsidiaries, net	2,064	(850)	1,362
Property, leasehold improvements and equipment	(269)	(292)	(145)
Business combinations	(1,988)	(196)	—
Net cash used for investing activities	(4,460)	(10,878)	(9,040)
Cash flows from financing activities			
Short-term borrowings, net	(9,399)	12	2,586
Issuance of long-term borrowings	15,704	10,755	10,289
Repayment of long-term borrowings	(327)	(587)	(1,698)
Common stock repurchased	(648)	—	—
Dividends paid	(217)	(107)	—
Proceeds from issuance of common stock	1	2,633	—
Capital contributions	—	48	9
Returns on capital and certain distribution to partners	—	(306)	(619)
Termination of the profit participation plans	—	—	(21)
Partners' capital distributions, net	—	(4,112)	—
Partners' capital allocated for income taxes and potential withdrawals	—	—	(1,673)
Net cash provided by financing activities	5,114	8,336	8,873
Net (decrease)/increase in cash and cash equivalents	(1)	(10)	7
Cash and cash equivalents, beginning of year	1	11	4
Cash and cash equivalents, end of year	$ —	$ 1	$ 11

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest approximated the related expense for each of the fiscal years presented.

Payments of income taxes were $1.23 billion for the year ended November 2000 and were immaterial for the years ended November 1999 and November 1998.

Noncash activities:

In connection with the firm's conversion to corporate form in 1999, junior subordinated debentures of $371 million were issued to retired limited partners in exchange for their partnership interests.

Common stock issued in connection with business combinations was $3.41 billion and $245 million for the years ended November 2000 and November 1999, respectively.

The accompanying notes are 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 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.

Certain reclassifications have been made to prior years' financial statements to conform with fiscal year 2000 presentation.

Note 2. Restricted Stock Units

Total restricted stock units outstanding as of November 2000 and November 1999 were as follows:

	No Future Service Required	Future Service Required
November 1999	35,703,923	40,344,481
November 2000(1)	33,502,219	46,335,940

(1) Includes restricted stock units granted to employees subsequent to November 2000 as part of year-end compensation for fiscal 2000.

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 16, 2001

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, David A. Viniar and Esta E. Stecher, 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.

Signatures	Capacity	Date
/s/ HENRY M. PAULSON, JR. Henry M. Paulson, Jr.	Director, Chairman and Chief Executive Officer (Principal Executive Officer)	February 16, 2001
/s/ ROBERT J. HURST Robert J. Hurst	Director	February 16, 2001
/s/ JOHN A. THAIN John A. Thain	Director	February 16, 2001
/s/ JOHN L. THORNTON John L. Thornton	Director	February 16, 2001
/s/ SIR JOHN BROWNE Sir John Browne	Director	February 16, 2001
/s/ JOHN H. BRYAN John H. Bryan	Director	February 16, 2001
/s/ JAMES A. JOHNSON James A. Johnson	Director	February 16, 2001
/s/ RUTH J. SIMMONS Ruth J. Simmons	Director	February 16, 2001
/s/ JOHN L. WEINBERG John L. Weinberg	Director	February 16, 2001
/s/ DAVID A. VINIAR David A. Viniar	Chief Financial Officer (Principal Financial Officer)	February 16, 2001
/s/ SARAH G. SMITH Sarah G. Smith	Principal Accounting Officer	February 16, 2001

Exhibit 10.55

FORM OF OPTION AGREEMENT

AWARD STATEMENT

1. Name of Non-Employee Director: ______

2. Date of Grant: _______,200_

3. Number of Options: ________

4. Initial Exercise Date: the earlier of (i) the first trading day in January 200_ and (ii) the date on which the Non-Employee Director ceases to be a Director of GS Inc. **

5. Exercise Price: $________

6. Expiration Date: Ten (10) years after the Date of Grant

** Provided that date is during a Window Period or if that date is not during a Window Period, on the first business day of the first Window Period after such date. The Committee may from time to time prescribe periods during which the Options shall not be exercisable.

THE GOLDMAN SACHS 1999 STOCK INCENTIVE PLAN
OUTSIDE DIRECTOR OPTION AWARD

This Award Agreement sets forth the terms and conditions of an award granted to you under The Goldman Sachs 1999 Stock Incentive Plan (the "Plan"), of options (the "Options") to purchase shares of Common Stock ("Shares").

1. The Plan. This Award is made pursuant to the Plan, the terms of which are incorporated in this Award Agreement. Capitalized terms used in this Award Agreement that are not defined in this Award Agreement, or in the attached Glossary of Terms, have the meanings as used or defined in the Plan.

2. Award. A statement attached hereto (the "Award Statement") sets forth (i) the Date of Grant, (ii) the number of Options granted and (iii) the per-Share Exercise Price. Until the Shares are delivered to you pursuant to Paragraph 6, you have no rights as a shareholder of GS Inc. THIS AWARD IS SUBJECT TO ALL TERMS AND PROVISIONS OF THE PLAN AND THIS AWARD AGREEMENT.

3. Expiration Date. Subject to the terms of the Plan, the Options shall expire and no longer be exercisable on the Expiration Date.

4. Vesting. You shall be fully vested in the Options on the Date of Grant.

5. Exercisability of Vested Options.

(a) General. To the extent outstanding and unexercised, the Options may be exercised in accordance with procedures established by the Committee, but, not earlier than the Initial Exercise Date. The Committee may from time to time prescribe periods during which the Options shall not be exercisable.

(b) Death. Notwithstanding any other provision of this Award Agreement, if you die and any Options remain unexercised, and provided your rights in respect of such Options have not previously terminated, such Options shall be exercisable by the representative of your estate in accordance with the procedures described in Paragraph 5(a) as soon as practicable after the date of death and after such documentation as may be requested by the Committee is provided to the Committee and shall, unless earlier terminated or cancelled in accordance with the terms of this Agreement, remain exercisable until the Expiration Date and shall thereafter terminate.

(c) Other Terminations. Upon your separation from the Board of Directors of GS Inc. for any reason, your outstanding and unexercised Options shall remain exercisable until the Expiration Date, and shall thereafter terminate.

6. Delivery. Unless otherwise determined by the Committee, or as otherwise provided in this Award Agreement, and except as provided in Paragraph 8, upon receipt of

payment of the Exercise Price for Shares subject to one or more Options, delivery of the appropriate number of Shares shall be effected by book-entry credit to a custody account (the "Custody Account") maintained by you with The Chase Manhattan Bank or such successor custodian as may be designated by GS Inc. No delivery of Shares shall be made unless you have timely established the Custody Account. You shall be the beneficial owner of any Shares properly credited to the Custody Account. You shall have no right to any dividend or distribution with respect to such Shares if the record date for such dividend or distribution is prior to the date the Custody Account is properly credited with such Shares. The Firm may deliver cash in lieu of all or any portion of the Shares otherwise deliverable in accordance with this Paragraph 6.

7. Non-transferability. Except as may otherwise be provided by the Committee, the limitations set forth in Section 3.4 of the Plan shall apply. Any assignment in violation of the provisions of this Paragraph 7 shall be void.

8. Withholding, Consents and Legends.

(a) The delivery of Shares upon exercise of your outstanding Options is conditioned on your satisfaction of any applicable withholding taxes (in accordance with Section 3.2 of the Plan, provided that the Committee may determine not to apply the minimum withholding rate specified in Section 3.2.2 of the Plan).

(b) Your rights in respect of the Options are conditioned on the receipt to the full satisfaction of the Committee of any required consents (as described in Section 3.3 of the Plan) that the Committee may determine to be necessary or advisable (including, without limitation, your consenting to the Firm’s supplying to any third party recordkeeper of the Plan such personal information as the Committee deems advisable to administer the Plan).

(c) GS Inc. may affix to Certificates representing Shares issued pursuant to this Award Agreement any legend that the Committee determines to be necessary or advisable (including to reflect any restrictions to which you may be subject under a separate agreement with GS Inc.). GS Inc. may advise the transfer agent to place a stop order against any legended Shares.

9. Successors and Assigns of GS Inc. The terms and conditions of this Award Agreement shall be binding upon and shall inure to the benefit of GS Inc. and its successors and assigns.

10. Committee Discretion. The Committee shall have full discretion with respect to any actions to be taken or determinations to be made in connection with this Award Agreement, and its determinations shall be final, binding and conclusive.

11. Amendment. The Committee reserves the right at any time to amend the terms and conditions set forth in this Award Agreement, and the Board may amend the Plan in any respect; provided that, notwithstanding the foregoing and Sections 1.3.2(f), 1.3.2(g) and Section 3.1 of the Plan, no such amendment shall materially adversely affect your rights and obligations under this Award Agreement without your consent. Any amendment of this Award Agreement shall be in writing signed by an authorized member of the Committee or a person or persons designated by the Committee.

12. Governing Law. THIS AWARD SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

13. Headings. The headings in this Award Agreement are for the purpose of convenience only and are not intended to define or limit the construction of the provisions hereof.

IN WITNESS WHEREOF, GS Inc. has caused this Award Agreement to be duly executed and delivered as of the Date of Grant.

THE GOLDMAN SACHS GROUP, INC.

By: ________________________________
Name:
Title:

Accepted and Agreed:

By: ________________________________

Glossary of Terms

Solely for purposes of the attached Award Agreement and the Options granted hereby, the following terms shall have the meanings set forth below. Capitalized terms not defined in this Glossary of Terms shall have the meanings as used or defined in the Award Agreement or the Plan.

"Date of Grant" means the Date of Grant specified on the Award Statement.

"Exercise Price" means the price at which a Share may be acquired pursuant to an Option as specified on the Award Statement.

"Expiration Date" means the Expiration Date specified on the Award Statement.

"Initial Exercise Date" means the Initial Exercise Date specified on the Award Statement, if that day is during a Window Period, or, if that date is not during a Window Period, the first trading day of the first Window Period that begins thereafter.

"Window Period" means a period during which an employee of the Firm characterized as an "Access Person" is permitted to purchase or sell Shares.

Exhibit 10.56

FORM OF RSU AGREEMENT

THE GOLDMAN SACHS 1999 STOCK INCENTIVE PLAN
OUTSIDE DIRECTOR RSU AWARD

This Award Agreement sets forth the terms and conditions of an Award of restricted stock units ("RSUs") granted to you under The Goldman Sachs 1999 Stock Incentive Plan (the "Plan").

1. The Plan. This Award is made pursuant to the Plan, the terms of which are incorporated in this Award Agreement. Capitalized terms used in this Award Agreement which are not defined in this Award Agreement have the meanings as used or defined in the Plan.

2. Award. _______________RSUs are subject to this Award. Each RSU constitutes an unfunded and unsecured promise of GS Inc. to deliver (or cause to be delivered) to you, subject to the terms of this Award Agreement, one share of Common Stock (the "Share") (or cash equal to the Fair Market Value thereof) on the Delivery Date as provided herein. Until such delivery, you have only the rights of a general unsecured creditor and no rights as a shareholder of GS Inc. THIS AWARD IS SUBJECT TO ALL TERMS AND PROVISIONS OF THE PLAN AND THIS AWARD AGREEMENT.

3. Delivery.

(a) In General. Except as provided below in this Paragraph 3 and in Paragraph 6, the Shares shall be delivered on the last business day in May in the year following the date on which you cease to be a director of the Board (the "Delivery Date"). The Firm may deliver cash in lieu of all or any portion of the Shares otherwise deliverable on the Delivery Date. Unless otherwise determined by the Committee, or as otherwise provided in this Award Agreement, delivery of Shares shall be effected by book-entry credit to a custody account (the "Custody Account") maintained by you with The Chase Manhattan Bank or such successor custodian as may be designated by GS Inc. No delivery of Shares shall be made unless you have timely established the Custody Account. You shall be the beneficial owner of any Shares properly credited to the Custody Account. You shall have no right to any dividend or distribution with respect to such Shares if the record date for such dividend or distribution is prior to the date the Custody Account is properly credited with such Shares.

(b) Death. Notwithstanding any other provision of this Award Agreement, if you die prior to the Delivery Date, the Shares (or cash in lieu of all or any portion thereof) corresponding to your outstanding RSUs shall be delivered as soon as practicable thereafter to your designated beneficiary (or, if none, your estate).

4. Dividend Equivalents. Prior to the delivery of Shares (or cash in lieu thereof) pursuant to this Award Agreement, at or after the time of distribution of any regular cash dividend paid by GS Inc. in respect of the Common Stock, you shall be entitled to receive an amount in cash equal to such regular cash dividend payment that would have been made in respect of the Shares not yet delivered, as if the Shares had been actually delivered.

5. Non-transferability; Beneficiary Designation. Except as may otherwise be provided by the Committee, the limitations set forth in Section 3.4 of the Plan shall apply. Any assignment in violation of the provisions of this Paragraph 5 shall be void. You may designate, in accordance with procedures established by the Committee, a beneficiary or beneficiaries to receive all or part of the amounts to be paid under this Award Agreement in the event of your death. A designation of a beneficiary may be replaced by a new designation or may be revoked by you at any time in accordance with procedures established by the Committee. If you die without having properly designated a beneficiary, any amounts payable upon your death shall be distributed to your estate. If there is any question as to the legal right of any beneficiary to receive payment of amounts under this Award Agreement, the amounts in question may be paid to your estate, in which event the Firm shall have no further liability to anyone with respect to such amounts. A beneficiary or estate shall have no rights under this Award Agreement other than the right, subject to the immediately preceding sentence, to receive such amounts, if any, as may be payable under this Paragraph 5.

6. Withholding, Consents and Legends.

(a) The delivery of Shares is conditioned on your satisfaction of any applicable withholding taxes in accordance with Section 3.2 of the Plan, provided that the Committee may determine not to apply the minimum withholding rate specified in Section 3.2.2 of the Plan.

(b) Your rights in respect of the RSUs are conditioned on the receipt to the full satisfaction of the Committee of any required consents (as defined in Section 3.3 of the Plan) that the Committee may determine to be necessary or advisable (including, without limitation, your consenting to the Firm’s supplying to any third party recordkeeper of the Plan such personal information as the Committee deems advisable to administer the Plan).

(c) GS Inc. may affix to Certificates representing Shares issued pursuant to this Award Agreement any legend that the Committee determines to be necessary or advisable. GS Inc. may advise the transfer agent to place a stop order against any legended Shares.

7. Successors and Assigns of GS Inc. The terms and conditions of this Award Agreement shall be binding upon and shall inure to the benefit of GS Inc. and its successors and assigns.

8. Amendment. The Committee reserves the right at any time to amend the terms and conditions set forth in this Award Agreement, and the Board may amend the Plan in any respect; provided that, notwithstanding the foregoing and Sections 1.3.2(f), 1.3.2(g) and Section 3.1 of the Plan, no such amendment shall materially adversely affect your rights and obligations under this Award Agreement without your consent (or the consent of your beneficiary

or estate, if such consent is obtained after your death), except that the Committee reserves the right to accelerate the delivery of the Shares and in its discretion provide that such Shares may not be transferable until the Delivery Date. Any amendment of this Award Agreement shall be in writing signed by the Chief Executive Officer of GS Inc. or his or her designee.

9. Governing Law. THIS AWARD SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

10. Headings. The headings in this Award Agreement are for the purpose of convenience only and are not intended to define or limit the construction of the provisions hereof.

IN WITNESS WHEREOF, GS Inc. and you have caused this Award Agreement to be duly executed and delivered as of _________________________.

THE GOLDMAN SACHS GROUP, INC.

By: _______________________________

Accepted and Agreed:

By: _______________________________

Exhibit 10.59

August 1, 2000

Wallace G.K. Chin
President
Kamehameha Activities Association
567 South King Street, Suite 301
Honolulu, HI 96813

The Trustees of the Estate of Bernice Pauahi Bishop
P.O. Box 3466
567 South King Street, Suite 200
Honolulu, HI 96813

Dear Mr. Chin and Bishop Estate Trustees:

This letter (this "Letter Agreement") sets forth the agreement among Kamehameha Activities Association ("KAA" or "Knight"), The Trustees of the Estate of Bernice Pauahi Bishop (the "Bishop Estate") and The Goldman Sachs Group, Inc. ("GS Inc.") with respect to certain matters. Reference is made to (i) the Subscription Agreement, dated as of April 24, 1992 (as amended from time to time, the "1992 Subscription Agreement"), among the Bishop Estate, Pauahi Holdings Corporation ("Knight's Parent") and Royal Hawaiian Shopping Center, Inc. ("RHSC"), which transferred all its interests in The Goldman Sachs Group, L.P. ("Group LP") to KAA pursuant to an Assumption Agreement, dated July 15, 1998 (the "Assumption Agreement"), between KAA and RHSC for the benefit of Group LP, (ii) the Subscription Agreement, dated as of November 21, 1994 (as amended from time to time, the "1994 Subscription Agreement" and, collectively with the 1992 Subscription Agreement, the "Subscription Agreements"), among the Bishop Estate, Knight's Parent and RHSC and Group LP, (iii) the Registration Rights Agreement, dated as of April 24, 1992 (as amended from time to time, the "Registration Rights Agreement"), between RHSC and Group LP, as amended by Amendment No. 1 thereto dated November 21, 1994, (iv) the Letter Agreement, dated March 15, 1999 (as amended from time to time, the "1999 Letter Agreement"), between KAA and Group LP, and (v) the Amendment to the Letter Agreement, dated April 30, 1999 (the "1999 Letter Agreement Amendment"), among KAA, the Bishop Estate, Group LP and GS Inc. KAA has assumed all of RHSC's rights and obligations under the Subscription Agreements and the Registration Rights Agreement pursuant to the Assumption Agreement. This Letter Agreement shall be a modification of and an amendment to the Subscription Agreements, the Registration Rights Agreement and the 1999 Letter Agreement, as amended by the 1999 Letter Agreement Amendment, to the extent set forth herein.

Pursuant to Section 4(c) of the 1999 Letter Agreement, KAA has made a request of GS Inc. that KAA be permitted to dispose of 10,987,711 shares (the "Shares") of the common stock, par value $.01 per share (the "Common Stock"), of GS Inc. in an underwritten public offering (the "Offering"), and concurrently with the execution and delivery of this Letter Agreement, KAA is entering into underwriting agreements with respect to the Offering. Accordingly, the parties hereby agree as follows:

1. Future Dispositions of Common Stock by KAA. The number of shares of Common Stock that KAA shall have a right to dispose of without the consent of GS Inc. pursuant to Section 4(a)(2) of the 1999 Letter Agreement subsequent to May 7, 2001 shall be reduced by 662,571 shares.

2. Agreements Otherwise Unimpaired. Except as expressly provided in this Letter Agreement, the Subscription Agreements, the Registration Rights Agreement, the 1999 Letter Agreement, the 1999 Letter Agreement Amendment and any other agreements between or among the parties to this Letter Agreement shall not be modified, impaired or affected by the execution and delivery of this Letter Agreement.

3. Successors and Assigns. This Letter Agreement will be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto.

4. Governing Law. This Letter Agreement is being entered into and is intended to be performed in the State of New York and will be construed and enforced in accordance with and governed by the laws of the State of New York.

5. Counterparts. This Letter Agreement may be executed simultaneously in several counterparts, each of which is an original, but all of which together shall constitute one instrument.

Please indicate your agreement to the terms of this letter by signing in the space provided below.

THE GOLDMAN SACHS GROUP, INC.

By: /s/ Dan H. Jester

Name: Dan H. Jester
Title: Authorized Person

Accepted and Agreed to as of the date first above written:

KAMEHAMEHA ACTIVITIES ASSOCIATION

By: /s/ Wallace G.K. Chin

Name: Wallace G.K. Chin
Title: President

THE TRUSTEES OF THE ESTATE OF BERNICE PAUAHI BISHOP

By: /s/ Francis Ahloy Keala

By: /s/ Constance Hee Lau

By: /s/ David Paul Coon

Exhibit 10.60

August 1, 2000

Mr. Ryuzo Kodama
Managing Director
Head of Americas Division
The Sumitomo Bank, Limited
277 Park Avenue
New York, NY 10172

Dear Mr. Kodama:

This letter (this "Letter Agreement") sets forth the agreement among The Sumitomo Bank, Limited ("Sumitomo"), Sumitomo Bank Capital Markets, Inc. ("SBCM") and The Goldman Sachs Group, Inc. ("GS Inc.") with respect to certain matters. Reference is made to (i) the Amended and Restated Subscription Agreement, dated as of March 28, 1989 (as amended from time to time, the "Subscription Agreement"), among Sumitomo, SBCM, Goldman, Sachs & Co. ("GS&Co.") and The Goldman Sachs Group, L.P. ("Group LP"), (ii) the Amended and Restated Registration Rights Agreement, dated as of March 28, 1989 (as amended from time to time, the "Registration Rights Agreement"), among Sumitomo, SBCM, GS&Co. and Group LP, (iii) the Letter Agreement, dated March 15, 1999 (as amended from time to time, the "1999 Letter Agreement"), among Sumitomo, SBCM and Group LP and (iv) the Amendment to the Letter Agreement, dated April 30, 1999 (the "1999 Letter Agreement Amendment"), among Sumitomo, SBCM, Group LP, GS Inc. and GS&Co.

Pursuant to Section 5(b) of the 1999 Letter Agreement, SBCM has made a request of GS Inc. that SBCM be permitted to dispose of 12,621,804 shares of the common stock, par value $.01 per share (the "Common Stock"), of GS Inc. in an underwritten public offering (the "Offering"), and concurrently with the execution and delivery of this Letter Agreement, SBCM is entering into underwriting agreements with respect to the Offering. Accordingly, the parties hereby agree as follows:

1. Conversion of Nonvoting Common Stock by SBCM. Each of SBCM and GS Inc. agrees that SBCM shall convert its shares of nonvoting common stock, par value $.01 per share, of GS Inc. into Common Stock promptly after the closing of the Offering.

2. Agreements Otherwise Unimpaired. Except as expressly provided in this Letter Agreement, the Subscription Agreement, the Registration Rights Agreement, the 1999 Letter Agreement, the 1999

Letter Agreement Amendment and any other agreements between or among the parties to this Letter Agreement shall not be modified, impaired or affected by the execution and delivery of this Letter Agreement.

3. Successors and Assigns. This Letter Agreement will be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto.

4. Governing Law. This Letter Agreement is being entered into and is intended to be performed in the State of New York and will be construed and enforced in accordance with and governed by the laws of the State of New York.

5. Counterparts. This Letter Agreement may be executed simultaneously in several counterparts, each of which is an original, but all of which together shall constitute one instrument.

Please indicate your agreement to the terms of this letter by signing in the space provided below.

THE GOLDMAN SACHS GROUP, INC.

By: /s/ Dan H. Jester

Name: Dan H. Jester
Title: Authorized Person

Accepted and Agreed to as of the date first above written:

THE SUMITOMO BANK, LIMITED

By: /s/ Ryuzo Kodama

Name: Ryuzo Kodama
Title: Managing Director and Head of the Americas Division

SUMITOMO BANK CAPITAL MARKETS, INC.

By: /s/ Natsuo Okada

Name: Natsuo Okada
Title: President

Exhibit 10.61

February 6, 2001

Wallace G.K. Chin
President
Kamehameha Activities Association
567 South King Street, Suite 301
Honolulu, HI 96813

The Trustees of the Estate of Bernice Pauahi Bishop
P.O. Box 3466
567 South King Street, Suite 200
Honolulu, HI 96813

Dear Mr. Chin and Bishop Estate Trustees:

This letter (this "Letter Agreement") sets forth the agreement among Kamehameha Activities Association ("KAA" or "Knight"), The Trustees of the Estate of Bernice Pauahi Bishop (the "Bishop Estate") and The Goldman Sachs Group, Inc. ("GS Inc.") with respect to certain matters. Reference is made to (i) the Subscription Agreement, dated as of April 24, 1992 (as amended from time to time, the "1992 Subscription Agreement"), among the Bishop Estate, Pauahi Holdings Corporation ("Knight's Parent") and Royal Hawaiian Shopping Center, Inc. ("RHSC"), which transferred all its interests in The Goldman Sachs Group, L.P. ("Group LP") to KAA pursuant to an Assumption Agreement, dated July 15, 1998 (the "Assumption Agreement"), between KAA and RHSC for the benefit of Group LP, (ii) the Subscription Agreement, dated as of November 21, 1994 (as amended from time to time, the "1994 Subscription Agreement" and, collectively with the 1992 Subscription Agreement, the "Subscription Agreements"), among the Bishop Estate, Knight's Parent and RHSC and Group LP, (iii) the Registration Rights Agreement, dated as of April 24, 1992 (as amended from time to time, the "Registration Rights Agreement"), between RHSC and Group LP, as amended by Amendment No. 1 thereto dated November 21, 1994, (iv) the Letter Agreement, dated March 15, 1999 (as amended from time to time, the "1999 Letter Agreement"), between KAA and Group LP, (v) the Amendment to the Letter Agreement, dated April 30, 1999 (the "1999 Letter Agreement Amendment"), among KAA, the Bishop Estate, Group LP and GS Inc. and (vi) the Amendment to the Letter Agreement, dated August 1, 2000 (the "2000 Letter Agreement Amendment" and, together with the 1999 Letter Agreement and the 1999 Letter Agreement Amendment, the "Letter Agreement"), among KAA, the Bishop Estate and GS Inc. KAA has assumed all of RHSC's rights and obligations under the Subscription Agreements and the Registration Rights Agreement pursuant to the Assumption Agreement. This Letter Agreement shall be a modification of and an amendment to the Subscription Agreements, the Registration Rights Agreement and the Letter Agreement, to the extent set forth herein.

Pursuant to Section 4(c) of the 1999 Letter Agreement, KAA has made a request of GS Inc. that KAA be permitted to dispose of shares of common stock, par value $.01 per share (the "Common Stock"), of GS Inc. pursuant to Rule 144 under the Securities Act of 1933, as amended (each, a "Rule 144 Sale"). Accordingly, the parties hereby agree as follows:

1. Future Dispositions of Common Stock by KAA. The number of shares that KAA shall have a right to dispose of without the consent of GS Inc. pursuant to Section 4(a)(2) of the Letter Agreement for the twelve-month period commencing May 7, 2001 shall be reduced by the number of shares of common stock sold in the Rule 144 Sales.

2. Agreements Otherwise Unimpaired. Except as expressly provided in this Letter Agreement, the Subscription Agreements, the Registration Rights Agreement, the Letter Agreement and any other agreements between or among the parties to this Letter Agreement shall not be modified, impaired or affected by the execution and delivery of this Letter Agreement.

3. Successors and Assigns. This Letter Agreement will be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto.

4. Governing Law. This Letter Agreement is being entered into and is intended to be performed in the State of New York and will be construed and enforced in accordance with and governed by the laws of the State of New York.

5. Counterparts. This Letter Agreement may be executed simultaneously in several counterparts, each of which is an original, but all of which together shall constitute one instrument.

Please indicate your agreement to the terms of this letter by signing in the space provided below.

THE GOLDMAN SACHS GROUP, INC.

By: /s/ Dan H. Jester

Name: Dan H. Jester
Title: Authorized Person

Accepted and Agreed to as of the date first above written:

KAMEHAMEHA ACTIVITIES ASSOCIATION

By: /s/ Wallace G.K. Chin

Name: Wallace G.K. Chin
Title: President

By: /s/ Wendell F. Brooks, Jr.

Name: Wendell F. Brooks, Jr.
Title: Vice President

THE TRUSTEES OF THE ESTATE OF BERNICE PAUAHI BISHOP

By: /s/ Robert Kalani Uichi Kihune

By: /s/ Diane J. Plotts

By: /s/ Constance Hee Lau

Exhibit 10.62

February 6, 2001

Mr. Ryuzo Kodama
Managing Director
Head of Americas Division
The Sumitomo Bank, Limited
277 Park Avenue
New York, NY 10172

Dear Mr. Kodama:

This letter (this "Letter Agreement") sets forth the agreement among The Sumitomo Bank, Limited ("Sumitomo"), Sumitomo Bank Capital Markets, Inc. ("SBCM") and The Goldman Sachs Group, Inc. ("GS Inc.") with respect to certain matters. Reference is made to (i) the Amended and Restated Subscription Agreement, dated as of March 28, 1989 (as amended from time to time, the "Subscription Agreement"), among Sumitomo, SBCM, Goldman, Sachs & Co. ("GS&Co.") and The Goldman Sachs Group, L.P. ("Group LP"), (ii) the Amended and Restated Registration Rights Agreement, dated as of March 28, 1989 (as amended from time to time, the "Registration Rights Agreement"), among Sumitomo, SBCM, GS&Co. and Group LP, (iii) the Letter Agreement, dated March 15, 1999 (as amended from time to time, the "1999 Letter Agreement"), among Sumitomo, SBCM and Group LP, (iv) the Amendment to the Letter Agreement, dated April 30, 1999 (the "1999 Letter Agreement Amendment"), among Sumitomo, SBCM, Group LP, GS Inc. and GS&Co, and (v) the Amendment to the Letter Agreement, dated August 1, 2000 (the "2000 Letter Agreement Amendment" and, together with the 1999 Letter Agreement and the 1999 Letter Agreement Amendment, the "Letter Agreement"), among Sumitomo, SBCM, GS. Inc. and GS & Co.

Pursuant to Section 5(b) of the 1999 Letter Agreement, SBCM has made a request of GS Inc. that SBCM be permitted to dispose of shares of common stock, par value $.01 per share (the "Common Stock"), of GS Inc. pursuant to Rule 144 under the Securities Act of 1933, as amended (each, a "Rule 144 Sale"). Accordingly, the parties hereby agree as follows:

1. Future Disposition of Common Stock by SBCM. The number of shares of Common Stock that SBCM shall have a right to dispose of without the consent of GS Inc. pursuant to Section 5(a)(2) of the Letter Agreement for the twelve-month period commencing May 7, 2001 shall be reduced by the number of shares of Common Stock sold in the Rule 144 Sales.

2. Agreements Otherwise Unimpaired. Except as expressly provided in this Letter Agreement, the Subscription Agreement, the Registration Rights Agreement, the Letter Agreement and any other agreements between or among the parties to this Letter Agreement shall not be modified, impaired or affected by the execution and delivery of this Letter Agreement.

3. Successors and Assigns. This Letter Agreement will be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto.

4. Governing Law. This Letter Agreement is being entered into and is intended to be performed in the State of New York and will be construed and enforced in accordance with and governed by the laws of the State of New York.

5. Counterparts. This Letter Agreement may be executed simultaneously in several counterparts, each of which is an original, but all of which together shall constitute one instrument.

Please indicate your agreement to the terms of this letter by signing in the space provided below.

THE GOLDMAN SACHS GROUP, INC.

By: /s/ Dan H. Jester

Name: Dan H. Jester
Title: Authorized Person

GOLDMAN, SACHS & CO.

By: /s/ Dan H. Jester

Name: Dan H. Jester
Title: Authorized Person

Accepted and Agreed to as of the date first above written:

THE SUMITOMO BANK, LIMITED

By: /s/ Ryuzo Kodama

Name: Ryuzo Kodama
Title: Managing Director and Head of the
Americas Division

SUMITOMO BANK CAPITAL MARKETS, INC.

By: /s/ Naoyuki Kawamoto

Name: Naoyuki Kawamoto
Title: Chairman

Exhibit 10.63

The Goldman Sachs Group, Inc. | 85 Broad Street | New York, New York 10004
Tel: 212-902-5904

Henry M. Paulson, Jr.
Chairman
Chief Executive Officer

[LOGO]Goldman
Sachs

February 6, 2001

PERSONAL AND CONFIDENTIAL

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

Dear Ruth:

In light of the recent Board action modifying aspects of outside director compensation, we are writing to set forth the current terms of your compensation as a director of The Goldman Sachs Group, Inc. ("GS Inc."). These terms are, of course, subject to future modification by the Board.

As compensation for your services, you will receive:

- $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") (currently, you are a member of the Audit Committee and the Compensation Committee);

- $1,000 for each meeting of the Board or of a Board committee that you attend (the "Meeting Fees"); and

- an annual grant (the "Annual Grant"), at your election on or before September 30th of each year, of (a) 2,000 fully vested restricted stock units ("RSUs"); (b) fully vested options ("Options") to purchase 6,000 shares of GS Inc. common stock; or (c) 1,000 RSUs and Options to purchase 3,000 shares of GS Inc. common stock.

The Annual Retainer and the Committee Fees will be paid annually in arrears in the form of RSUs unless GS Inc. determines to pay them in cash. On December 28, 2000, you were granted 754 RSUs in respect of the Annual Retainer and the Committee Fees for the 2000 fiscal year.

The Meeting Fees are payable in cash and will be paid to you annually in arrears; your Meeting Fees for the 2000 fiscal year were $15,000 and have been paid to you.

RSUs for the Annual Retainer, the Committee Fees and the Annual Grant will provide for delivery of shares of GS Inc. common stock on the last business day in May in the year following the date on which you cease to be a director of GS Inc. All RSUs will be granted to you as of the date of grant of any year-end equity award granted generally to employees of GS Inc. and its affiliates or, if no such award is granted, as of the last day of December of such fiscal year (or in the case of RSUs for the Annual Grant, as of the last day of December of the fiscal year to which the grant pertains). The number of RSUs you receive for the Annual Retainer and the Committee Fees will be determined in the same manner as grants to employees for year-end RSUs granted to employees for that fiscal year or, if no such RSUs are granted, at a grant price equal to the average closing price of GS Inc.'s common stock on the New York Stock Exchange over the 10 trading days up to and including the last day of the fiscal year. All RSUs will be subject to the terms and conditions of the Stock Incentive Plan and the relevant award agreements.

For the 2001 fiscal year, you have elected to receive as your Annual Grant Options to purchase 6,000 shares of GS Inc. common stock; the RSUs issued to you on December 29, 2000 in respect of that Annual Grant were cancelled and exchanged for these Options. These Options were granted on January 31, 2001; will have the same exercise price ($82.875) as options granted to employees for the 2000 fiscal year; will become exercisable on the earlier of (a) the first trading day in January 2004 unless that day is not during an "access person window period" ("Window Period") under GS Inc.'s trading policy, in which case, the first trading day of the first Window Period that begins thereafter and (b) the date on which you cease to be a director of GS Inc.; and will expire on November 26, 2010.

In the future, any Options granted to you as part of the Annual Grant will:

(i) be granted on the same date as the date of grant of any year-end equity awards granted generally to employees of GS Inc. and its affiliates for the prior fiscal year or, if no such equity awards are granted, on the last day of December in the fiscal year for which the Annual Grant is made;

(ii) first become exercisable on the earlier of (a) the same date that year-end options granted generally to employees of GS Inc. and its affiliates for the prior fiscal year become exercisable or, if no such options are granted, on the first trading day in January three years after the date of grant unless that date is not during a Window Period, in which case the first trading day of the first Window Period that begins thereafter and (b) the date on which you cease to be a director of GS Inc;

(iii) have an exercise price equal to the exercise price of any year-end options granted generally to employees of GS Inc and its affiliates for the prior fiscal year or, if no such options are granted, the closing price of GS Inc.'s common stock on the New York Stock Exchange on the date of grant of the Annual Grant; and

(iv) will expire ten years after the date of grant.

We have enclosed various documents in connection with awards previously made to you. Please 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

Enclosures: RSU Award Agreement for Fiscal Year 2000 Annual Retainer and Committee
Fees and Award Summary
RSU Award Agreement for Fiscal Year 2000 Annual Grant and Award Summary
Option Award Agreement for Fiscal Year 2001 Annual Grant and Award Summary
Summary of the Stock Incentive Plan

Exhibit 10.64

The Goldman Sachs Group, Inc. | 85 Broad Street | New York, New York 10004
Tel: 212-902-5904

Henry M. Paulson, Jr.
Chairman
Chief Executive Officer

[LOGO]Goldman
Sachs

February 6, 2001

PERSONAL AND CONFIDENTIAL

Mr. John H. Bryan
Sara Lee Corporation
Three First National Plaza
Chicago, IL 60602

Dear John:

In light of the recent Board action modifying aspects outside director compensation, we are writing to set forth the current terms of your compensation as a director of The Goldman Sachs Group, Inc. ("GS Inc."). These terms are, of course, subject to future modification by the Board.

As compensation for your services, you will receive:

- $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") (currently, you are a member of the Audit Committee and the Compensation Committee);
- $1,000 for each meeting of the Board or of a Board committee that you attend (the "Meeting Fees"); and
- an annual grant (the "Annual Grant"), at your election on or before September 30th of each year, of (a) 2,000 fully vested restricted stock units ("RSUs"); (b) fully vested options ("Options") to purchase 6,000 shares of GS Inc. common stock; or (c) 1,000 RSUs and Options to purchase 3,000 shares of GS Inc. common stock.

The Annual Retainer and the Committee Fees will be paid annually in arrears in the form of RSUs unless GS Inc. determines to pay them in cash. On December 28, 2000, you were granted 754 RSUs in respect of the Annual Retainer and the Committee Fees for the 2000 fiscal year.

The Meeting Fees are payable in cash and will be paid to you annually in arrears; your Meeting Fees for the 2000 fiscal year were $15,000 and have been paid to you.

RSUs for the Annual Retainer, the Committee Fees and the Annual Grant will provide for delivery of shares of GS Inc. common stock on the last business day in May in the year following the date on which you cease to be a director of GS Inc. All RSUs will be granted to you as of the date of grant of any year-end equity award granted generally to employees of GS Inc. and its affiliates or, if no such award is granted, as of the last day of December of such fiscal year (or in the case of RSUs for the Annual Grant, as of the last day of December of the fiscal year to which the grant pertains). The number of RSUs you receive for the Annual Retainer and the Committee Fees will be determined in the same manner as grants to employees for year-end RSUs granted to employees for that fiscal year or, if no such RSUs are granted, at a grant price equal to the average closing price of GS Inc.'s common stock on the New York Stock Exchange over the 10 trading days up to and including the last day of the fiscal year. All RSUs will be subject to the terms and conditions of the Stock Incentive Plan and the relevant award agreements.

For the 2001 fiscal year, you have elected to receive as your Annual Grant Options to purchase 6,000 shares of GS Inc. common stock; the RSUs issued to you on December 29, 2000 in respect of that Annual Grant were cancelled and exchanged for these Options. These Options were granted on January 31, 2001; will have the same exercise price ($82.875) as options granted to employees for the 2000 fiscal year; will become exercisable on the earlier of (a) the first trading day in January 2004 unless that day is not during an "access person window period" ("Window Period") under GS Inc.'s trading policy, in which case, the first trading day of the first Window Period that begins thereafter and (b) the date on which you cease to be a director of GS Inc.; and will expire on November 26, 2010.

In the future, any Options granted to you as part of the Annual Grant will:

(i) be granted on the same date as the date of grant of any year-end equity awards granted generally to employees of GS Inc. and its affiliates for the prior fiscal year or, if no such equity awards are granted, on the last day of December in the fiscal year for which the Annual Grant is made;

(ii) first become exercisable on the earlier of (a) the same date that year-end options granted generally to employees of GS Inc. and its affiliates for the prior fiscal year become exercisable or, if no such options are granted, on the first trading day in January three years after the date of grant unless that date is not during a Window Period, in which case the first trading day of the first Window Period that begins thereafter and (b) the date on which you cease to be a director of GS Inc;

(iii) have an exercise price equal to the exercise price of any year-end options granted generally to employees of GS Inc and its affiliates for the prior fiscal year or, if no such options are granted, the closing price of GS Inc.'s common stock on the New York Stock Exchange on the date of grant of the Annual Grant; and

(iv) will expire ten years after the date of grant.

We have enclosed various documents in connection with awards previously made to you. Please 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

Enclosures: RSU Award Agreement for Fiscal Year 2000 Annual Retainer and Committee Fees and Award Summary
RSU Award Agreement for Fiscal Year 2000 Annual Grant and Award Summary
Option Award Agreement for Fiscal Year 2001 Annual Grant and Award Summary
Summary of the Stock Incentive Plan

Exhibit 10.65

The Goldman Sachs Group, Inc. | 85 Broad Street | New York, New York 10004
Tel: 212-902-5904

Henry M. Paulson, Jr.
Chairman
Chief Executive Officer

[LOGO]Goldman
Sachs

February 6, 2001

PERSONAL AND CONFIDENTIAL

Mr. James A. Johnson
Johnson Capital Partners
600 New Hampshire Avenue, N.W.
Suite 620
Washington, DC 20037

Dear Jim:

In light of the recent Board action modifying aspects of outside director compensation, we are writing to set forth the current terms of your compensation as a director of The Goldman Sachs Group, Inc. ("GS Inc."). These terms are, of course, subject to future modification by the Board.

As compensation for your services, you will receive:

- $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 plus an additional $10,000 per year for serving as Chairman of a committee (the "Committee Fees") (currently, you are Chairman of the Compensation Committee and are a member of the Audit Committee);

- $1,000 for each meeting of the Board or of a Board committee that you attend (the "Meeting Fees"); and

- an annual grant (the "Annual Grant"), at your election on or before September 30th of each year, of (a) 2,000 fully vested restricted stock units ("RSUs"); (b) fully vested options ("Options") to purchase 6,000 shares of GS Inc. common stock; or (c) 1,000 RSUs and Options to purchase 3,000 shares of GS Inc. common stock.

The Annual Retainer and the Committee Fees will be paid annually in arrears in the form of RSUs unless GS Inc. determines to pay them in cash. On December 28, 2000, you were granted 870 RSUs in respect of the Annual Retainer and the Committee Fees for the 2000 fiscal year.

The Meeting Fees are payable in cash and will be paid to you annually in arrears; your Meeting Fees for the 2000 fiscal year were $16,000 and have been paid to you.

RSUs for the Annual Retainer, the Committee Fees and the Annual Grant will provide for delivery of shares of GS Inc. common stock on the last business day in May in the year following the date on which you cease to be a director of GS Inc. All RSUs will be granted to you as of the date of grant of any year-end equity award granted generally to employees of GS Inc. and its affiliates or, if no such award is granted, as of the last day of December of such fiscal year (or in the case of RSUs for the Annual Grant, as of the last day of December of the fiscal year to which the grant pertains). The number of RSUs you receive for the Annual Retainer and the Committee Fees will be determined in the same manner as grants to employees for year-end RSUs granted to employees for that fiscal year or, if no such RSUs are granted, at a grant price equal to the average closing price of GS Inc.'s common stock on the New York Stock Exchange over the 10 trading days up to and including the last day of the fiscal year. All RSUs will be subject to the terms and conditions of the Stock Incentive Plan and the relevant award agreements.

For the 2001 fiscal year, you have elected to receive as your Annual Grant Options to purchase 6,000 shares of GS Inc. common stock; the RSUs issued to you on December 29, 2000 in respect of that Annual Grant were cancelled and exchanged for these Options. These Options were granted on January 31, 2001; will have the same exercise price ($82.875) as options granted to employees for the 2000 fiscal year; will become exercisable on the earlier of (a) the first trading day in January 2004 unless that day is not during an "access person window period" ("Window Period") under GS Inc.'s trading policy, in which case, the first trading day of the first Window Period that begins thereafter and (b) the date on which you cease to be a director of GS Inc.; and will expire on November 26, 2010.

In the future, any Options granted to you as part of the Annual Grant will:

(i) be granted on the same date as the date of grant of any year-end equity awards granted generally to employees of GS Inc. and its affiliates for the prior fiscal year or, if no such equity awards are granted, on the last day of December in the fiscal year for which the Annual Grant is made;

(ii) first become exercisable on the earlier of (a) the same date that year-end options granted generally to employees of GS Inc. and its affiliates for the prior fiscal year become exercisable or, if no such options are granted, on the first trading day in January three years after the date of grant unless that date is not during a Window Period, in which case the first trading day of the first Window Period that begins thereafter and (b) the date on which you cease to be a director of GS Inc;

(iii) have an exercise price equal to the exercise price of any year-end options granted generally to employees of GS Inc and its affiliates for the prior fiscal year or, if no such options are granted, the closing price of GS Inc.'s common stock on the New York Stock Exchange on the date of grant of the Annual Grant; and

common stock on the New York Stock Exchange on the date of grant of the Annual Grant; and

(iv) will expire ten years after the date of grant.

We have enclosed various documents in connection with awards previously made to you. Please 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

Enclosures: RSU Award Agreement for Fiscal Year 2000 Annual Retainer and Committee Fees and Award Summary
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Summary of the Stock Incentive Plan

Exhibit 10.66

The Goldman Sachs Group, Inc. | 85 Broad Street | New York, New York 10004
Tel: 212-902-5904

Henry M. Paulson, Jr.
Chairman
Chief Executive Officer

[LOGO]Goldman
Sachs

February 6, 2001

PERSONAL AND CONFIDENTIAL

Sir John Browne
BP Amoco
Britannic House
1 Finsbury Circus
London, EC2M 7BA
ENGLAND

Dear John:

In light of the recent Board action modifying aspects of outside director compensation, we are writing to set forth the current terms of your compensation as a director of The Goldman Sachs Group, Inc. ("GS Inc."). These terms are, of course, subject to future modification by the Board.

As compensation for your services, you will receive:

- $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 plus an additional $10,000 per year for serving as Chairman of a committee (the "Committee Fees") (currently, you are Chairman of the Audit Committee and are a member of the Compensation Committee);

- $1,000 for each meeting of the Board or of a Board committee that you attend (the "Meeting Fees"); and

- an annual grant (the "Annual Grant"), at your election on or before September 30th of each year, of (a) 2,000 fully vested restricted stock units ("RSUs"); (b) fully vested options ("Options") to purchase 6,000 shares of GS Inc. common stock; or (c) 1,000 RSUs and Options to purchase 3,000 shares of GS Inc. common stock.

The Annual Retainer and the Committee Fees will be paid annually in arrears in the form of RSUs unless GS Inc. determines to pay them in cash. On December 28, 2000, you were granted 870 RSUs in respect of the Annual Retainer and the Committee Fees for the 2000 fiscal year.

The Meeting Fees are payable in cash and will be paid to you annually in arrears; your Meeting Fees for the 2000 fiscal year were $12,000 and have been paid to you.

RSUs for the Annual Retainer, the Committee Fees and the Annual Grant will provide for delivery of shares of GS Inc. common stock on the last business day in May in the year following the date on which you cease to be a director of GS Inc. All RSUs will be granted to you as of the date of grant of any year-end equity award granted generally to employees of GS Inc. and its affiliates or, if no such award is granted, as of the last day of December of such fiscal year (or in the case of RSUs for the Annual Grant, as of the last day of December of the fiscal year to which the grant pertains). The number of RSUs you receive for the Annual Retainer and the Committee Fees will be determined in the same manner as grants to employees for year-end RSUs granted to employees for that fiscal year or, if no such RSUs are granted, at a grant price equal to the average closing price of GS Inc.'s common stock on the New York Stock Exchange over the 10 trading days up to and including the last day of the fiscal year. All RSUs will be subject to the terms and conditions of the Stock Incentive Plan and the relevant award agreements.

For the 2001 fiscal year, you have elected to receive as your Annual Grant Options to purchase 6,000 shares of GS Inc. common stock; the RSUs issued to you on December 29, 2000 in respect of that Annual Grant were cancelled and exchanged for these Options. These Options were granted on January 31, 2001; will have the same exercise price ($82.875) as options granted to employees for the 2000 fiscal year; will become exercisable on the earlier of (a) the first trading day in January 2004 unless that day is not during an "access person window period" ("Window Period") under GS Inc.'s trading policy, in which case, the first trading day of the first Window Period that begins thereafter and (b) the date on which you cease to be a director of GS Inc.; and will expire on November 26, 2010.

In the future, any Options granted to you as part of the Annual Grant will:

(i) be granted on the same date as the date of grant of any year-end equity awards granted generally to employees of GS Inc. and its affiliates for the prior fiscal year or, if no such equity awards are granted, on the last day of December in the fiscal year for which the Annual Grant is made;

(ii) first become exercisable on the earlier of (a) the same date that year-end options granted generally to employees of GS Inc. and its affiliates for the prior fiscal year become exercisable or, if no such options are granted, on the first trading day in January three years after the date of grant unless that date is not during a Window Period, in which case the first trading day of the first Window Period that begins thereafter and (b) the date on which you cease to be a director of GS Inc;

(iii) have an exercise price equal to the exercise price of any year-end options granted generally to employees of GS Inc and its affiliates for the prior fiscal year or, if no such options are granted, the closing price of GS Inc.'s

(iv) will expire ten years after the date of grant.

We have enclosed various documents in connection with awards previously made to you. Please 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

Enclosures: RSU Award Agreement for Fiscal Year 2000 Annual Retainer and Committee Fees and Award Summary
RSU Award Agreement for Fiscal Year 2000 Annual Grant and Award Summary
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Summary of the Stock Incentive Plan

EXHIBIT 11.1

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES
COMPUTATION OF PER SHARE EARNINGS
(in millions, except per share amounts)

	YEAR ENDED NOVEMBER	
	2000	1999
Earnings available to common shareholders	$ 3,067	$ 2,708
Weighted average number of common shares	484.6	475.9
Effect of dilutive securities:		
Restricted stock units	16.2	5.6
Stock options	10.7	4.3
Dilutive potential common shares	26.9	9.9
Weighted average number of common shares and dilutive potential common shares	511.5	485.8
BASIC EARNINGS PER SHARE	$ 6.33	$ 5.69
DILUTED EARNINGS PER SHARE	$ 6.00	$ 5.57

EXHIBIT 12.1

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
($ in millions)

	YEAR ENDED NOVEMBER				
	2000	1999	1998	1997	1996
Net earnings	$ 3,067	$ 2,708	$ 2,428	$ 2,746	$ 2,399
Add:					
Provision/(benefit) for taxes	1,953	(716)	493	268	207
Portion of rents representative of an interest factor	80	51	35	29	28
Interest expense on all indebtedness	16,410	12,018	13,958	12,986	11,160
Earnings, as adjusted	$21,510	$ 14,061	$16,914	$16,029	$13,794
Fixed charges:					
Portion of rents representative of an interest factor	$ 80	$ 51	$ 35	$ 29	$ 28
Interest expense on all indebtedness	16,410	12,018	13,958	12,986	11,160
Fixed charges	$16,490	$ 12,069	$13,993	$13,015	$11,188
Ratio of earnings to fixed charges	1.30 x	1.16 x	1.21 x	1.23 x	1.23 x

MANAGEMENT'S DISCUSSION AND ANALYSIS

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. On May 7, 1999, we converted from a partnership to a corporation and completed our initial public offering.

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 2000, 1999 and 1998 refer to our fiscal year ended, or the date, as the context requires, November 24, 2000, November 26, 1999 and November 27, 1998, respectively.

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

BUSINESS ENVIRONMENT

In the first half of fiscal 2000, the global economy grew at a strong rate, reflecting low unemployment levels, low inflation and increased productivity. This expansionary economic environment provided a positive climate for all of our businesses, particularly Investment Banking and Equities, which benefited from higher levels of mergers and acquisitions activity, an increase in new issue offerings and record volumes in global equity markets. The pace of economic growth slowed in the second half of the year as increases in interest rates led to market uncertainty.

The economic expansion in the United States continued during the first half of 2000. In an attempt to alleviate possible inflationary pressures, the Federal Reserve gradually raised overnight interest rates by 100 basis points to 6.50%, the highest rate since the first quarter of 1991. The pace of growth in the second half of 2000 declined as consumer spending and corporate investment slowed. U.S. equity markets achieved record highs earlier in the year but declined markedly toward the end of the year amid market uncertainty about prospects for gross domestic product and corporate earnings growth. In particular, the Nasdaq declined 42% from its record high posted in March 2000. Fixed income markets were also affected as rising interest rates, widening credit spreads and reduced new issue activity led to a decrease in secondary market activity.

The European economy continued to grow at a steady pace during 2000 primarily due to increases in foreign demand, consumer spending and corporate investment. European equity markets were particularly active, reaching record levels during the first half of the year but suffering declines as the year came to a close. The European Central Bank raised rates throughout the year in response to rising inflation and the weakness of the euro.

Economic growth in Japan remained subdued, despite increased investment in information technology. Doubts concerning the recovery of private consumption and concerns about corporate and government debt led to declines in the Japanese equity market during the year. The Bank of Japan's zero-interest-rate policy was terminated and interest rates were raised for the first time in a decade.

Other Asian economies benefited from stronger exports and corporate investment throughout the region. However, by year end, a slowdown in Asian electronic exports to the United States led to a marked decline in gross domestic product growth.

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 in 1999 has affected, and will continue to affect, our operating results in several significant ways. 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 instead of being accounted for as distributions of partners' capital. In addition, restricted stock units and other forms of stock-based compensation can be awarded to employees as part of compensation. We also record a noncash expense related to the amortization of certain restricted stock units awarded to employees in connection with our initial public offering. Furthermore, as a corporation, our operating results are now subject to U.S. federal, state and local corporate income taxes, and therefore, to a higher tax rate than we incurred as a partnership.

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. Over the last year, the financial markets in the United States and elsewhere have exhibited increased volatility and a number of financial indices have declined substantially from their record levels. Also, it is unclear how much longer the U.S. economic expansion will continue. Uncertain or unfavorable economic and market conditions may adversely affect our businesses and profitability in many ways, including the following:

- Market fluctuations and volatility may adversely affect the value of our trading, specialist and investment positions, including our merchant banking and real estate investments, and our fixed income, currency, commodity and equity positions.

- The number and size of transactions in which we provide underwriting, mergers and acquisitions advisory, and other services may decline. In particular, a decline in the investment banking services we provide to the technology and related sectors, including communications, media and entertainment, may adversely affect our results of operations.

- The volume of transactions that we execute for our customers and as a specialist may decline, which would reduce the revenues we receive from commissions and spreads. We may also suffer a decline in the fees we earn for managing assets. Moreover, even in the absence of uncertain or unfavorable economic or market conditions, investment performance by our asset management business below the performance of benchmarks or competitors 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, merchant banking, underwriting and lending businesses and may continue to do so in the future.

- In our specialist business, we may be obligated by stock exchange rules to maintain an orderly market by purchasing shares in a declining market.

- A prolonged period of uncertain or unfavorable economic or market conditions could impair our operating results for a long period of time. In such a case, 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 our competitive position and could 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 we take. As a clearing member firm, we finance our customer positions and we could be held responsible for the defaults or misconduct of our customers. 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.

SPEAR, LEEDS & KELLOGG

On October 31, 2000, we completed our combination with SLK LLC (SLK), a leader in securities clearing and execution, floor-based market making and off-floor market making. The combination was accounted for under the purchase method of accounting for business combinations. In exchange for the membership interests in SLK and subordinated debt of certain retired members, we issued 35.3 million shares of common stock valued at $3.5 billion, issued $149 million in debentures and paid $2.1 billion in cash. The purchase price has been preliminarily allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the effective date of the combination. The excess of consideration paid over the estimated fair value of net assets acquired has been recorded as goodwill. Goodwill and identifiable intangible assets of approximately $4.0 billion will be amortized as a charge to earnings over a weighted average life of approximately 20 years. The final allocation of the purchase price will be determined after appraisals and a comprehensive evaluation of the fair value of the SLK assets acquired and liabilities assumed are completed. We do not expect the change in amortization expense to be material.

As part of the combination with SLK, we established a $702 million retention pool of restricted stock units for all SLK employees. A charge of $290 million ($180 million after taxes) related to restricted stock units for which future service was not required as a condition to the delivery of the underlying shares of common stock was included in our operating results in the fourth quarter of 2000. The remaining restricted stock units, for which future service is required, will be amortized over the five-year service period following the date of the consummation of the combination as follows: 25%, 25%, 25%, 18% and 7% in years one, two, three, four and five, respectively.

OVERVIEW

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

FINANCIAL OVERVIEW

(in millions, except per share amounts)	YEAR ENDED NOVEMBER 2000(1)	1999(2)	1998(3)	Pro Forma 1999(4)
Net Revenues	$16,590	$13,345	$8,520	$13,338
Pre-Tax Earnings	5,020	1,992	2,921	4,250
Net Earnings	3,067	2,708	2,428	2,550
Diluted Earnings Per Share	6.00	5.57	--	5.27

(1) In 2000, our pre-tax earnings and net earnings included a charge of $290 million and $180 million, respectively, related to our combination with SLK. Excluding this charge, our diluted earnings per share were $6.35.

(2) In 1999, our pre-tax earnings and net earnings 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) As a partnership, payments for services rendered by profit participating limited partners were accounted for as distributions of partners' capital rather than as compensation and benefits expense. In addition, we were generally not subject to U.S. federal or state income taxes. As a result, pre-tax earnings and net earnings in 1998 are not comparable with 2000 or 1999.

(4) On May 7, 1999, we converted from a partnership to a corporation and completed our initial public offering. Pro forma net earnings reflect the results of Goldman Sachs as if our conversion to corporate form and related transactions had taken place at the beginning of 1999.

Pro forma results do not give effect to the following items due to their nonrecurring nature:

- the employee initial public offering awards of restricted stock units, for which future service was not required as a condition to the delivery of the underlying shares of common stock;
- the initial irrevocable contribution of shares of common stock to the defined contribution plan;
- the recognition of certain net tax assets; and
- a contribution to The Goldman Sachs Foundation, a charitable foundation.

Pro forma results give effect to the following items:

- interest expense on junior subordinated debentures issued to retired limited partners in exchange for their partnership interests;
- the amortization of the restricted stock units awarded to employees in connection with our initial public offering, for which future service was required as a condition to the delivery of the underlying shares of common stock; and
- the provision for income taxes in corporate form.

For the purpose of calculating pro forma diluted average common shares outstanding for the year ended November 1999, we used the initial public offering price of $53 per share from the beginning of fiscal 1999 until May 4, 1999, the day trading in our common stock commenced.

Pro forma results are 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.

2000 VERSUS 1999. Net revenues were $16.59 billion, an increase of 24% compared with 1999. Net revenue growth was strong in both our Asset Management and Securities Services and Global Capital Markets segments, which grew 43% and 18%, respectively. Net earnings were $3.07 billion, or $6.00 per diluted share. Excluding the charge related to our combination with SLK, net earnings in 2000 were $3.25 billion, or $6.35 per diluted share, and return on average shareholders' equity was 27%.

1999 VERSUS 1998. Net revenues were $13.35 billion, an increase of 57% compared with 1998. Global Capital Markets net revenues grew significantly over 1998, as substantially all businesses recovered from the market turmoil of 1998, and Asset Management and Securities Services increased 16% compared with 1998. 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.

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

RESULTS BY SEGMENT

(in millions)		YEAR ENDED NOVEMBER 2000	1999	1998
Global Capital Markets	Net Revenues	$11,998	$10,132	$5,747
	Operating Expenses	7,844	6,232	3,978
	Pre-Tax Earnings	$ 4,154	$ 3,900	$1,769
Asset Management and Securities Services	Net Revenues	$ 4,592	$ 3,213	$2,773
	Operating Expenses	3,008	2,396	1,621
	Pre-Tax Earnings	$ 1,584	$ 817	$1,152
Total	Net Revenues	$16,590	$13,345	$8,520
	Operating Expenses	11,570(1)	11,353(2)	5,599
	Pre-Tax Earnings	$ 5,020	$ 1,992	$2,921

(1) Includes the following expenses that have not been allocated to our segments: (i) the ongoing amortization of employee initial public offering and acquisition awards of $428 million and (ii) the acquisition awards of $290 million related to our combination with SLK.

(2) 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) the 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 interest expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, the underlying positions. See Note 14 to the consolidated financial statements for further information regarding our segments.

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. In addition, we engage in floor-based market making as a specialist on U.S. equities and options exchanges. 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, act as a specialist for, 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

	YEAR ENDED NOVEMBER		
(in millions)	2000	1999	1998
Financial Advisory	$ 2,592	$ 2,270	$1,774
Underwriting	2,779	2,089	1,594
Investment Banking	5,371	4,359	3,368
FICC	3,004	2,862	1,438
Equities	3,489	1,961	795
Principal Investments	134	950	146
Trading and Principal Investments	6,627	5,773	2,379
Total	$11,998	$10,132	$5,747

2000 VERSUS 1999. Net revenues in Global Capital Markets increased 18% to $12.0 billion, reflecting strong performances in both Investment Banking and Trading and Principal Investments. Operating expenses increased 26% principally due to higher levels of compensation commensurate with growth in net revenues, and increased costs associated with global expansion, higher employment levels and increased business activity. Pre-tax earnings were $4.15 billion compared with $3.90 billion in 1999.

INVESTMENT BANKING. Investment Banking generated net revenues of $5.37 billion, a 23% increase over 1999. We maintained our leadership position in the mergers and acquisitions and new issues markets, and benefited from increased levels of activity worldwide. Net revenue growth was strong in all major regions, particularly in the high technology and communications, media and entertainment sectors.

Net revenues in Financial Advisory increased 14% over 1999. We capitalized on increased worldwide mergers and acquisitions activity, which rose 8% to a record $3.3 trillion for transactions announced during the period from January 1, 2000 to November 30, 2000.(1) Underwriting net revenues rose 33% over 1999, reflecting strong investor demand for equities, particularly in the high technology and telecommunications sectors. The global equity underwriting market rose to record levels with over $320 billion in proceeds raised during our fiscal year, including record amounts in initial public offerings.(1) Debt underwriting net revenues were also up slightly due to increased market activity in the earlier part of the year.

TRADING AND PRINCIPAL INVESTMENTS. Net revenues in Trading and Principal Investments were $6.63 billion for the year, an increase of 15% compared with 1999, as significant net revenue growth in Equities was partially offset by a decline in Principal Investments.

Net revenues in FICC increased 5% compared with 1999, primarily due to increased activity in fixed income derivatives and currencies, partially offset by lower net revenues in our credit-sensitive businesses (which include high-yield debt, bank loans and investment-grade corporate debt). Fixed income derivatives and currencies benefited from an increase in customer activity, while the credit-sensitive businesses were negatively affected by market uncertainty and wider credit spreads. Additionally, net revenues declined in government bonds due to increased volatility and in commodities due to reduced deal flow in metals.

Equities net revenues rose 78% compared with 1999, primarily due to significant growth in equity derivatives and our global shares businesses. Equity derivatives benefited from favorable market conditions and increased customer flow. Our European and U.S. shares businesses also grew due to record transaction volumes and increased market volatility.

Principal Investments net revenues decreased substantially, as market declines in the high technology and telecommunications sectors led to unrealized losses on many of our merchant banking investments. Realized gains,

(1) Source: Thomson Financial Securities Data.

primarily in our real estate portfolio, were substantially offset by these unrealized losses.

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. 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 compensation commensurate with growth in net revenues, and increased costs associated with global expansion and higher levels of business activity. Pre-tax earnings were $3.90 billion in 1999 compared with $1.77 billion in 1998.

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 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 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 unrealized gains on certain merchant banking investments, particularly in the high technology and telecommunications sectors.

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 revenues primarily in the form of fees or interest rate spreads; and
- COMMISSIONS. Commissions include clearing and agency transactions for clients on major stock, options and futures exchanges and revenues from the increased share of the income and gains derived from our merchant banking funds.

(1) Source: Thomson Financial Securities Data.

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

ASSET MANAGEMENT AND SECURITIES SERVICES NET REVENUES

(in millions)	YEAR ENDED NOVEMBER 2000	1999	1998
Asset Management	$1,345	$ 919	$ 675
Securities Services	940	772	730
Commissions	2,307	1,522	1,368
Total	$4,592	$3,213	$2,773

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. Substantially all assets under supervision are valued as of calendar month-end.

The following table sets forth our assets under supervision:

ASSETS UNDER SUPERVISION

(in millions)	AS OF NOVEMBER 30 2000	1999	1998
Assets Under Management	$293,842	$258,045	$194,821
Other Client Assets	197,876	227,424	142,018
Total	$491,718	$485,469	$336,839

2000 VERSUS 1999. Asset Management and Securities Services net revenues were $4.59 billion, an increase of 43% compared with 1999. Operating expenses rose 26% compared with 1999, primarily due to higher levels of compensation commensurate with growth in net revenues, and increased costs associated with global expansion, higher employment levels and increased business activity. Pre-tax earnings in Asset Management and Securities Services increased to $1.58 billion in 2000 compared with $817 million in 1999.

Asset Management net revenues were 46% higher than last year, primarily reflecting a 31% increase in average assets under management as well as favorable changes in the composition of assets managed. Assets under management grew 14% over 1999, with net inflows of $40 billion, partially offset by market depreciation of $4 billion. Performance fees also contributed to the increase in net revenues. The decline in other client assets in 2000 principally reflects market depreciation in the value of our client assets. Securities Services net revenues increased 22% over 1999, primarily due to growth in our securities lending and margin lending, partially offset by reduced spreads in the fixed income matched book. Commissions increased 52% compared with 1999 due to record transaction volumes in global equity markets and our increased share of income and gains from our merchant banking funds.

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. 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. Pre-tax earnings in Asset Management and Securities Services were $817 million in 1999 compared with $1.15 billion in 1998.

Asset Management net 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 our 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.

OPERATING EXPENSES

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

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

OPERATING EXPENSES AND EMPLOYEES

	YEAR ENDED NOVEMBER		
($ in millions)	2000	1999	1998
Compensation and Benefits	$ 7,773	$ 6,459	$3,838
Nonrecurring Employee Initial Public Offering and Acquisition Awards	290	2,257	--
Amortization of Employee Initial Public Offering and Acquisition Awards	428	268	--
Brokerage, Clearing and Exchange Fees	573	446	424
Market Development	506	364	287
Communications and Technology	435	306	265
Depreciation and Amortization	486	337	242
Occupancy	440	314	207
Professional Services and Other	639	402	336
Charitable Contribution	--	200	--
Total Operating Expenses	$11,570	$11,353	$5,599
Employees at Year End(1)	22,627(2)	15,361	13,033

(1) 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 companies provide property management services.

(2) Includes 2,600 employees related to the combination with SLK.

2000 VERSUS 1999. Operating expenses in 2000 were $11.57 billion compared with $11.35 billion in 1999. Excluding the charge related to our combination with SLK in 2000 and the nonrecurring charges associated with our initial public offering in 1999, operating expenses increased 27%. This growth was primarily due to increased compensation commensurate with higher net revenues as well as the incremental costs associated with global expansion, higher employment levels and increased business activity.

Compensation and benefits expense was $7.77 billion, an increase of 20% over 1999, primarily due to higher headcount and compensation. While total compensation and benefits increased compared with 1999, the ratio of compensation and benefits to net revenues decreased to 47% from 48% in 1999. Employee compensation for 2000 included both restricted stock units and stock options. Employment levels increased during the year due to growth in our core businesses and our combination with SLK. Expenses associated with our temporary staff and consultants were $680 million in 2000, an increase of 58% compared with 1999, reflecting greater business activity, global expansion and consulting costs associated with various technology initiatives.

Brokerage, clearing and exchange fees increased 28%, primarily due to higher transaction volumes in equity derivatives and U.S. and European equities. Market development expenses increased 39%, reflecting higher travel and entertainment costs associated with growth in employment levels and business activity, and increased advertising costs. Communications and technology expenses increased 42%, reflecting higher telecommunications and market data costs associated with increased headcount. Depreciation and amortization increased 44%, principally due to goodwill related to business acquisitions, leasehold improvements related to expanded offices, and capital expenditures on telecommunications and technology-related equipment. Occupancy expenses increased 40% due to new office space needed to accommodate higher employment levels globally. Professional services and other expenses increased 59%, reflecting higher professional fees related to technology initiatives and global expansion.

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 initial 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.

PROVISION FOR TAXES

Our provision for taxes in 2000 was $1.95 billion compared with a net tax benefit of $716 million in 1999.

The net tax benefit of $716 million in 1999 included nonrecurring net benefits of $1.78 billion. 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 a 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 40.0%. 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.

The effective tax rate for 2000 was 38.9% compared with 40.0%, excluding the effect of the nonrecurring tax benefits in 1999. The decline in the effective tax rate was primarily due to lower state and local taxes. 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 12 to the consolidated financial statements for further information regarding our provision for taxes.

GEOGRAPHIC DATA

For a summary of the net revenues, pre-tax earnings and identifiable assets of Goldman Sachs by geographic region, see Note 14 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 2000. Cash and cash equivalents increased to $3.87 billion in 2000. Operating activities provided cash of $11.14 billion. Cash of $3.66 billion was used for investing activities, primarily for our combination with SLK and purchases of technology-related equipment. Cash of $6.66 billion was used for financing activities as decreases in short-term borrowings and net repurchase agreements were partially offset by proceeds from the net issuances of long-term borrowings.

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 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.

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 Corporate Treasury Department manages the capital structure, funding, liquidity, and relationships with creditors and rating agencies on a global basis. The Corporate 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 broad and diversified funding sources globally. These diversified funding sources include insurance companies, mutual funds, banks, bank trust departments, corporations, individuals and other asset managers. Management believes that Goldman Sachs' relationships with its lenders are critical to its liquidity.

We access liquidity in a variety of markets in the United States, Europe and Asia. We make extensive use of the repurchase agreement and securities lending 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.

ASSET LIQUIDITY. Goldman Sachs maintains a highly liquid balance sheet. Many of our assets are readily funded in the repurchase agreement and securities lending 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 shareholders' equity substantially in excess of our less liquid assets.

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 that may be sold or pledged to provide immediate liquidity. This pool of highly liquid assets averaged $18.19 billion during 2000 and $17.99 billion during 1999.

DYNAMIC LIQUIDITY MANAGEMENT. Goldman Sachs seeks to manage the composition of its asset base and the maturity profile of its funding such that it should be able to 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.

LIQUIDITY RATIO MAINTENANCE. It is Goldman Sachs' policy to further manage its liquidity by maintaining a "liquidity ratio" of at least 100%. 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. The maintenance of this liquidity ratio is intended to permit us to fund our positions on a fully secured basis in the event that we were unable to replace our unsecured debt maturing within one 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 our subsidiaries and affiliates generally pledge collateral to cover their intercompany borrowings. 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. The following table sets forth our total assets, adjusted assets, leverage ratios and book value per share:

	AS OF NOVEMBER	
($ in billions, except per share amounts)	2000	1999
Total Assets	$ 290	$ 250
Adjusted Assets(1)	217	188
Leverage Ratio(2)	17.5X	24.7X
Adjusted Leverage Ratio(3)	13.1X	18.5X
Book Value Per Share(4)	$32.18	$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 shareholders' equity.

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

(4) Book value per share is based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 513.7 million as of November 2000 and 484.6 million as of November 1999.

As of November 2000 and 1999, we held approximately $2.74 billion and $2.62 billion, respectively, in high-yield debt and emerging market securities and $2.83 billion and $1.80 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 2000 and 1999, the aggregate carrying value of our principal investments held directly or through our merchant banking funds was approximately $3.52 billion and $2.88 billion, respectively. These carrying values were comprised of corporate principal investments with an aggregate carrying value of approximately $2.51 billion and $1.95 billion, respectively, and real estate investments with an aggregate carrying value of approximately $1.01 billion and $928 million, respectively.

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 2000:

	SHORT-TERM DEBT	LONG-TERM DEBT
Fitch	F1+	AA-
Moody's Investors Service	P-1	A1
Standard & Poor's	A-1+	A+

Thomson Financial BankWatch was acquired by Fitch on December 1, 2000. The most recent ratings we received from Thomson Financial BankWatch were TBW-1 for short-term debt and AA for long-term debt.

LONG-TERM DEBT

As of November 2000, our consolidated long-term borrowings were $31.40 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 2000 was approximately 4.25 years. A substantial portion 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 6 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. and Spear, Leeds & Kellogg, L.P. are registered U.S. broker-dealers and futures commissions merchants, and are regulated by the Securities and Exchange Commission, the Commodity Futures Trading Commission, the Chicago Board of Trade, the New York Stock Exchange and The National Association of Securities Dealers, Inc. 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 Financial Services 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 13 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 and Equities Risk Committees set market risk limits for their respective product lines based on a number of measures including Value at Risk (VaR), scenario analyses and inventory levels. 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.

OPERATIONAL RISK COMMITTEE. The Operational Risk Committee, created in fiscal year 2000, provides oversight of our ongoing development and implementation of operational risk policies, framework and methodologies and monitors the effectiveness of operational risk management.

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, the Finance Committee and 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, specialist 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 VaR;

- risk limits based on scenario analyses that measure the potential effects on our trading net revenues of various market events, including a large widening of credit spreads, a substantial decline in equity markets and significant moves in emerging markets; and

- inventory position limits for selected business units and country exposures.

We also estimate the broader potential impact of abnormal market movements and certain macroeconomic scenarios on our investment banking, merchant banking, asset management and security services activities as well as our trading revenues.

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 current asset volatilities, 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 mar-

ket 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

(in millions)	AS OF NOVEMBER		YEAR ENDED NOVEMBER 2000		
Risk Categories	2000	1999	Average	High	Low
Interest rates	$ 11	$ 13	$ 13	$19	$ 9
Currency rates	11	4	6	11	3
Equity prices	17	18	21	30	13
Commodity prices	7	12	8	16	5
Diversification effect(1)	(21)	(22)	(20)	--	--
Firmwide	$ 25	$ 25	$ 28	37	20

(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.

The following chart presents the daily VaR for substantially all of our trading positions during 2000:

FIRMWIDE VaR

[CHART APPEARS HERE]

Description of VaR Chart: Depicted on page 41 of the Annual Report is a chart setting forth the daily VaR for substantially all of our trading positions during 2000. 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 $25 million, and end the fiscal year at $25 million. The maximum VaR, of approximately $37 million, was reached on January 21, 2000, and the minimum VaR, of approximately $20 million, was reached on October 26, 2000.

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 2000:

DAILY TRADING NET REVENUES

Daily Trading Net Revenues ($ in millions)	Number of Days
(30)-(20)	1
(20)-(10)	3
(10)-0	11
0-10	32
10-20	55
20-30	67
30-40	41
40-50	33
50-60	11
60-90	5

As part of our overall risk control process, daily trading net revenues are compared with VaR calculated as of the end of the prior business day. Trading losses incurred on a single day did not exceed our 95% one-day VaR during 2000.

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 2000, our nontrading market risk was approximately $240 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 with certain counterparties 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, through the use of credit derivatives and through other structures and techniques.

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 typically measure potential exposure based on projected worst-case market movements over the life of a transaction within a 95% confidence interval. For collateralized transactions we also evaluate potential exposure over a shorter collection period, and give effect to the value of received collateral. 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 exposure with respect to over-the-counter derivatives as of November 2000, 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 EXPOSURE

($ in millions)

Credit Rating Equivalent	EXPOSURE	COLLATERAL HELD(2)	EXPOSURE NET OF COLLATERAL	PERCENTAGE OF EXPOSURE NET OF COLLATERAL
AAA/Aaa	$ 2,842	$ 436	$ 2,406	11%
AA/Aa2	5,423	1,122	4,301	19
A/A2	9,417	1,304	8,113	36
BBB/Baa2	5,298	1,102	4,196	19
BB/Ba2 or lower	4,271	977	3,294	14
Unrated(1)	1,098	933	165	1
	$28,349	$5,874	$22,475	100%

Over-the-counter derivative credit exposure, net of collateral, by maturity is set forth below:

Credit Rating Equivalent	0 - 6 MONTHS	6 - 12 MONTHS	1 - 5 YEARS	5 YEARS OR GREATER	EXPOSURE NET OF COLLATERAL
AAA/Aaa	$ 119	$ 112	$ 547	$1,628	$ 2,406
AA/Aa2	2,079	275	846	1,101	4,301
A/A2	3,138	981	2,414	1,580	8,113
BBB/Baa2	1,946	608	978	664	4,196
BB/Ba2 or lower	2,285	239	499	271	3,294
Unrated(1)	76	26	41	22	165
	$9,643	$2,241	$5,325	$5,266	$22,475

(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.

Derivatives 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

Goldman Sachs may face reputational damage, financial loss or regulatory risk as a result of inadequate or failed internal processes, people and systems. 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. The Operational Risk Department, created in fiscal year 2000, is responsible for establishing, maintaining and approving our operational risk management framework and policies for the overall effective management of operational risk.

ACCOUNTING DEVELOPMENTS

In September 2000, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities -- a replacement of FASB Statement No. 125," which revises the standards for accounting for securitizations and other transfers of financial assets and collateral. In addition, specific implementation guidelines have been established to further distinguish transfers of financial assets that are sales from transfers that are secured borrowings. SFAS No. 140 is effective for transfers occurring after March 31, 2001 and for disclosures relating to securitization transactions and collateral for fiscal years ended after December 15, 2000. We intend to adopt the provisions of SFAS No. 140 in 2001 and are currently assessing their effect.

In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which is an amendment of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Statement is effective concurrently with 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. These statements establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively, referred to as "derivatives"), and for hedging activities. These statements require 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 adopted the provisions of these statements on November 25, 2000, the first day of our 2001 fiscal year. The effect of this adoption was not material to our financial condition or the results of our operations.

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF 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 shareholders' equity and partners' capital, cash flows and comprehensive income present fairly, in all material respects, the financial position of The Goldman Sachs Group, Inc. and its Subsidiaries (the "Company") as of November 24, 2000 and November 26, 1999, and the results of their operations and their cash flows for each of the three fiscal years in the period ended November 24, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company'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 of America, 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, and 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 19, 2001

CONSOLIDATED STATEMENTS OF EARNINGS

(in millions, except per share amounts)	YEAR ENDED NOVEMBER 2000	1999	1998
Revenues			
Global capital markets			
Investment banking	$ 5,339	$ 4,359	$ 3,368
Trading and principal investments	6,528	5,758	2,015
Asset management and securities services	3,737	2,524	2,085
Interest income	17,396	12,722	15,010
Total revenues	33,000	25,363	22,478
Interest expense	16,410	12,018	13,958
Revenues, net of interest expense	16,590	13,345	8,520
Operating expenses			
Compensation and benefits	7,773	6,459	3,838
Nonrecurring employee initial public offering and acquisition awards	290	2,257	--
Amortization of employee initial public offering and acquisition awards	428	268	--
Brokerage, clearing and exchange fees	573	446	424
Market development	506	364	287
Communications and technology	435	306	265
Depreciation and amortization	486	337	242
Occupancy	440	314	207
Professional services and other	639	402	336
Charitable contribution	--	200	--
Total operating expenses	11,570	11,353	5,599
Pre-tax earnings	5,020	1,992	2,921
Provision/(benefit) for taxes	1,953	(716)	493
Net earnings	$ 3,067	$ 2,708	$ 2,428
Earnings per share			
Basic	$ 6.33	$ 5.69	--
Diluted	6.00	5.57	--
Average common shares outstanding			
Basic	484.6	475.9	--
Diluted	511.5	485.8	--

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

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	AS OF NOVEMBER	
(in millions, except share and per share amounts)	2000	1999
Assets		
Cash and cash equivalents	$ 3,870	$ 3,055
Cash and securities segregated in compliance with U.S. federal and other regulations	17,132	9,135
Receivables from brokers, dealers and clearing organizations	6,226	4,490
Receivables from customers and counterparties	33,060	30,140
Securities borrowed	82,409	78,418
Securities purchased under agreements to resell	37,324	37,106
Right to receive securities	4,264	1,604
Financial instruments owned, at fair value		
Commercial paper, certificates of deposit and time deposits	866	1,435
U.S. government, federal agency and sovereign obligations	24,038	22,193
Corporate debt	13,317	9,821
Equities and convertible debentures	21,481	16,381
State, municipal and provincial obligations	499	756
Derivative contracts	34,627	30,661
Physical commodities	432	562
Other assets	10,215	4,734
	$289,760	$250,491
Liabilities and Shareholders' Equity		
Short-term borrowings, including commercial paper	$ 33,471	$ 37,756
Payables to brokers, dealers and clearing organizations	3,871	2,129
Payables to customers and counterparties	78,277	57,405
Securities loaned	9,215	9,169
Securities sold under agreements to repurchase	30,996	40,183
Obligation to return securities	3,355	1,595
Financial instruments sold, but not yet purchased, at fair value		
U.S. government, federal agency and sovereign obligations	23,580	19,170
Corporate debt	3,988	2,642
Equities and convertible debentures	8,829	14,002
Derivative contracts	37,815	28,488
Physical commodities	677	586
Other liabilities and accrued expenses	7,761	6,269
Long-term borrowings	31,395	20,952
	273,230	240,346
Commitments and contingencies		
Shareholders' Equity		
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, 489,964,838 and 441,421,899 shares issued as of November 2000 and November 1999, respectively	5	4
Restricted stock units	4,760	4,339
Nonvoting common stock, par value $0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding as of November 2000; 7,440,362 shares issued and outstanding as of November 1999	--	--
Additional paid-in capital	11,127	7,359
Retained earnings	3,294	444
Unearned compensation	(1,878)	(2,038)
Accumulated other comprehensive (loss)/income	(130)	37
Treasury stock, at cost, par value $0.01 per share; 6,490,145 shares as of November 2000	(648)	--
Total shareholders' equity	16,530	10,145
	$289,760	$250,491

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

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

(in millions, except per share amounts)	YEAR ENDED NOVEMBER 2000	1999	1998
Partners' capital			
Balance, beginning of year	$ --	$ 6,310	$ 6,107
Transfer of beginning partners' capital allocated for income taxes and potential withdrawals	--	74	--
Net earnings	--	2,264(1)	2,428
Capital contributions	--	48	9
Return on capital and certain distributions to partners	--	(306)	(619)
Termination of profit participation plans	--	--	(368)
Transfer to partners' capital allocated for income taxes and potential withdrawals, net	--	--	(1,247)
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
Common stock, par value $0.01 per share			
Balance, beginning of year	4	--	--
Issued	1	4	--
Balance, end of year	5	4	--
Restricted stock units			
Balance, beginning of year	4,339	--	--
Granted	1,150	4,381	--
Delivered	(507)	--	--
Forfeited	(222)	(42)	--
Balance, end of year	4,760	4,339	--
Nonvoting common stock, par value $0.01 per share			
Balance, beginning of year	--	--	--
Issued	--	--	--
Exchanged	--	--	--
Balance, end of year	--	--	--
Additional paid-in capital			
Balance, beginning of year	7,359	--	--
Exchange of partnership interests for shares of common stock	--	3,901	--
Issuance of common stock	3,651	2,891	--
Issuance of common stock contributed to a defined contribution plan	1	674	--
Tax benefit related to delivery of equity-based awards	116	--	--
Dividends paid	--	(107)(3)	--
Balance, end of year	11,127	7,359	--
Retained earnings			
Balance, beginning of year	444	--	--
Net earnings	3,067	444(4)	--
Dividends paid	(217)	--	--
Balance, end of year	3,294	444	--
Unearned compensation			
Balance, beginning of year	(2,038)	--	--
Restricted stock units granted	(842)	(2,334)	--
Restricted stock units forfeited	163	23	--
Amortization of restricted stock units	839	273	--
Balance, end of year	(1,878)	(2,038)	--
Accumulated other comprehensive (loss)/income			
Balance, beginning of year	37	--	--
Transfer from partners' capital	--	(31)	--
Currency translation adjustment	(167)	68	--
Balance, end of year	(130)	37	--
Treasury stock, at cost, par value $0.01 per share			
Balance, beginning of year	--	--	--
Shares repurchased	(648)	--	--
Balance, end of year	(648)	--	--
	$16,530	$10,145	$ 6,310

(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

	YEAR ENDED NOVEMBER		
(in millions)	2000	1999	1998
Cash flows from operating activities			
Net earnings	$ 3,067	$ 2,708	$ 2,428
Noncash items included in net earnings			
Depreciation and amortization	486	337	242
Deferred income taxes	(352)	(1,387)	23
Stock-based compensation	1,345	2,989	--
Changes in operating assets and liabilities			
Cash and securities segregated in compliance with U.S. federal and other regulations	(5,389)	(1,248)	(2,984)
Net receivables from brokers, dealers and clearing organizations	336	1,453	(789)
Net payables to customers and counterparties	14,570	(3,990)	14,664
Securities borrowed, net	(916)	(11,179)	(21,158)
Financial instruments owned, at fair value	(8,386)	(13,718)	148
Financial instruments sold, but not yet purchased, at fair value	5,507	9,059	7,559
Other, net	867	2,387	(71)
Net cash provided by/(used for) operating activities	11,135	(12,589)	62
Cash flows from investing activities			
Property, leasehold improvements and equipment	(1,552)	(656)	(476)
Financial instruments owned, at fair value	(116)	189	(180)
Business combinations, net of cash acquired	(1,988)	(187)	--
Net cash used for investing activities	(3,656)	(654)	(656)
Cash flows from financing activities			
Short-term borrowings, net	(11,550)	755	2,193
Issuance of long-term borrowings	16,060	11,000	10,527
Repayment of long-term borrowings	(782)	(753)	(2,058)
Securities sold under agreements to repurchase, net	(9,528)	4,304	(5,909)
Common stock repurchased	(648)	--	--
Dividends paid	(217)	(107)	--
Proceeds from issuance of common stock	1	2,633	--
Capital contributions	--	48	9
Returns on capital and certain distributions to partners	--	(306)	(619)
Termination of the profit participation plans	--	--	(368)
Partners' capital distributions, net	--	(4,112)	--
Partners' capital allocated for income taxes and potential withdrawals	--	--	(1,673)
Net cash (used for)/provided by financing activities	(6,664)	13,462	2,102
Net increase in cash and cash equivalents	815	219	1,508
Cash and cash equivalents, beginning of year	3,055	2,836	1,328
Cash and cash equivalents, end of year	$ 3,870	$ 3,055	$ 2,836

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest approximated the related expense for each of the fiscal years presented.

Payments of income taxes were $1.96 billion and $463 million for the years ended November 2000 and November 1999, respectively, and were immaterial for the year ended November 1998.

Noncash activities:

Common stock issued in connection with business combinations was $3.41 billion and $245 million for the years ended November 2000 and November 1999, respectively.

In connection with the firm's conversion to corporate form in 1999, junior subordinated debentures of $371 million were issued to retired limited partners in exchange for their partnership interests.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	YEAR ENDED NOVEMBER		
(in millions)	2000	1999	1998
Net earnings	$ 3,067	$ 2,708	$ 2,428
Currency translation adjustment, net of tax	(167)	37	(31)
Comprehensive income	$ 2,900	$ 2,745	$ 2,397

The accompanying notes are an integral part of these 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 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.), J. Aron & Company and Spear, Leeds & Kellogg, L.P. 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 2000, 1999 and 1998 refer to the firm's fiscal year ended, or the date, as the context requires, November 24, 2000, November 26, 1999 and November 27, 1998, 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 when the applicable requirements of Financial Accounting Standards Board Interpretation No. 41 are satisfied. 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 statements of financial condition generally reflect purchases and sales of financial instruments, including agency transactions, on a trade date basis.

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 4, 5 and 6.

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. Certain internal use software costs are capitalized and amortized on a straight-line basis over the expected useful life.

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 the common stock deliverable pursuant to stock options and to restricted stock units 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 fiscal year 1999. 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.

NOTE 3/SPEAR, LEEDS & KELLOGG

On October 31, 2000, the firm completed its combination with SLK LLC (SLK), a leader in securities clearing and execution, floor-based market making and off-floor market making. The combination was accounted for under the purchase method of accounting for business combinations. In exchange for the membership interests in SLK and subordinated debt of certain retired members, the firm issued 35.3 million shares of common stock valued at $3.5 billion, issued $149 million in debentures and paid $2.1 billion in cash. The purchase price has been preliminarily allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the effective date of the combination. The excess of consideration paid over the estimated fair value of net assets acquired has been recorded as goodwill. Goodwill and identifiable intangible assets of approximately $4.0 billion will be amortized as a charge to earnings over a weighted average life of approximately 20 years. The final allocation of the purchase price will be determined after appraisals and a comprehensive evaluation of the fair value of the SLK assets acquired and liabilities assumed are completed. The firm does not expect the change in amortization expense to be material.

As part of the combination with SLK, the firm established a $702 million retention pool of restricted stock units for all SLK employees. A charge of $290 million ($180 million after taxes) related to restricted stock units for which future service was not required as a condition to the delivery of the underlying shares of common stock was included in the firm's operating results in the fourth quarter of 2000. The remaining restricted stock units, for which future service is required, will be amortized over the five-year service period following the date of the consummation of the combination as follows: 25%, 25%, 25%, 18% and 7% in years one, two, three, four and five, respectively.

The following table sets forth the unaudited pro forma combined operating results of the firm and SLK for the years ended November 2000 and November 1999. These pro forma results were prepared as if the firm's combination with SLK had taken place at the beginning of the periods presented.

PRO FORMA OPERATING RESULTS
(unaudited)

	YEAR ENDED NOVEMBER	
(in millions, except per share amounts)	2000	1999
Revenues, net of interest expense	$ 18,630	$ 14,652
Net earnings	3,459	2,595
Basic EPS	6.66	5.06
Diluted EPS	6.32	4.97

NOTE 4/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 6.

TRADING AND PRINCIPAL INVESTMENTS

The firm's Trading and Principal Investments business, a component of the Global Capital Markets segment, facilitates customer transactions, takes proprietary positions through market making in and trading of securities, currencies, commodities and swaps, and other derivatives, and engages in floor-based market making as a specialist on U.S. equities and options exchanges. 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 interest expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, the underlying positions. See Note 14 for further information regarding the firm's segments.

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

		YEAR ENDED NOVEMBER	
(in millions)	2000	1999	1998

FICC	$3,004	$2,862	$1,438
Equities	3,489	1,961	795
Principal Investments	134	950	146
Total	$6,627	$5,773	$2,379

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, specialist 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 2000 and 1999, U.S. government and federal agency obligations represented 6% and 7%, respectively, 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 6.

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:

	AS OF NOVEMBER	
(in millions)	2000	1999
Interest Rate		
Financial futures and forward settlement contracts	$ 320,811	$ 422,465
Swap agreements	3,588,814	2,581,100
Written option contracts	350,977	509,841
Equity		
Financial futures and forward settlement contracts	12,508	10,082
Swap agreements	4,520	3,423
Written option contracts	115,327	113,653
Currency and Commodity		
Financial futures and forward settlement contracts	415,282	460,941
Swap agreements	185,288	110,159
Written option contracts	226,058	193,989

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:

	AS OF NOVEMBER	
(in millions)	2000	1999
Purchased Option Contracts		
Interest rate	$427,176	$484,104
Equity	123,645	114,680
Currency and commodity	212,583	210,421

The firm utilizes replacement cost as its 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, 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:

	AS OF NOVEMBER			
	2000		1999	
(in millions)	Assets	Liabilities	Assets	Liabilities
Year End				
Forward settlement contracts	$ 6,315	$ 6,748	$ 4,555	$ 4,625
Swap agreements	15,767	15,879	12,052	11,587
Option contracts	12,543	15,118	14,018	12,274
Total	$34,625	$37,745	$30,625	$28,486
Monthly Average				
Forward settlement contracts	$ 5,040	$ 4,862	$ 3,877	$ 3,619
Swap agreements	14,720	14,639	10,414	11,210
Option contracts	13,438	13,727	9,249	9,707
Total	$33,198	$33,228	$23,540	$24,536

NOTE 5/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:

	AS OF NOVEMBER	
(in millions)	2000	1999
Commercial paper	$10,721	$ 9,403
Promissory notes	14,516	11,061
Bank loans and other(1)	8,234	17,292
Total(2)	$33,471	$37,756

(1) As of November 2000 and November 1999, short-term borrowings included $4.06 billion and $10.82 billion of long-term borrowings maturing within one year, respectively.

(2) As of November 2000 and November 1999, weighted average interest rates for short-term borrowings, including commercial paper, were 6.43% and 5.66%, respectively.

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

NOTE 6/LONG-TERM BORROWINGS

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

	AS OF NOVEMBER	
(in millions)	2000	1999
Fixed Rate Obligations(1)		
U.S. dollar	$11,825	$ 8,236
Non-U.S. dollar	3,238	1,980
Floating Rate Obligations(2)		
U.S. dollar	13,873	9,697
Non-U.S. dollar	2,459	1,039
Total(3)	$31,395	$20,952

(1) During 2000 and 1999, interest rates on U.S. dollar fixed rate obligations ranged from 5.75% to 12.00%, and from 5.56% to 12.00%, respectively. During 2000 and 1999, non-U.S. dollar fixed rate obligations interest rates ranged from 0.55% to 8.88%, and from 0.85% 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 have maturities that range from one to 30 years from the date of issue.

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

	AS OF NOVEMBER					
	2000			1999		
(in millions)	U.S. Dollar	Non-U.S. Dollar	Total	U.S. Dollar	Non-U.S. Dollar	Total
Maturity Dates						
2000	$ --	$ --	$ --	$ 2,527	$ 114	$ 2,641
2001	3,506	--	3,506	3,145	327	3,472
2002	6,041	804	6,845	1,638	594	2,232
2003	2,853	341	3,194	1,522	404	1,926
2004	2,011	116	2,127	1,857	134	1,991
2005	4,256	2,562	6,818	1,421	172	1,593
2006 - Thereafter	7,031	1,874	8,905	5,823	1,274	7,097
Total	$25,698	$5,697	$31,395	$17,933	$3,019	$20,952

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:

	AS OF NOVEMBER			
	2000		1999	
($ in millions)	Amount	Rate	Amount	Rate
Fixed rate obligations	$ 852	10.41%	$ 650	10.17%
Floating rate obligations	30,543	6.96	20,302	6.03
Total	$31,395	7.06	$20,952	6.16

As of November 2000 and November 1999, the notional amounts of the related swap agreements used for nontrading purposes were $26.26 billion and $12.94 billion, respectively. The fair value and carrying value of these agreements are set forth below:

	AS OF NOVEMBER			
	2000		1999	
(in millions)	Assets	Liabilities	Assets	Liabilities
Fair value	$3	$442	$ 3	$159
Carrying value	2	70	36	2

NOTE 7/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 2029. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. Minimum rental commitments, net of minimum sublease rentals, under noncancelable leases for 2001 and the succeeding four years and thereafter and rent charged to operating expense for the last three years are set forth below:

(in millions)

Minimum Rental Commitments	
2001	$ 355
2002	334
2003	335
2004	391
2005	374
2006-Thereafter	2,524
Total	$4,313
Net Rent Expense	
2000	$ 240
1999	154
1998	104

OTHER COMMITMENTS

The firm had commitments to enter into repurchase and resale agreements of $37.36 billion and $30.58 billion as of November 2000 and November 1999, respectively.

The firm had pledged securities of $34.91 billion and $35.83 billion as collateral for securities borrowed of approximately equivalent value as of November 2000 and November 1999, respectively.

In connection with loan origination and participation, the firm had loan commitments of $10.43 billion and $9.38 billion as of November 2000 and November 1999, 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 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 $9.61 billion and $10.30 billion as of November 2000 and November 1999, respectively.

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 $1.74 billion and $1.09 billion in corporate and real estate merchant banking investment funds and a bridge loan fund as of November 2000 and November 1999, respectively.

The firm also had outstanding guarantees of $284 million and $575 million relating primarily to its fund management activities as of November 2000 and November 1999, respectively.

NOTE 8/EQUITY CAPITAL

On August 21, 2000, Sumitomo Bank Capital Markets, Inc. exchanged all 7.4 million shares of its nonvoting common stock, par value $0.01 per share, of Group Inc. for an equal number of shares of voting common stock.

On March 20, 2000, the Board of Directors of Group Inc. approved a common stock repurchase program authorizing the repurchase of up to 15 million shares of the firm's common stock. For the year ended November 2000, the firm repurchased approximately 6.5 million shares of its common stock at a cost of $648 million.

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 million 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, retired limited partners, Sumitomo Bank Capital Markets, Inc. and Kamehameha Activities Association for shares of common stock.

NOTE 9/EARNINGS PER SHARE

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

	YEAR ENDED NOVEMBER	
(in millions, except per share amounts)	2000	1999
Numerator for basic and diluted EPS -- earnings available to common shareholders	$ 3,067	$ 2,708
Denominator for basic EPS -- weighted average number of common shares	484.6	475.9
Effect of dilutive securities		
Restricted stock units	16.2	5.6
Stock options	10.7	4.3
Dilutive potential common shares	26.9	9.9
Denominator for diluted EPS -- weighted average number of common shares and dilutive potential common shares	511.5	485.8
Basic EPS	$ 6.33	$ 5.69
Diluted EPS	6.00	5.57

NOTE 10/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 table provides a summary of the changes in the plans' projected benefit obligations and the fair value of assets for 2000 and 1999, and a statement of the funded status of the plans as of November 2000 and November 1999:

	NOVEMBER 2000			NOVEMBER 1999		
(in millions)	U.S. Pension	Non-U.S. Pension(1)	Post-retirement	U.S. Pension	Non-U.S. Pension	Post-retirement
Benefit Obligation						
Balance, beginning of year	$ 108	$ 148	$ 61	$ 108	$ 120	$ 60
Service cost	4	28	2	4	15	3
Interest cost	8	7	4	8	5	4
Plan amendments	--	1	--	--	--	--
Actuarial loss/(gain)	2	6	(9)	(10)	(4)	(4)
Benefits paid	(2)	(6)	(2)	(2)	(4)	(2)
Effect of foreign exchange rates	--	(21)	--	--	6	--
Balance, end of year	$ 120	$ 163	$ 56	$ 108	$ 138	$ 61
Fair Value of Plan Assets						
Balance, beginning of year	$ 148	$ 116	$ --	$ 133	$ 75	$ --
Actual return on plan assets	2	6	--	17	11	--
Firm contributions	--	29	2	--	26	2
Benefits paid	(2)	(6)	(2)	(2)	(4)	(2)
Effect of foreign exchange rates	--	(17)	--	--	2	--
Balance, end of year	$ 148	$ 128	$ --	$ 148	$ 110	$ --
Prepaid/(Accrued) Benefit Cost						
Funded status	$ 28	$ (35)	$(56)	$ 40	$ (28)	$(61)
Unrecognized actuarial loss/(gain)	11	19	(5)	2	14	5
Unrecognized transition (asset)/obligation	(34)	19	--	(37)	23	--
Unrecognized prior service cost	--	3	(2)	--	--	(2)
Prepaid/(accrued) benefit cost	$ 5	$ 6	$(63)	$ 5	$ 9	$(58)

(1) Includes certain plans for the fiscal year ended November 1999 that had previously been deemed immaterial.

For plans in which the accumulated benefit obligation exceeded plan assets, the projected benefit obligation and aggregate accumulated benefit obligation was $57 million and $35 million as of November 2000, respectively, and $138 million and $121 million as of November 1999, respectively. The fair value of plan assets for these plans was $19 million and $110 million as of November 2000 and November 1999, 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 (income)/expense and postretirement expense are set forth below:

(in millions)	U.S. Pension	Non-U.S. Pension	Post-retirement
	YEAR ENDED		
November 2000			
Service cost	$ 4	$ 28	$ 2
Interest cost	8	7	4
Expected return on plan assets	(10)	(8)	--
Net amortization	(3)	1	--
Total	$ (1)	$ 28	$ 6
November 1999			
Service cost	$ 4	$ 15	$ 3
Interest cost	8	5	4
Expected return on plan assets	(10)	(5)	--
Net amortization	(2)	3	--
Total	$ --	$ 18	$ 7
November 1998			
Service cost	$ 3	$ 11	$ 2
Interest cost	7	4	4
Expected return on plan assets	(10)	(4)	--
Net amortization	(3)	2	--
Total	$ (3)	$ 13	$ 6

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.

	YEAR ENDED NOVEMBER		
	2000	1999	1998
Defined Benefit Pension Plans			
U.S. Plans			
Discount rate	7.5%	7.5%	7.0%
Rate of increase in future compensation levels	5.0	5.0	5.0
Expected long-term rate of return on plan assets	8.5	7.5	7.5
International Plans			
Discount rate	4.7	4.6	5.0
Rate of increase in future compensation levels	4.3	4.3	4.7
Expected long-term rate of return on plan assets	5.8	6.0	6.0
Postretirement Plans			
Discount rate	7.5	7.5	7.0
Rate of increase in future compensation levels	5.0	5.0	5.0

For measurement purposes, a 7.6% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for the fiscal year ending November 2001. 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:

	1% INCREASE		1% DECREASE	
(in millions)	2000	1999	2000	1999
Cost	$1	$1	$(1)	$(1)
Obligation	7	9	(6)	(8)

DEFINED CONTRIBUTION PLANS

The firm contributes to employer-sponsored U.S. and international defined contribution plans. The firm's contribution to these plans was $129 million, $94 million and $70 million for 2000, 1999 and 1998, 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 and outstanding as of November 2000 were 12.7 million. 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 was immaterial for the year ended November 2000 and was $674 million for the year ended November 1999, which included $666 million granted in connection with the firm's initial public offering.

NOTE 11/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, restricted stock units and other stock-based awards.

The total number of shares of common stock that may be issued under the stock incentive plan through fiscal 2002 may not exceed 300 million 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 2000 and November 1999, 156.2 million shares and 183.4 million shares were available for grant under the stock incentive plan, respectively.

RESTRICTED STOCK UNITS

The firm issued restricted stock units to employees 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 2000 and November 1999, (i) 46.3 million units and 40.3 million units, respectively, required future service as a condition to the delivery of the underlying shares of common stock, and (ii) 33.5 million units and 35.7 million units, respectively, 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 2000 and 1999 is set forth below:

	RESTRICTED STOCK UNITS OUTSTANDING	
	NO FUTURE SERVICE REQUIRED	FUTURE SERVICE REQUIRED
Outstanding, November 1998	--	--
Granted	36,127,314	40,780,999
Forfeited	(355,177)	(436,518)
Delivered	(68,214)	--
Outstanding, November 1999	35,703,923	40,344,481
Granted(1)	6,401,796	10,900,941
Forfeited	(1,189,406)	(2,752,278)
Delivered	(9,571,298)	--
Vested	2,157,204	(2,157,204)
Outstanding, November 2000	33,502,219	46,335,940

(1) Includes restricted stock units granted in connection with the combination with SLK and restricted stock units granted to employees, subsequent to November 2000, as part of year-end compensation for fiscal 2000.

Noncash compensation expense, net of forfeitures, was $1.35 billion and $2.32 billion for the years ended November 2000 and November 1999, respectively.

STOCK OPTIONS

Stock options granted to employees will generally become exercisable in 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 2000 and 1999 is set forth below:

	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING LIFE (YEARS)
Outstanding, November 1998	--	$ --	
Granted	40,863,172	52.91	
Exercised	--	--	
Forfeited	(503,506)	53.00	
Outstanding, November 1999	40,359,666	52.91	9.42
Granted(1)	19,685,230	82.89	
Exercised	(18,901)	48.13	
Forfeited	(2,590,237)	52.88	
Outstanding, November 2000	57,435,758	63.19	8.96
Exercisable, November 2000	131,432	$48.13	

(1) Includes stock options granted to employees, subsequent to November 2000, as part of year-end compensation for fiscal 2000.

The weighted average fair value of options granted during 2000 and 1999 was $28.13 per option and $16.13 per option, respectively. Fair value was estimated as of the grant date based on a binomial option pricing model using the following weighted average assumptions:

	YEAR ENDED NOVEMBER	
	2000	1999
Risk-free interest rate	5.6%	6.1%
Expected volatility	35.0	30.0
Dividend yield	0.6	1.0
Expected life	7 years	7 years

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 set forth below:

	YEAR ENDED NOVEMBER	
(in millions, except per share amounts)	2000	1999
Net earnings, as reported	$ 3,067	$ 2,708
Pro forma net earnings	2,971	2,650
EPS, as reported		
Basic	$ 6.33	$ 5.69
Diluted	6.00	5.57
Pro forma EPS		
Basic	$ 6.13	$ 5.57
Diluted	5.81	5.45

In the preceding table, pro forma compensation expense associated with option grants is recognized over the relevant vesting period.

NOTE 12/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 expense/(benefit) reflected on the consolidated statements of earnings are set forth below:

(in millions)	YEAR ENDED NOVEMBER 2000	1999	1998
Current Taxes			
U.S. federal	$ 1,063	$ 16	$ 16
State and local	285	67	28
Non-U.S	957	588	426
Total current tax expense	2,305	671	470
Deferred Taxes			
U.S. federal	(299)	(688)	--
State and local	49	(342)	(3)
Non-U.S	(102)	(357)	26
Total deferred tax (benefit)/expense	(352)	(1,387)	23
Net tax expense/(benefit)	$ 1,953	$ (716)	$ 493

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.

Significant components of the firm's deferred tax assets and liabilities are set forth below:

(in millions)	AS OF NOVEMBER 2000	1999
Deferred Tax Assets		
Compensation and benefits	$ 1,781	$ 1,397
Foreign tax credits	114	140
Depreciation and amortization	--	57
Other, net	219	226
	2,114	1,820
Less: valuation allowance(1)	(37)	(83)
Total deferred tax assets	2,077	1,737
Deferred Tax Liabilities		
Depreciation and amortization	35	--
Unrealized gains	158	257
Total deferred tax liabilities	193	257
Net deferred tax assets	$ 1,884	$ 1,480

(1) Relates primarily to the ability to recognize tax benefits associated with non-U.S. operations.

The decrease of $46 million in the valuation allowance was primarily due to increased utilization of foreign tax credits. Foreign tax credits of $114 million will begin to expire in 2005.

A reconciliation of the U.S. federal statutory income tax rate to the firm's effective income tax rate is set forth below:

	YEAR ENDED NOVEMBER		
	2000	1999	1998(1)
U.S. federal statutory income tax rate	35.0%	35.0%	--%
Increase related to			
State and local taxes, net of U.S. income tax effects	4.3	5.0	0.9
Foreign	--	--	15.5
Other	(0.4)	--	0.5
Rate before one-time events	38.9	40.0	16.9
Revaluation of deferred tax assets upon change in tax status	--	(41.4)(2)	--
Rate benefit for partnership period	--	(37.7)(3)	--
Other	--	3.2	--
Effective income tax rate	38.9%	(35.9)%	16.9%

(1) The U.S. federal statutory income tax rate is not applicable to 1998 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.

(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.

A tax benefit of approximately $116 million, related to the delivery of restricted stock units and the exercise of options, was included in "Additional paid-in capital" on the consolidated statements of financial condition and changes in shareholders' equity and partners' capital as of November 2000.

NOTE 13/REGULATED SUBSIDIARIES

GS&Co. and Spear, Leeds & Kellogg, L.P. are registered U.S. broker-dealers and futures commission merchants subject to Rule 15c3-1 of the Securities and Exchange Commission and Rule 1.17 of the Commodity Futures Trading Commission which specify uniform minimum net capital requirements, as defined, for their registrants. They have elected to compute their net capital in accordance with the "Alternative Net Capital Requirement" as permitted by Rule 15c3-1. As of November 2000 and November 1999, GS&Co. had regulatory net capital, as defined, of $4.50 billion and $2.92 billion, respectively, which exceeded the amounts required by $3.81 billion and $2.31 billion, respectively. As of November 2000, Spear, Leeds & Kellogg, L.P. had regulatory net capital, as defined, of $837 million, which exceeded the amounts required by $803 million.

GSI, a registered U.K. broker-dealer, 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 Financial Services Agency. As of November 2000 and November 1999, 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 2000 and November 1999, these subsidiaries were in compliance with their local capital adequacy requirements.

NOTE 14/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. In addition, the firm engages in floor-based market making as a specialist on U.S. equities and options exchanges. 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, acts as a specialist for, 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 clearing and agency transactions for clients on major stock, options 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 interest 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 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 acquisition awards and 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:

(in millions)		YEAR ENDED NOVEMBER 2000	1999	1998(6)
Global Capital Markets	Net revenues(1)	$ 11,998	$ 10,132	$ 5,747
	Operating expenses(2)	7,844	6,232	3,978
	Pre-tax earnings	$ 4,154	$ 3,900	$ 1,769
	Segment assets	$149,459	$127,515	$102,724
Asset Management and Securities Services	Net revenues(1)	$ 4,592	$ 3,213	$ 2,773
	Operating expenses(2)	3,008	2,396	1,621
	Pre-tax earnings	$ 1,584	$ 817	$ 1,152
	Segment assets	$139,215	$121,693	$114,293
Total	Net revenues(1)	$ 16,590	$ 13,345	$ 8,520
	Operating expenses(2)	11,570	11,353	5,599
	Pre-tax earnings	$ 5,020(4)	$ 1,992(5)	$ 2,921
	Total assets(3)	$289,760	$250,491	$217,380

(1) Net revenues include net interest as set forth in the table below:

(in millions)	YEAR ENDED NOVEMBER 2000	1999	1998
Global Capital Markets	$131	$ 15	$ 364
Asset Management and Securities Services	855	689	688
Total net interest	$986	$704	$1,052

(2) Operating expenses include depreciation and amortization as set forth in the table below:

(in millions)	YEAR ENDED NOVEMBER 2000	1999	1998
Global Capital Markets	$336	$228	$158
Asset Management and Securities Services	150	109	84
Total depreciation and amortization	$486	$337	$242

(3) Includes deferred tax assets relating to the firm's conversion to corporate form, acquisition awards and certain assets that management believes are not allocable to a particular segment.

(4) Pre-tax earnings for the year ended November 2000 include the following expenses that have not been allocated to the firm's segments: (i) the ongoing amortization of employee initial public offering and acquisition awards of $428 million and (ii) the acquisition awards of $290 million related to the firm's combination with SLK.

(5) Pre-tax earnings for the year ended November 1999 include 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.

(6) As a partnership, payments for services rendered by profit participating limited partners were accounted for as distributions of partners' capital rather than as compensation and benefits expense. As a result, pre-tax earnings in 1998 are not comparable with 2000 or 1999.

The following table sets forth the net revenues of the firm's two segments:

	YEAR ENDED NOVEMBER		
(in millions)	2000	1999	1998
Financial Advisory	$ 2,592	$ 2,270	$1,774
Underwriting	2,779	2,089	1,594
Investment Banking	5,371	4,359	3,368
FICC	3,004	2,862	1,438
Equities	3,489	1,961	795
Principal Investments	134	950	146
Trading and Principal Investments	6,627	5,773	2,379
Total Global Capital Markets	11,998	10,132	5,747
Asset Management	1,345	919	675
Securities Services	940	772	730
Commissions	2,307	1,522	1,368
Total Asset Management and Securities Services	4,592	3,213	2,773
Total net revenues	$16,590	$13,345	$8,520

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:

	AS OF OR FOR YEAR ENDED NOVEMBER		
(in millions)	2000	1999	1998(4)
Net Revenues			
United States	$ 9,767	$ 8,536	$ 5,133
Other Americas	189	327	308
United Kingdom	4,400	3,103	1,893
Other Europe	622	375	333
Asia	1,612	1,004	853
Total net revenues	$ 16,590	$ 13,345	$ 8,520
Pre-tax Earnings			
United States	$ 2,845	$ 2,878	$ 1,315
Other Americas	104	184	209
United Kingdom	1,882	1,203	746
Other Europe	391	198	216
Asia	516	254	435
Other	(718)	(2,725)	--
Total pre-tax earnings	$ 5,020(2)	$ 1,992(3)	$ 2,921
Identifiable Assets			
United States	$ 287,938	$ 238,875	$ 213,971
Other Americas	7,791	6,118	6,596
United Kingdom	121,257	119,350	94,025
Other Europe	7,979	11,737	8,820
Asia	16,848	18,088	19,536
Eliminations and other(1)	(152,053)	(143,677)	(125,568)
Total identifiable assets	$ 289,760	$ 250,491	$ 217,380

(1) Reflects eliminations and certain assets that are not allocable to a particular geographic region.

(2) Pre-tax earnings for the year ended November 2000 include the following expenses that have not been allocated to the firm's segments: (i) the ongoing amortization of employee initial public offering and acquisition awards of $428 million and (ii) the acquisition awards of $290 million related to the firm's combination with SLK.

(3) Pre-tax earnings for the year ended November 1999 include 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.

(4) As a partnership, payments for services rendered by profit participating limited partners were accounted for as distributions of partners' capital rather than as compensation and benefits expense. As a result, pre-tax earnings in 1998 are not comparable with 2000 or 1999.

NOTE 15/SUBSEQUENT EVENT

The Board of Directors of Group, Inc. declared a dividend of $0.12 per share to be paid on February 22, 2001 to common shareholders of record on January 22, 2001.

SUPPLEMENTAL FINANCIAL INFORMATION

QUARTERLY RESULTS (UNAUDITED)

The following represents the firm's unaudited quarterly results for 2000 and 1999. 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 the management, necessary for a fair presentation of the results.

	2000 FISCAL QUARTER			
(in millions, except per share amounts)	First	Second	Third	Fourth
Total revenues	$7,964	$8,196	$8,851	$7,989
Interest expense	3,471	4,041	4,324	4,574
Revenues, net of interest expense	4,493	4,155	4,527	3,415
Operating expenses	3,014	2,897	3,154	2,505
Pre-tax earnings	1,479	1,258	1,373	910(1)
Provision for taxes	592	503	549	309
Net earnings	$ 887	$ 755	$ 824	$ 601(1)
Earnings per share				
Basic	$ 1.83	$ 1.56	$ 1.71	$ 1.23
Diluted	1.76	1.48	1.62	1.16(2)
Dividends paid per share	0.12	0.12	0.12	0.12

(1) The fourth quarter pre-tax earnings and net earnings included a charge of $290 million and $180 million, respectively, related to the firm's combination with SLK.

(2) Excluding the charges related to the combination with SLK, the firm's diluted earnings per share were $1.50.

	1999 FISCAL QUARTER			
(in millions, except per share amounts)	First	Second	Third	Fourth
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

(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.

COMMON STOCK PRICE RANGE

On May 4, 1999, the firm's common stock commenced trading on the New York Stock Exchange under the symbol "GS." Prior to that date, there was no public market for the firm's common stock. The following table sets forth, for the fiscal quarters indicated, the high and low closing prices per share of the firm's common stock as reported by the Consolidated Tape Association.

	CLOSING PRICE			
	2000		1999	
	High	Low	High	Low
First Quarter	$ 94.19	$74.50	$ --	$ --
Second Quarter	121.31	69.81	74.13	64.50
Third Quarter	120.75	72.00	72.25	55.81
Fourth Quarter	132.00	79.94	82.81	57.69

As of January 31, 2001, there were approximately 1,930 holders of record of the firm's common stock.

On January 31, 2001, the last reported sales price for the firm's common stock on the New York Stock Exchange was $113.75 per share.

SELECTED FINANCIAL DATA

($ and share amounts in millions, except per share amounts)	2000(5)	1999(6)	1998	1997	1996
	AS OF OR FOR YEAR ENDED NOVEMBER				
Income Statement Data					
Total revenues	$ 33,000	$ 25,363	$ 22,478	$ 20,433	$ 17,289
Interest expense	16,410	12,018	13,958	12,986	11,160
Net revenues	16,590	13,345	8,520	7,447	6,129
Compensation and benefits(1)	7,773	6,459	3,838	3,097	2,421
Nonrecurring employee initial public offering and acquisition awards	290	2,257	--	--	--
Amortization of employee initial public offering and acquisition awards	428	268	--	--	--
Other operating expenses	3,079	2,369	1,761	1,336	1,102
Pre-tax earnings(1)	$ 5,020	$ 1,992	$ 2,921	$ 3,014	$ 2,606
Balance Sheet Data					
Total assets	$289,760	$250,491	$217,380	$178,401	$152,046
Long-term borrowings	31,395	20,952	19,906	15,667	12,376
Total liabilities	273,230	240,346	210,996	171,864	145,753
Shareholders' equity	16,530	10,145	--	--	--
Partners' capital	--	--	6,310	6,107	5,309
Common Share Data					
Earnings per share -- basic	$ 6.33	$ 5.69	--	--	--
Earnings per share -- diluted	6.00	5.57	--	--	--
Dividends paid per share	0.48	0.24	--	--	--
Book value per share	32.18	20.94	--	--	--
Average common shares outstanding -- basic	484.6	475.9	--	--	--
Average common shares outstanding -- diluted	511.5	485.8	--	--	--
Pro Forma Data (unaudited)(2)					
Pro forma net earnings	--	$ 2,550	--	--	--
Pro forma diluted earnings per share	--	5.27	--	--	--
Pro forma diluted shares	--	483.9	--	--	--
Selected Data (unaudited)					
Employees					
United States	14,755	9,746	8,349	6,879	5,818
International	7,872	5,615	4,684	3,743	3,159
Total employees(3)	22,627 (7)	15,361	13,033	10,622	8,977
Assets under supervision(4)					
Assets under management	$293,842	$258,045	$194,821	$135,929	$ 94,599
Other client assets	197,876	227,424	142,018	102,033	76,892
Total assets under supervision	$491,718	$485,469	$336,839	$237,962	$171,491

(1) As a partnership, payments for services rendered by profit participating limited partners were accounted for as distributions of partners' capital rather than as compensation and benefits expense. As a result, pre-tax earnings in 1998, 1997 and 1996 are not comparable with 2000 or 1999.

(2) On May 7, 1999, the firm converted from a partnership to a corporation and completed its initial public offering. Pro forma results reflect the results of Goldman Sachs as if its conversion to corporate form and related transactions had taken place at the beginning of 1999. For more detailed information concerning pro forma results, see "Management's Discussion and Analysis -- Results of Operations -- Overview."

(3) 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.

(4) Substantially all assets under supervision are valued as of calendar month-end.

(5) In 2000, pre-tax earnings included a charge of $290 million ($180 million after taxes) related to the firm's combination with SLK. Excluding this charge, diluted earnings per share were $6.35.

(6) In 1999, pre-tax earnings were reduced by nonrecurring expenses of $2.26 billion associated with the conversion to corporate form and the charitable contribution to The Goldman Sachs Foundation of $200 million made at the time of the initial public offering.

(7) Includes 2,600 employees related to the combination with SLK.

Exhibit 21.1

Significant Subsidiaries of the Registrant

The following are significant subsidiaries of The Goldman Sachs Group, Inc. as of November 24, 2000 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
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, L. P.	New York
Goldman Sachs Canada, Inc.	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
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
The Hull Group, L.L.C.	Illinois
Hull Trading Company, L.L.C.	Delaware
SLK LLC	New York
Spear, Leeds & Kellogg, L.P.	New York
First Options of Chicago, Inc.	Delaware

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(1) Represents a joint venture owned by Goldman Sachs Holdings (Netherlands) B.V. (49%), Mitsui Marine and Fire Insurance Co., Ltd. (50%) and GSMMDPGP, Inc. (1%).

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-34042, 333-90677, 333-75213, 333-36178 and 333-49958) and on Form S-8 (File Nos. 333-80839 and 333-42068) of our report dated January 19, 2001 relating to the financial statements of The Goldman Sachs Group, Inc. and Subsidiaries, which appears in the 2000 Annual Report to Shareholders and is incorporated by reference in this Annual Report on Form 10-K for the year ended November 24, 2000. We also consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-34042, 333-90677, 333-75213, 333-36178 and 333-49958) and on Form S-8 (File Nos. 333-80839 and 333-42068) of our reports dated January 19, 2001 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 16, 2001.

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 24, 2000 and November 26, 1999, and for each of the three fiscal years in the period ended November 24, 2000 and have issued our report thereon appearing on page 46 of the firm's Annual Report to Shareholders, which expresses an unqualified opinion, dated January 19, 2001. 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 auditing standards generally accepted in the United States of America, the consolidated statements of financial condition as of November 27, 1998, November 28, 1997 and November 29, 1996, and the related consolidated statements of earnings, changes in partners' capital and cash flows for the years ended November 28, 1997 and November 29, 1996 (none of which are presented herein); 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 24, 2000, appearing on page 75 of the firm's Annual Report to Shareholders, which is incorporated by reference in Part II, Item 6 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 19, 2001.