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**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

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**FORM 10-K**

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

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For the fiscal year ended November 30, 2001

Commission File Number: 001-14965

**The Goldman Sachs Group, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

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

**10004**  
(Zip Code)

**(212) 902-1000**

(Registrant's telephone number, including area code)

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

<u>Title of each class:</u>	<u>Name of each exchange on which registered:</u>
Common stock, par value \$.01 per share, and attached Shareholder Protection Rights	New York Stock Exchange
Medium-Term Notes, Series B, Index-Linked Notes due 2002; 0.25% Exchangeable Notes due 2007; Index-Linked Notes due 2004; 1% Exchangeable Notes due 2007; 8% Reset YES Notes due 2002; 0.75% Exchangeable Notes due 2005; 1% Exchangeable Basket-Linked Notes due 2007; 0.25% Exchangeable Equity-Linked Notes due November 1, 2005; 0.25% Exchangeable Equity-Linked Notes due November 7, 2005; and 0.50% Exchangeable Equity-Linked Notes due 2007	American Stock Exchange
Medium-Term Notes, Series B, 2.00% Exchangeable Notes due 2006; 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 November 23, 2003 and Callable Index-Linked Notes due December 2, 2003	Chicago Board Options Exchange

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

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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 4, 2002, there were 475,010,197 shares of the registrant's common stock outstanding.

As of February 4, 2002, the aggregate market value of the common stock of the registrant held by non-affiliates of the registrant was approximately \$35.94 billion.

**Documents incorporated by reference:** Portions of The Goldman Sachs Group, Inc.'s 2001 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 dated February 21, 2002, for its 2002 Annual Meeting of Shareholders to be held on April 5, 2002, are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12 and 13.

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## 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 30, 2001, we operated offices in over 20 countries and approximately 36% of our 22,677 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 2001, 2000 and 1999 refer to our fiscal year ended, or the date, as the context requires, November 30, 2001, November 24, 2000 and November 26, 1999, respectively.

When we use the terms “Goldman Sachs,” “we,” “us” 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 2001, 2000 and 1999 is set forth in “Management’s Discussion and Analysis,” and the consolidated financial statements and the notes thereto, in our 2001 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	— Bank loans	— Commissions received on equity securities and derivatives
— Financial restructuring advisory services	— Commodities and commodity derivatives	— Increased share of merchant banking fund income and gains
— Mergers and acquisitions advisory services	— Currencies and currency derivatives	— Institutional and high-net-worth asset management
	— Fixed income securities and derivatives	— Margin lending
	— Principal investments	— Matched book
	— Proprietary arbitrage	— Merchant banking fees
	— Specialist in securities and options	— Mutual funds
	— Spreads received on, and proprietary positions in, equity securities and derivatives	— Prime brokerage
		— Securities lending
		— Securities and options clearing services

#### Global Capital Markets

The Global Capital Markets segment, which represented 64% of 2001 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 24% of 2001 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 and exchangeable 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 worldwide initial public offerings and worldwide public common stock offerings reflects our expertise in complex transactions, research strength, track record and distribution capabilities.

We believe that a key factor in our equity underwriting success is the close working relationship among the investment bankers, sales force and others 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 and mortgage-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 2001 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 and electronic 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 financial assets. 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 and commodity derivatives
- Currencies and currency derivatives
- Fixed income 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.

We execute transactions in equity securities and derivatives for institutional and individual customers that generate commission revenues. Commissions earned on these 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, 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 significant risks, including those arising from holding large and concentrated positions. We are also facing continued pressures on 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).

**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 2001 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 2001, we managed merchant banking funds with total equity capital commitments from

our clients and from Goldman Sachs of \$35.16 billion, including funded amounts. Goldman Sachs had outstanding commitments to invest up to \$1.63 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 2001, the aggregate carrying value of our principal investments held directly or through our merchant banking funds was approximately \$2.85 billion, which consisted of corporate principal investments with an aggregate carrying value of approximately \$1.85 billion and real estate investments with an aggregate carrying value of approximately \$1 billion.

### **Asset Management and Securities Services**

The components of the Asset Management and Securities Services segment, which represented 36% of 2001 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 include fees from executing and clearing client transactions on major stock, options and futures markets worldwide. Commissions also include revenues from the increased share of the income and gains derived from our merchant banking funds. For a discussion regarding our increased share of the income and gains from our merchant banking funds, see “— Asset Management — Merchant Banking” below.

In January 2002, we began to implement a new fee-based pricing structure in our Nasdaq trading business. Previously we did not charge explicit fees in this business but rather earned market-making revenues based generally on the difference between bid and ask prices. Such market-making net revenues are reported in our Equities trading results. As a result of the change to the fee-based pricing structure, a substantial portion of our Nasdaq net revenues will be reported in Commissions beginning in the first quarter of 2002.

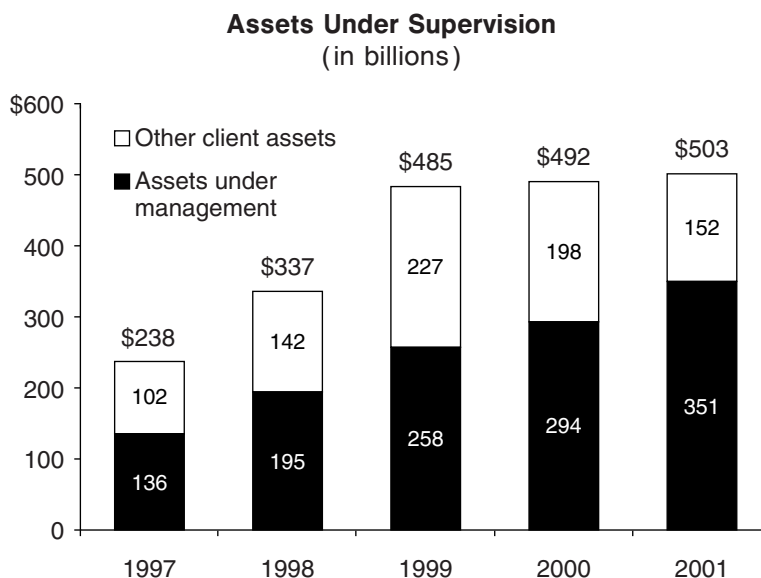
#### ***Asset Management***

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, for which we earn trading 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:



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

**Assets Under Management by Asset Class**  
(in billions)

Asset Class	As of November		
	2001	2000	1999
Equity .....	\$ 96	\$107	\$ 98
Fixed income and currency .....	71	57	58
Money markets .....	122	72	48
Alternative investments (1) .....	62	58	54
Total .....	<u>\$351</u>	<u>\$294</u>	<u>\$258</u>

(1) Includes merchant banking, 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, 2001:

**Assets Under Supervision by Distribution Channel**  
(in billions)

	<u>Assets Under Supervision (1)</u>	<u>Primary Investment Vehicles</u>
• Directly Distributed		
— Institutional . . . . .	\$159	Separate managed accounts
— High-net-worth individuals . . . . .	236	Commingled vehicles Brokerage accounts Private investment funds Separate managed accounts
• Third-party distributed		
— Institutional and retail . . . . .	<u>86</u>	Mutual funds
Total . . . . .	<u>\$481</u>	

(1) Excludes \$22.12 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 private investment funds with \$35.16 billion of committed capital as of November 2001, of which \$22.38 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 2001, our corporate merchant banking funds had total committed capital of \$23.26 billion. Other funds, with total committed capital of \$11.90 billion as of November 2001, 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 activities include prime brokerage, financing services and securities lending. We provide these services to a diversified U.S. and international customer base,

including hedge funds, pension funds, mutual funds, foundations, endowments 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 consolidated portfolio reports. Our prime brokerage activities provide clearing and custody in 50 markets, consolidated multi-currency accounting and reporting and offshore fund administration. Additionally, we provide financing to our clients for their securities trading activities through margin and securities loans that are collateralized by securities, cash or other acceptable collateral 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, to make deliveries into the market 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 from executing and clearing client transactions on major stock, options and futures markets worldwide. As discussed above, commissions also include the increased share of the income and gains derived from our merchant banking funds.

### **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 2001 provided research coverage of approximately 2,300 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 25 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 four efforts:

- enhancing client service through increased connectivity and the provision of value-added, tailored services;
- improving our trading, execution and clearing capabilities;

- risk management; and
- overall efficiency, productivity and control.

We have tailored our services to our clients by providing them with electronic access to our products and services. In particular, we are extending our global electronic trading and information distribution capabilities to our clients via the Internet and other forms of electronic connectivity. 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.

We believe that Internet technology and electronic commerce will, over time, change the ways that securities and other financial products are traded, distributed and settled, which will create both opportunities and challenges for our businesses. We remain committed to being at the forefront of technological innovation in the global capital markets.

- In October 2000, we combined with SLK. The SLK transaction has 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 market centers.
- We have developed Goldman Sachs PrimeAccess™, a proprietary service that delivers Goldman Sachs investment research, products and execution services to leading brokerage firms in Europe and North America. We commenced this service in Europe in September 2000 and North America in May 2001.
- In July 2001, we acquired Epoch Partners, Inc. Through this acquisition, we obtained the exclusive right to distribute equity offerings, including initial public offerings, to Charles Schwab & Co., Inc.'s and TD Waterhouse Group, Inc.'s customers.

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 exchange rate, equity price or commodity price changes. To assist further in the management of our credit exposures, data from many sources are aggregated daily into credit management systems that give senior management and professionals in the Credit and Controllers departments the ability to receive timely information with respect to credit exposures worldwide, including netting information, and the ability to analyze complex risk situations effectively. Our software accesses this data, allows for quick analysis at the level of individual trades, and interacts with other Goldman Sachs systems.

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

## **Employees**

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

Instilling the Goldman Sachs culture in all employees is a continuous process, in which training plays an important part. All employees are offered the opportunity to participate in education and periodic seminars that we sponsor at various locations throughout the world.

Another important part of instilling the Goldman Sachs culture is our employee review process. Employees are reviewed by supervisors, co-workers and employees they supervise in a 360-degree review process that is integral to our team approach.

As of November 2001, we had 22,677 employees, which excludes employees of Goldman Sachs' 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, due in part to U.S. federal financial modernization legislation which has expanded the activities permissible for firms affiliated with a U.S. bank. 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.

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. Moreover, the introduction of decimalization has affected spreads in our market-making business. 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.

Recent federal legislation authorizes the trading of securities futures products, including futures on single stocks and narrow-based indices and provides additional legal certainty for over-the-counter derivatives. It is unclear what the exact impact of the introduction of single

stock futures contracts will be on the businesses of Goldman Sachs. While commissions and clearing fees may increase, other aspects of our business may be adversely affected.

## **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 are regulated by the SEC, the NYSE and the NASD. 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.

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 commodity options industry in the United States is subject to regulation under the Commodity Exchange Act, as amended. The Commodity Futures Trading Commission is the federal agency charged with the administration of the Commodity Exchange Act and the regulations thereunder. Several of Goldman Sachs' subsidiaries, including Goldman, Sachs & Co. and Spear, Leeds & Kellogg, L.P., are registered with the CFTC and act as futures commission merchants, commodity pool operators or commodity trading advisors and are subject to the Commodity Exchange Act and the regulations thereunder. The rules and regulations of various self-regulatory organizations, such as the Chicago Board of Trade, other futures exchanges and the National Futures Association, also govern the commodity futures and commodity 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 CFTC 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.

Goldman Sachs has established The Goldman Sachs Trust Company, N.A., a national bank limited to fiduciary activities, in order to provide personal trust and estate administration and related services to its high-net-worth clients on a nationwide basis. GSTC maintains collective investment funds for eligible pension and profit sharing plan clients. As a national bank, GSTC is subject to regulation by the Office of the Comptroller of the Currency and is a member bank of the Federal Reserve System. GSTC will not accept deposits or make loans and, as a result, it is not considered to be a bank for purposes of the Bank Holding Company Act. It also does not carry FDIC insurance and is not subject to the requirements of the Community Reinvestment Act. GSTC opened for business on October 1, 2001.

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 the regulation of The Financial Services Authority. Various Goldman Sachs entities operating in Europe are also regulated by, among others, the Bundesbank and other regulatory authorities in Germany, by French and Swiss banking authorities, by the London Stock Exchange and by other securities, derivatives and commodities exchanges of which they are members. The investment services that are subject to oversight by the FSA and other European 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 Financial Services Agency, the Tokyo Stock Exchange, the Osaka Securities Exchange, the Tokyo International Financial Futures Exchange and the Japan Securities Dealers Association in Japan, the Securities and Futures Commission in Hong Kong, and the Monetary Authority of Singapore in Singapore, among others, regulate various of our subsidiaries in Asia 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. In recent years, the financial markets in the United States and elsewhere have been volatile and a number of financial indices have declined substantially. The terrorist attack of September 11, 2001 and related developments have created further uncertainty in the financial markets and have negatively impacted the U.S. economy.

Uncertain or unfavorable economic and market conditions may adversely affect our business 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 those positions, including our fixed income, currency, commodity and equity positions and our merchant banking investments.
- The number and size of transactions in which we provide underwriting, mergers and acquisitions advisory, and other services may decline further. In particular, a continuation of industry-wide declines in the volume of equity underwritings and mergers and acquisitions is likely to have a continuing adverse effect on 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.

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.

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 markets, an inability to access the repurchase and securities lending markets, or an inability to sell assets. This situation may arise due to circumstances that we may be unable to control, such as a general market disruption, perceptions about our creditworthiness or an operational problem that affects third parties or us. Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time.

Our credit ratings are important to our liquidity. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowing costs or trigger our



obligations under certain bilateral provisions in some of our trading and collateralized financing contracts. Under such provisions, counterparties could be permitted to terminate such contracts with Goldman Sachs or require us to post additional collateral. Termination of our trading and collateralized financing contracts could cause us to sustain losses and impair our liquidity by requiring us to make significant cash payments.

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. In particular, 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 an impairment to our liquidity, financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage. These systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, including a disruption of electrical or communications services or our inability to occupy one or more of our buildings. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses.

Our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which they are located. This may include a disruption involving electrical, communications, transportation or other services used by Goldman Sachs or third parties with which we conduct business. These disruptions may occur, for example, as a result of events that affect only the buildings of Goldman Sachs or such third parties, or as a result of events with a broader impact on the cities where those buildings are located. Nearly all of our employees in our primary locations, including New York, London, Frankfurt, Hong Kong and Tokyo, work in close proximity to each other, in one or more buildings. If a disruption occurs in one location and our employees in that location are unable to communicate with or travel to other locations, our ability to service and interact with our clients may suffer and we may not be able to successfully implement contingency plans that depend on communication or travel.

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 growth of the Internet and e-commerce, and the introduction of new technologies, is changing our business and presenting us with new challenges. 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 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.

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, 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 that 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 many countries, including risks of possible nationalization, expropriation, price controls, capital 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, capital and currency exchange controls, 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.

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.

#### **Cautionary Statement Pursuant to The Private Securities Litigation Reform Act of 1995**

We have included or incorporated by reference in this Annual Report on Form 10-K, and from time to time our management may make, statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. 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 outside of our control. These statements include statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, among other things, and may also include our belief regarding the effect of various legal proceedings, as set forth under "Legal Proceedings" in Part I, Item 3 of this Annual Report on Form 10-K and statements about our investment banking transaction backlog incorporated by reference in Part II, Item 7 of this Annual Report on Form 10-K. It is possible that our actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. Important factors that could cause actual results to differ from those in the forward-looking statements include, among others, those discussed below and under "— Certain Factors That May Affect Our Business."

In the case of statements about our investment banking transaction backlog, such statements are subject to the risk that the terms of these transactions may be modified or that they may not be completed at all; therefore, the net revenues that we expect to earn from these transactions may differ, possibly materially, from those currently expected. Important factors that could result in a modification of the terms of a transaction or a transaction not being completed include, in the case of underwriting transactions, a decline in general economic conditions, volatility in the securities markets generally or an adverse development with respect to the issuer of the securities and, in the case of financial advisory transactions, a decline in the securities markets, an adverse development with respect to a party to the transaction or a failure to obtain a required regulatory approval.

## **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 680,000 square feet at One New York Plaza under lease agreements expiring primarily in September 2004 (with options to renew for up to ten additional years), and we lease space at various other locations in the New York metropolitan area. In total, we lease over 5.1 million square feet in the New York metropolitan area. We have additional offices in the United States and elsewhere in the Americas. Together, these offices comprise approximately 1.7 million square feet of leased space.

We own approximately four acres of land in Jersey City, New Jersey that we are using for the construction of an office complex. This project is being developed to complement our offices in lower Manhattan. The initial phase of development is expected to include approximately 2.1 million square feet of office space, with occupancy planned in phases beginning in 2004.

We also have offices in Europe, Asia, Africa and Australia. In Europe, we have offices that total approximately 1.8 million square feet. Our European headquarters is located in London at Peterborough Court, pursuant to a lease which expires in 2016. In total, we lease approximately 1.4 million square feet in London through various leases, relating to various properties.

In Asia and Australia, we have offices that total approximately 1 million square feet. Our headquarters in this region are in Tokyo, at the ARK Mori Building, and in Hong Kong, at the Cheung Kong Center. In Tokyo we currently lease approximately 380,000 square feet under renewable leases with current terms extending, in some cases, to June 2005. In Hong Kong, we currently lease approximately 300,000 square feet under lease agreements, the majority of which expire in fiscal 2012.

## **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.

### ***IPO Process 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. Plaintiffs have appealed to the U.S. Court of Appeals for the Second Circuit from the dismissal of their complaint.

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 federal district court granted with prejudice the defendants' motion to dismiss the claims asserted by the purchasers of securities, and the plaintiffs in those actions have appealed to the U.S. Court of Appeals for the Second Circuit from the dismissal. On September 28, 2001, the defendants moved to dismiss the complaints filed by the issuer plaintiffs.

The Goldman Sachs Group, Inc. is one of numerous financial services firms that have been named as defendants in purported class actions filed beginning on March 9, 2001 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 a conspiracy to "tie" allocations in certain offerings to higher customer brokerage commission rates as well as purchase orders in the aftermarket, in violation of federal antitrust laws. The plaintiffs filed a consolidated amended complaint on January 2, 2002. The Goldman Sachs Group, Inc. has also, together with other underwriters in certain offerings as well as the issuers and certain of their officers and directors, been named as a defendant in a number of related lawsuits alleging, among other things, that the prospectuses for the offerings violated the federal securities laws by failing to disclose the existence of the alleged "tying" arrangements. In addition, The Goldman Sachs Group, Inc. has, together with other underwriters in certain offerings, received subpoenas for documents and information from various governmental agencies in connection with an investigation relating to allocations in public offerings. Goldman Sachs is cooperating with the investigation.

#### ***Stock Options Antitrust Litigation***

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 non-settling defendants for summary judgment. By a decision dated April 24, 2001, the district court ruled that in light of that order granting summary judgment, the court lacked jurisdiction to entertain the proposed settlement. Plaintiffs have appealed to the U.S. Court of Appeals for the Second Circuit.

#### ***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 subsequently amended their complaint as to the remanded claim, defendants renewed their motion to dismiss with respect to the amended complaint, and the motion was granted by the federal district court on March 12, 2001. Plaintiffs have appealed to the U.S. Court of Appeals for the Third Circuit from the dismissal order.

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

#### ***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 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. By a decision dated March 22, 2001, the federal district court denied the motion. On July 30, 2001, AMF Bowling, Inc. filed for protection under the U.S. bankruptcy laws.

#### ***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 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 a purported class action filed 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. On June 28, 2001, Laidlaw, Inc. filed for bankruptcy protection.

The lawsuit, brought by certain institutional purchasers of the debentures, alleges 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. By an order of the Judicial Panel on Multi-District Litigation filed on April 19, 2001, the lawsuit was transferred to the U.S. District Court for the District of South Carolina for purposes of consolidated or coordinated pretrial proceedings with related actions in that court pertaining to Safety Kleen Corporation and Laidlaw, Inc. On January 8, 2002, the parties entered into a Preliminary Memorandum of Understanding with respect to a settlement of the lawsuit pursuant to which Goldman, Sachs & Co. would contribute approximately \$2.5 million toward a settlement fund. The settlement is subject to, among other things, the execution of a definitive settlement agreement, various court approvals and the confirmation of a satisfactory plan of reorganization of Laidlaw, Inc.

#### ***World Online Litigation***

Several lawsuits have been commenced 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.

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.

In March 2001, a Dutch shareholders association initiated legal proceedings in Amsterdam District Court in connection with the World Online offering. Goldman Sachs International is named as a defendant in the writ served on its Dutch attorneys on March 14, 2001. The amount of damages sought is not specified in the writ. Goldman Sachs International filed its Statement of Defense on January 16, 2002.

#### ***Owens Corning, Inc. Bondholder Litigation***

Goldman, Sachs & Co. has been named as a defendant in a purported class action filed on April 27, 2001 in the U.S. District Court for the District of Massachusetts arising from a 1998

offering by Owens Corning, Inc. of two series of its notes. The defendants include certain of Owens Corning's officers and directors and the underwriters for the offering (including Goldman, Sachs & Co., which was the lead manager in the offering). The offering included a total of \$550 million principal amount of notes, of which Goldman, Sachs & Co. underwrote \$275 million.

The lawsuit, brought by certain institutional purchasers of the notes, alleges that the prospectus issued in connection with the offering was false and misleading in violation of the disclosure requirements of the federal securities laws. The plaintiffs are seeking, among other things, unspecified damages. The underwriter defendants moved to dismiss the complaint on November 14, 2001.

#### ***Research Independence Matters***

The Goldman Sachs Group, Inc. and its affiliates, together with other financial services firms, have received requests for information from various governmental agencies in connection with their review of research independence issues. Goldman Sachs is cooperating with their requests. The Goldman Sachs Group, Inc. is among several financial services firms that have been named as defendants in a purported class action filed in the U.S. District Court for the Southern District of New York on August 2, 2001 on behalf of purchasers on and after August 1, 1998 of securities of Internet and information technology companies for which the defendants issued research reports. The complaint alleges that the defendants violated the disclosure requirements of the federal securities laws by failing to disclose that (i) they caused their analysts to issue recommendations in order to obtain investment banking business, (ii) they and their employees bought recommended shares at low prices before they were sold to the public, and (iii) they purposely failed to maintain proper compliance procedures to prevent misleading research recommendations. The complaint also contends that defendants' alleged conduct constituted a breach of fiduciary duty and violated unspecified state laws. The complaint seeks an unspecified amount of damages.

#### ***Enron Exchangeable Notes Litigation***

Goldman, Sachs & Co. has been named as a defendant in a purported securities class action commenced on December 14, 2001 in the U.S. District Court for the Southern District of Texas brought on behalf of purchasers of \$222,500,000 of Exchangeable Notes of Enron Corp. in August 1999. The notes are mandatorily exchangeable in 2002 into shares of Enron Oil & Gas Company held by Enron Corp. or their cash equivalent. The complaint names as defendants certain past and present officers and directors of Enron Corp., the company's outside accounting firm, and the three underwriters of the August 1999 offering (including Goldman, Sachs & Co.). The complaint generally alleges violations of the disclosure requirements of the federal securities laws and seeks compensatory damages. Goldman, Sachs & Co. underwrote \$111,250,000 principal amount of the notes.

Several funds which allegedly sustained investment losses of approximately \$125 million in connection with secondary market purchases of the notes as well as Zero Coupon Convertible Notes of Enron Corp. commenced an action in the U.S. District Court for the Southern District of New York on January 16, 2002. The lawsuit names as defendants the underwriters of the August 1999 offering as well as the company's outside accounting firm, and alleges violations of the disclosure requirements of the federal securities laws, fraud and misrepresentation.

On December 2, 2001, Enron Corp. filed for protection under the U.S. bankruptcy laws.

#### ***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 30, 2001.



## **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, 2002, all of whom have been appointed by and serve at the pleasure of our board of directors.

### **Henry M. Paulson, Jr., 55**

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, a director and a member of the Executive Committee of the New York City Investment Fund 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 serves on the Advisory Board of the J.L. Kellogg Graduate School of Management at Northwestern University and on 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. In addition, he is a member of the Governing Board of the Indian School of Business.

### **Robert J. Hurst, 56**

Mr. Hurst has been Vice Chairman of The Goldman Sachs Group, Inc. since May 1999, and has been a director since August 1998. In December 2001, Mr. Hurst was appointed Chief Executive Officer of the 9/11 United Services Group, an umbrella group of leading non-profit organizations and human services agencies formed to coordinate and speed assistance to all those affected in New York City by the events of September 11, 2001. 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. Mr. Hurst is a director of VF Corporation, IDB Holding Corporation Ltd. and AirClic Inc. and is on the Board of Overseers of the Wharton School. He is also a member of the Council on Foreign Relations, the Committee for Economic Development and the Manhattan Institute. He is Chairman of the Board of the Jewish Museum, a trustee and Vice Chairman of the Board 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, 46**

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. From July 1995 to September 1997, he was also Co-Chief Executive Officer for European Operations. Mr. Thain is a member of The 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 and the Federal Reserve Bank of New York's International Capital Markets Advisory Committee. He is also a member of the French-American Foundation, the Board of Trustees of the National Urban League and The Trilateral Commission, as well as a governor of the New York-Presbyterian Foundation, Inc., a trustee of New York-Presbyterian Hospital and a General Trustee of Howard University.

**John L. Thornton, 48**

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. Mr. Thornton is also a director of Ford Motor Company, BSKyB PLC, Laura Ashley Holdings plc and 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 and the Yale School of Management.

**Kevin W. Kennedy, 53**

Mr. Kennedy has been Executive Vice President-Human Capital Management of The Goldman Sachs Group, Inc. since December 2001. From 1999 until his recent appointment, he served as a member of the Executive Office to strengthen the effort to develop the future leadership of Goldman Sachs. Mr. Kennedy served as Head of Corporate Finance from 1988 to 1994 and as Head of the Americas Group, a combination of Corporate Finance, Investment Banking Services and Structured Finance for the United States, Canada and Latin America, from 1994 to 1999. He is Chairman of the Board of Trustees of Hamilton College, a Managing Director of the Metropolitan Opera and a trustee of the Chewonki Foundation.

**Steven T. Mnuchin, 39**

Mr. Mnuchin has been Chief Information Officer of The Goldman Sachs Group, Inc. since December 2001, Executive Vice President since February 2001 and was Co-Chief Information Officer from February 2001 to December 2001. He was a member of the Executive Office and Co-Head of the firm's Technology Operating Committee from December 1999 to February 2001. Mr. Mnuchin was responsible for overseeing Mortgages, U.S. Governments, Money Markets, and Municipals in the Fixed Income, Currency and Commodities Division from December 1998 to November 1999. From November 1994 to December 1998, he was Head of the Mortgage Securities Department. He is a member of the Yale Development Board, Riverdale Country School Board, Junior Achievement National Board and Hirshhorn Museum and Sculpture Garden Board.

**Gregory K. Palm, 53**

Mr. Palm has been General Counsel, an Executive Vice President and Head or Co-Head of the Legal Department of The Goldman Sachs Group, Inc., 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 of the Board of Trustees of the Skowhegan School of Painting and Sculpture. From 1982 to 1992, Mr. Palm was a partner in the law firm of Sullivan & Cromwell.

**Esta E. Stecher, 44**

Ms. Stecher has been General Counsel, an Executive Vice President and Co-Head of the Legal Department of The Goldman Sachs Group, Inc. since December 2000. She also 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. Ms. Stecher is also a trustee of The Goldman Sachs Foundation. From 1990 to 1994, Ms. Stecher was a partner in the law firm of Sullivan & Cromwell.

**David A. Viniar, 46**

Mr. Viniar has been Chief Financial Officer and an Executive Vice President of The Goldman Sachs Group, Inc. since May 1999. He has been Head of the Finance Division and Co-Head of Credit Risk Management and Advisory and Firmwide Risk since December 2001. He was Co-Head of Operations, Finance and Resources from March 1999 to December 2001. 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 prior to that 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, serves on the Board of Trustees of Union College and is a member of the Board of Trustees of the Financial Accounting Foundation.

**Barry L. Zubrow, 48**

Mr. Zubrow has been Chief Administrative Officer and an Executive Vice President of The Goldman Sachs Group, Inc. since May 1999 and has been Head of the Operations and Administration Division since December 2001. He was Co-Head of Operations, Finance and Resources from March 1999 to December 2001. 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 2001 Annual Report to Shareholders, which is incorporated herein by reference. As of February 4, 2002, there were 3,432 holders of record of our common stock.

During fiscal 2000 and 2001, 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 December 20, 1999, March 20, 2000, June 19, 2000, September 18, 2000, December 18, 2000, March 19, 2001, June 18, 2001 and September 25, 2001. 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 June 18, 2001, our board of directors authorized the repurchase of additional shares of The Goldman Sachs Group, Inc.'s common stock pursuant to our existing share repurchase program. 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. The total remaining authorization under the repurchase program was 4.6 million shares as of February 4, 2002.

### **Item 6. *Selected Financial Data***

The Selected Financial Data table is set forth on page 75 of the 2001 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 2001 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 44 of the 2001 Annual Report to Shareholders under the caption "Management's Discussion and Analysis — Risk Management" and on pages 56 to 57 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 2001 Annual Report to Shareholders on pages 46 to 72, and are incorporated herein by reference. In addition, the information on page 73 of the 2001 Annual Report to Shareholders under the caption "Supplemental Financial Information — Quarterly Results" is incorporated herein by reference.

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

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

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

Information relating to the Registrant's executive officers is included on pages 24 to 26 of this Annual Report on Form 10-K. Information relating to directors of the Registrant is set forth under the caption "Election of Directors" on pages 4 to 6 of the Registrant's Proxy Statement for its 2002 Annual Meeting of Shareholders to be held on April 5, 2002 (the "2002 Proxy Statement") and such information is incorporated herein by reference. Also incorporated herein by reference is the information under the caption "Other Matters — 16(a) Beneficial Ownership Reporting Compliance" on page 25 of the 2002 Proxy Statement.

**Item 11. *Executive Compensation***

Information relating to the Registrant's executive officer and director compensation is set forth under the captions "Election of Directors — Employment Contracts and Change of Control Arrangements", "— Director Compensation", "— Executive Compensation", "— Stock Options" and "— Fiscal Year-End Option Holdings" on pages 7 to 12 of the 2002 Proxy Statement and all such information is incorporated herein by reference.

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

Information relating to security ownership of certain beneficial owners of the Registrant's common stock is set forth under the caption "Beneficial Owners of More Than Five Percent" on page 22 of the 2002 Proxy Statement and information relating to the security ownership of the Registrant's management is set forth under the caption "Beneficial Ownership of Directors and Executive Officers" on pages 20 to 21 of the 2002 Proxy Statement and all such information is incorporated herein by reference.

**Item 13. *Certain Relationships and Related Transactions***

Information regarding certain relationships and related transactions is set forth under the Caption "Certain Relationships and Related Transactions" on pages 22 to 23 of the 2002 Proxy Statement and all such information is incorporated herein by reference.

## PART IV

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

#### (a) Documents filed as part of this Report:

##### 1. Consolidated Financial Statements

The consolidated financial statements required to be filed in this Annual Report on Form 10-K are listed on page F-1 hereof and incorporated herein by reference to the corresponding page number in the 2001 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-7 hereof.

##### 3. Exhibits

- 2.1 Plan of Incorporation.\*
- 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 September 24, 1992, from LDT Partners to Goldman Sachs International (incorporated by reference to Exhibit 10.34 to the Registrant's registration statement on Form S-1 (No. 333-74449)).
- 10.4 Agreement for Lease, dated November 29, 1998, between Turbo Top Limited and Goldman Sachs (Asia) Finance (incorporated by reference to Exhibit 10.13 to the Registrant's registration statement on Form S-1 (No. 333-74449)).
- 10.5 Summary of Tokyo Leases (incorporated by reference to Exhibit 10.14 to the Registrant's registration statement on Form S-1 (No. 333-74449)).
- 10.6 The Goldman Sachs 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.15 to the Registrant's registration statement on Form S-1 (No. 333-75213)).+
- 10.7 The Goldman Sachs Defined Contribution Plan (incorporated by reference to Exhibit 10.16 to the Registrant's registration statement on Form S-1 (No. 333-75213)).+
- 10.8 The Goldman Sachs Partner Compensation Plan (incorporated by reference to Exhibit 10.18 to the Registrant's registration statement on Form S-1 (No. 333-75213)).+
- 10.9 Form of Employment Agreement (incorporated by reference to Exhibit 10.19 to the Registrant's registration statement on Form S-1 (No. 333-75213)).+
- 10.10 Form of Agreement Relating to Noncompetition and Other Covenants (incorporated by reference to Exhibit 10.20 to the Registrant's registration statement on Form S-1 (No. 333-75213)).+

- 10.11 Form of Pledge Agreement (incorporated by reference to Exhibit 10.21 to the Registrant's registration statement on Form S-1 (No. 333-75213)).+
- 10.12 Form of Award Agreement (Discretionary RSUs) (incorporated by reference to Exhibit 10.23 to the Registrant's registration statement on Form S-1 (No. 333-75213)).+
- 10.13 Form of Option Agreement (Discretionary Options) (incorporated by reference to Exhibit 10.24 to the Registrant's registration statement on Form S-1 (No. 333-75213)).+
- 10.14 Tax Indemnification Agreement, dated as of May 7, 1999, by and among The Goldman Sachs Group, Inc. and various parties (incorporated by reference to Exhibit 10.25 to the Registrant's registration statement on Form S-1 (No. 333-75213)).
- 10.15 Form of Shareholders' Agreement among The Goldman Sachs Group, Inc. and various parties (incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 26, 1999).
- 10.16 Instrument of Indemnification (incorporated by reference to Exhibit 10.27 to the Registrant's registration statement on Form S-1 (No. 333-75213)).
- 10.17 Form of Indemnification Agreement (incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 26, 1999).
- 10.18 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)).
- 10.19 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).
- 10.20 Form of Indemnification Agreement (incorporated by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 26, 1999).
- 10.21 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).+
- 10.22 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).
- 10.23 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).
- 10.24 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).

- 10.25 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).
- 10.26 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).
- 10.27 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).
- 10.28 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).
- 10.29 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).
- 10.30 Form of Non-Employee Director Option Agreement (incorporated by reference to Exhibit 10.55 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 24, 2000).+
- 10.31 Form of Non-Employee Director RSU Agreement (incorporated by reference to Exhibit 10.56 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 24, 2000).+
- 10.32 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).
- 10.33 Supplemental Registration Rights Instrument, dated as of December 21, 2001 (incorporated by reference to Exhibit 4.4 to Registrant's registration statement on Form S-3 (No. 333-74006)).
- 10.34 Letter, dated February 6, 2001, from The Goldman Sachs Group, Inc. to Dr. Ruth J. Simmons (incorporated by reference to Exhibit 10.63 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 24, 2000).+
- 10.35 Letter, dated February 6, 2001, from The Goldman Sachs Group, Inc. to Mr. John H. Bryan (incorporated by reference to Exhibit 10.64 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 24, 2000).+
- 10.36 Letter, dated February 6, 2001, from The Goldman Sachs Group, Inc. to Mr. James A. Johnson (incorporated by reference to Exhibit 10.65 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 24, 2000).+
- 10.37 Letter, dated February 6, 2001, from The Goldman Sachs Group, Inc. to Lord Browne of Madingley (incorporated by reference to Exhibit 10.66 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 24, 2000).+
- 10.38 Letter, dated September 24, 2001, from The Goldman Sachs Group, Inc. to Ms. Margaret C. Whitman.+
- 10.39 Letter, dated November 19, 2001, from The Goldman Sachs Group, Inc. to Dr. Morris Chang.+



- 12.1 Statement re computation of ratios of earnings to fixed charges.
- 13 The following portions of the Registrant's 2001 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 "— Common 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).

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

**(b) Reports on Form 8-K:**

On September 26, 2001, we filed a Current Report on Form 8-K reporting our earnings for our fiscal third quarter ended August 31, 2001.

On December 20, 2001, we filed a Current Report on Form 8-K reporting our earnings for our fiscal fourth quarter ended November 30, 2001.

**THE GOLDMAN SACHS GROUP, INC.**

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

	Page Reference	
	Form 10-K	2001 Annual Report to Shareholders
<b>Consolidated Financial Statements</b>		
Report of Independent Accountants		46
Consolidated Statements of Earnings		47
Consolidated Statements of Financial Condition		48
Consolidated Statements of Changes in Shareholders' Equity and Partners' Capital		49
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Schedule I — Condensed Financial Information of Registrant (Parent Company Only)	F-3 to F-7	
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Condensed Statements of Earnings	F-3	
Condensed Statements of Financial Condition	F-4	
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Notes to Condensed Financial Statements	F-6	

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

(i) Management's Discussion and Analysis;	26 to 45
(ii) Supplemental Financial Information — Quarterly Results;	73
(iii) Supplemental Financial Information — Common Stock Price Range; and	74
(iv) Supplemental Financial Information — Selected Financial Data	75

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 2001 Annual Report to Shareholders, which information is incorporated herein by reference.

## REPORT OF INDEPENDENT ACCOUNTANTS

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

Our audits of the consolidated financial statements referred to in our report dated January 28, 2002 appearing in the 2001 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 28, 2002.

SCHEDULE I

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

	Year Ended November		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(in millions)		
Revenues			
Equity in earnings of subsidiaries .....	\$3,820	\$3,986	\$1,231
Principal investments .....	(124)	561	1,139
Interest income .....	<u>3,785</u>	<u>4,577</u>	<u>3,305</u>
Total revenues .....	7,481	9,124	5,675
Interest expense .....	<u>3,882</u>	<u>4,806</u>	<u>3,338</u>
Revenues, net of interest expense .....	3,599	4,318	2,337
Operating expenses			
Compensation and benefits .....	167	186	251
Other .....	120	133	109
Charitable contribution .....	<u>—</u>	<u>—</u>	<u>200</u>
Total operating expenses .....	287	319	560
Pre-tax earnings .....	3,312	3,999	1,777
Provision / (benefit) for taxes .....	<u>1,002</u>	<u>932</u>	<u>(931)</u>
Net earnings .....	<u>\$2,310</u>	<u>\$3,067</u>	<u>\$2,708</u>

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

SCHEDULE I

**THE GOLDMAN SACHS GROUP, INC.**  
**CONDENSED STATEMENTS OF FINANCIAL CONDITION (PARENT COMPANY ONLY)**

	<b>As of November</b>	
	<b>2001</b>	<b>2000</b>
	(in millions, except share and per share amounts)	
<b>Assets</b>		
Cash and cash equivalents .....	\$ —	\$ —
Financial instruments owned, at fair value .....	4,862	4,352
Receivables from affiliates .....	49,184	42,380
Subordinated loan receivables from affiliates .....	12,112	12,406
Investments in subsidiaries .....	16,877	14,670
Other assets .....	2,659	3,018
<b>Total assets</b> .....	<b>\$85,694</b>	<b>\$76,826</b>
<b>Liabilities and Shareholders' Equity</b>		
Short-term borrowings, including commercial paper .....	\$33,593	\$28,585
Payables to affiliates .....	2,624	134
Other liabilities and accrued expenses .....	1,148	1,102
Long-term borrowings		
With third parties .....	29,769	30,166
With affiliates .....	329	309
<b>Total liabilities</b> .....	67,463	60,296
<b>Commitments and contingencies</b>		
<b>Shareholders' Equity</b>		
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, 499,017,511 and 489,964,838 shares issued, as of November 2001 and November 2000, respectively, and 476,228,933 and 483,474,693 outstanding as of November 2001 and November 2000, respectively .....	5	5
Restricted stock units .....	4,542	4,760
Nonvoting common stock, par value \$0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding .....	—	—
Additional paid-in capital .....	11,785	11,127
Retained earnings .....	5,373	3,294
Unearned compensation .....	(1,220)	(1,878)
Accumulated other comprehensive loss .....	(168)	(130)
Treasury stock, at cost, par value \$0.01 per share; 22,788,578 and 6,490,145 shares as of November 2001 and November 2000, respectively .....	(2,086)	(648)
<b>Total shareholders' equity</b> .....	<b>18,231</b>	<b>16,530</b>
<b>Total liabilities and shareholders' equity</b> .....	<b>\$85,694</b>	<b>\$76,826</b>

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		
	2001	2000	1999
	(in millions)		
Cash flows from operating activities			
Net earnings	\$ 2,310	\$ 3,067	\$ 2,708
Noncash items included in net earnings			
Undistributed earnings of subsidiaries	(1,246)	(1,770)	331
Depreciation and amortization	90	108	71
Deferred income taxes	490	(240)	(1,030)
Stock-based compensation	23	49	52
Other, net	(9)	(10)	46
Changes in operating assets and liabilities			
Financial instruments owned, at fair value	879	(711)	(1,575)
Other, net	39	(228)	553
Net cash provided by / (used for) operating activities	2,576	265	1,156
Cash flows from investing activities			
Financial instruments owned, at fair value	(1,391)	(165)	246
Receivables from affiliates, net	(3,547)	552	(6,468)
Subordinated loan receivables from affiliates	294	(3,358)	(380)
Investment in subsidiaries, net	(456)	(152)	(2,412)
Property, leasehold improvements and equipment	(134)	(269)	(292)
Business combinations	(314)	(1,988)	(196)
Net cash used for investing activities	(5,548)	(5,380)	(9,502)
Cash flows from financing activities			
Short-term borrowings, net	(1,530)	(9,399)	12
Issuance of long-term borrowings	6,315	15,704	10,755
Repayment of long-term borrowings	(144)	(327)	(587)
Common stock repurchased	(1,438)	(648)	—
Dividends paid	(231)	(217)	(107)
Proceeds from issuance of common stock	—	1	2,633
Capital contributions	—	—	48
Returns on capital and certain distribution to partners	—	—	(306)
Partners' capital distributions, net	—	—	(4,112)
Net cash provided by financing activities	2,972	5,114	8,336
Net decrease in cash and cash equivalents	—	(1)	(10)
Cash and cash equivalents, beginning of year	—	1	11
Cash and cash equivalents, end of year	\$ —	\$ —	\$ 1

**SUPPLEMENTAL DISCLOSURES:**

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

Payments of income taxes were \$545 million and \$1.23 billion for the years ended November 2001 and November 2000, respectively, and were immaterial for the year ended November 1999.

*Noncash activities:*

The value of common stock issued in connection with business combinations was \$223 million, \$3.41 billion and \$245 million for the years ended November 2001, November 2000 and November 1999, respectively.

Stock-based compensation expense included in subsidiary net earnings was \$766 million, \$1.30 billion and \$2.94 billion for the years ended November 2001, 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 condensed financial statements.

## THE GOLDMAN SACHS GROUP, INC.

## NOTES 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 accounting principles generally accepted in the United States of America 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 the current year presentation.

***Financial Instruments***

Financial instruments owned, including principal investments, are carried at fair value or amounts that approximate fair value, with related unrealized gains or losses recognized in the condensed statements of earnings. Fair value is based generally on listed market prices or broker or dealer price quotations. If prices are not readily determinable or if liquidating the 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. Where fair value is not readily determinable, principal investments are initially recorded at cost. Downward adjustments are made if management determines that realizable value is less than carrying value.

***Affiliate Financings***

Most of the consolidated unsecured financing 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, as represented by "Receivables from affiliates" and "Subordinated loan receivables from affiliates" on the condensed statements of financial condition. Intercompany exposure is managed by generally requiring intercompany loans to have maturities equal to or shorter than the maturities of the aggregate borrowings of the parent company. This policy ensures that the subsidiaries' obligations to the parent company will generally mature in advance of the parent company's third-party long-term borrowings. In addition, many of the subsidiaries and affiliates pledge collateral to cover their intercompany borrowings. Equity investments in subsidiaries are generally funded with equity capital.

Interest income is largely generated from loans made to affiliates.

**Income Taxes**

Income taxes are accounted for 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 assets and liabilities. Tax assets and liabilities are presented as a component of "Other assets" and "Other liabilities and accrued expenses," respectively, on the condensed statements of financial condition.

**Note 2. Restricted Stock Units**

Total restricted stock units outstanding for the years ended November 2001, November 2000 and November 1999 were as follows:

	<u>No Future Service Required</u>	<u>Future Service Required</u>
November 1999 .....	35,703,923	40,344,481
November 2000 (1) .....	33,502,219	46,335,940
November 2001 .....	25,629,933	41,669,062

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



**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 22, 2002

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John A. Thain, 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.

<u>Signatures</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ HENRY M. PAULSON, JR.</u> Henry M. Paulson, Jr.	Director, Chairman and Chief Executive Officer (Principal Executive Officer)	February 22, 2002
<u>/s/ ROBERT J. HURST</u> Robert J. Hurst	Director	February 22, 2002
<u>/s/ JOHN A. THAIN</u> John A. Thain	Director	February 22, 2002
<u>/s/ JOHN L. THORNTON</u> John L. Thornton	Director	February 22, 2002
<u>/s/ LORD BROWNE OF MADINGLEY</u> Lord Browne of Madingley	Director	February 22, 2002
<u>/s/ JOHN H. BRYAN</u> John H. Bryan	Director	February 22, 2002
<u>/s/ MORRIS CHANG</u> Morris Chang	Director	February 22, 2002
<u>/s/ JAMES A. JOHNSON</u> James A. Johnson	Director	February 22, 2002
<u>/s/ RUTH J. SIMMONS</u> Ruth J. Simmons	Director	February 22, 2002
<u>/s/ MARGARET C. WHITMAN</u> Margaret C. Whitman	Director	February 22, 2002
<u>/s/ DAVID A. VINIAR</u> David A. Viniar	Chief Financial Officer (Principal Financial Officer)	February 22, 2002
<u>/s/ SARAH E. SMITH</u> Sarah E. Smith	Principal Accounting Officer	February 22, 2002

The Goldman Sachs Group, Inc. / 85 Broad Street / New York, New York 10004  
Tel: 212-902-4001 / Fax: 212-902-0633 / e-mail: robert.katz@gs.com

Robert J. Katz  
Vice President  
Senior Counsel and Secretary to the Board

September 24, 2001

***PERSONAL AND CONFIDENTIAL***

Margaret C. Whitman  
President and Chief Executive Officer  
eBay, Inc.  
2145 Hamilton Avenue  
San Jose, CA 95125

Dear Ms. Whitman:

We are all very pleased that you have agreed to join the Board of Directors of The Goldman Sachs Group, Inc. ("GS Inc."), and I look forward to seeing you at the November meetings here in New York, if not before. I am writing to set forth the terms of your compensation as a director. These terms are, of course, subject to future modification by the Board.

Your term as a director will commence on September 25, 2001 and will run through the 2004 annual meeting of shareholders of GS Inc. You have also been appointed a member of the Audit Committee and the Compensation Committee.

You will receive an initial grant of 3,000 fully vested restricted stock units ("RSUs") under The Goldman Sachs 1999 Stock Incentive Plan (the "SIP").

As additional 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");
- \$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 the prior year, of (a) 2,000 fully vested 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 are paid annually in arrears in the form of RSUs unless GS Inc. determines to pay them in cash. The Meeting Fees are payable in cash, also annually in arrears. The Annual Grant is paid annually in advance of the fiscal year to which it pertains in the form of RSUs and/or Options as elected by you.

For 2001, you will receive the Annual Retainer, Committee Fees and Annual Grant pro rated from the date of your appointment; the RSUs and, if applicable with respect to the Annual Grant, Options in respect of these awards will be granted later this year; Meeting Fees will be calculated on the number of meetings you attend for the remainder of 2001 and will be paid in cash in arrears. I enclose a form for the 2001 Annual Grant election as between RSUs and Options as well as a form for the 2002 Annual Grant election; **please return both forms by September 30th.**

The terms of the Options for the 2001 Annual Grant were set last year and have the same exercise price (\$82.875) as the options that were 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.

Any Options granted to you as part of the Annual Grant 2002 and thereafter 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 business day of December in the fiscal year to which the Annual Grant pertains;
- (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.

RSUs for the Annual Retainer, the Committee Fees and, if applicable, the Annual Grant will:

- (i) 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 business day of December of such fiscal year (or in the case of RSUs for the Annual Grant, as of the last business day of December in the fiscal year to which the grant pertains); and
- (ii) 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.

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 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 Options and RSUs will be subject to the terms and conditions of the SIP and the relevant award agreements.

I have enclosed various documents in connection with these arrangements. Please complete them as necessary, sign where indicated and return them in the enclosed envelope. The remaining copies are for your records.

Very truly yours,

/s/ Robert J. Katz

Robert J. Katz

**Enclosures:** The Goldman Sachs 1999 Stock Incentive Plan (and Prospectus Materials)  
Outside Director Initial RSU Award Agreement  
Custody Agreement  
Signature Card  
Form W-9  
Election Forms for 2001 and 2002 Annual Grants

Goldman Sachs & Co. / 85 Broad Street / New York, New York 10004  
Tel: 212-902-9344

John F.W. Rogers  
Managing Director

[GOLDMAN SACHS LOGO]

November 19, 2001

***PERSONAL AND CONFIDENTIAL***

Dr. Morris Chang  
Chairman  
Taiwan Semiconductor Manufacturing Co. Ltd.  
No. 121, Park Avenue  
III Science-Based Industrial Park  
Hsin-Chu  
Taiwan, R.O.C.

Dear Dr. Chang:

We are all very pleased that you have agreed to join the Board of Directors of The Goldman Sachs Group, Inc. ("GS Inc.") and look forward to seeing you at the January meetings here in New York, if not before. I am writing to set forth the terms of your compensation as a director. These terms are, of course, subject to future modification by the Board.

Your term as a director will commence on December 1, 2001 and will run through the 2004 annual meeting of shareholders of GS Inc. You have also been appointed a member of the Audit Committee.

You will receive an initial grant of 3,000 fully vested restricted stock units ("RSUs") under The Goldman Sachs 1999 Stock Incentive Plan (the "SIP").

As additional compensation for your services, you will receive:

- \$35,000 per year (the "Annual Retainer");
- \$15,000 per year for serving on the Board committee of which you are a member (the "Committee Fees");
- \$1,000 for each meeting of the Board or of a Board committee that you attend (the "Meeting Fees"); and
- an annual grant (the "Annual Grant"), at your election, of (a) 2,000 fully vested 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 are paid annually in arrears in the form of RSUs unless GS Inc. determines to pay them in cash. The Meeting Fees are payable in cash, also annually in arrears. The Annual Grant is paid annually in advance of the fiscal year to which it pertains in the form of RSUs and/or Options as elected by you; I enclose a form for the 2002 Annual Grant election; **please return the form by December 10th.**

Any Options granted to you as part of the Annual Grant for 2002 and thereafter will:

- (i) generally 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 business day of December in the fiscal year to which the Annual Grant pertains;
- (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 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.;
- (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.

RSUs for the Annual Retainer, the Committee Fees and, if applicable, the Annual Grant will:

- (i) generally 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 business day of December of such fiscal year (or in the case of RSUs for the Annual Grant, as of the last business day of December in the fiscal year to which the grant pertains); and
- (ii) 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.

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 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 Options and RSUs will be subject to the terms and conditions of the SIP and the relevant award agreements.

I have enclosed various documents in connection with these arrangements. Please complete them as necessary, sign where indicated and return them to James McHugh's attention in the enclosed envelope. The remaining copies are for your records.

Very truly yours,

/s/ John F.W. Rogers

John F.W. Rogers

*Enclosures:*      The Goldman Sachs 1999 Stock Incentive Plan (and Prospectus Materials)  
                         Outside Director Initial RSU Award Agreement  
                         Custody Agreement  
                         Signature Card  
                         Election Form for Fiscal 2002 Annual Grant  
                         Form W-9



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

(\$ in millions)

	Year Ended November				
	2001	2000	1999	1998	1997
Net earnings	<b>\$ 2,310</b>	\$ 3,067	\$ 2,708	\$ 2,428	\$ 2,746
Add:					
Provision for taxes	<b>1,386</b>	1,953	(716)	493	268
Portion of rents representative of an interest factor	<b>111</b>	80	51	35	29
Interest expense on all indebtedness	<b>15,327</b>	16,410	12,018	13,958	12,986
Earnings, as adjusted	<b>\$19,134</b>	\$21,510	\$14,061	\$16,914	\$16,029
Fixed charges:					
Portion of rents representative of an interest factor	<b>\$ 111</b>	\$ 80	\$ 51	\$ 35	\$ 29
Interest expense on all indebtedness	<b>15,327</b>	16,410	12,018	13,958	12,986
Fixed charges	<b>\$15,438</b>	\$16,490	\$12,069	\$13,993	\$13,015
Ratio of earnings to fixed charges	<b>1.24 x</b>	1.30 x	1.16 x	1.21 x	1.23 x

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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.

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 2001, 2000 and 1999 refer to our fiscal year ended, or the date, as the context requires, November 30, 2001, November 24, 2000 and November 26, 1999, respectively.

When we use the terms “Goldman Sachs,” “we,” “us” and “our,” we mean, after our conversion to corporate form in May 1999, 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. Important factors, among others, that could cause our results to differ, possibly materially, from those indicated in the forward-looking statements are discussed below under “—Results of Operations—Certain Factors That May Affect Our Results of Operations.”

### BUSINESS ENVIRONMENT

The slowdown in economic growth that began in the second half of fiscal 2000 worsened throughout 2001 as the global economy grew at its slowest pace in a decade. This difficult economic environment coupled with lower corporate earnings, weakness in global equity markets and significantly reduced investment banking activity provided a challenging business climate for financial institutions. Reflecting this environment, industry-wide completed mergers and acquisitions declined 39% and industry-wide equity underwriting volume declined 49% during the year.<sup>(1)</sup> While the fixed income markets benefited from lower interest rates, the equity markets were characterized by lower valuations and declining volatility. In addition, the terrorist attack against the United States in September exacerbated these difficult economic and market conditions.

The U.S. economy entered a recession in early 2001, reflecting a decline in capital spending, inventory liquidation and lower employment levels. Real gross domestic product growth slowed in 2001 to approximately 1%, down from over 4% in 2000. In an attempt to stimulate economic growth, the U.S. Federal Reserve aggressively lowered overnight interest rates during our fiscal year by an aggregate of 450 basis points to 2%, the lowest rate in four decades. Subsequent to our fiscal year end, the overnight lending rate was lowered an additional 25 basis points. In addition, uncertainty regarding corporate earnings and the extent of the global economic downturn, along with a decrease in consumer confidence, contributed to the continued decline in U.S. equity markets in 2001.

The European economy slowed in 2001 primarily driven by reductions in domestic and foreign demand. The weakening economic environment throughout Europe coupled with the general slowdown in global economic activity prompted the European Central Bank and the Bank of England to lower interest rates by 150 basis points and 200 basis points, respectively, during the year. Business and investor confidence declined on recessionary concerns leading to lower valuations in the region's equity markets.

In Japan, lower levels of corporate investment and consumer spending, as well as a decline in export demand, resulted in reductions in economic activity. In March, the Bank of Japan adopted a target for bank reserves that, in effect, signified a return to a zero-interest-rate policy. The possibility of a near-term economic recovery diminished as the outlook for economic reforms remained uncertain. The uncertainty surrounding the economy, along with lingering concerns as to the state of Japan's banking system and budget deficit, contributed to significant declines in the Japanese equity markets.

<sup>(1)</sup> Source: Thomson Financial Securities Data—January 1, 2001 through November 30, 2001 and January 1, 2000 through November 24, 2000.

Growth in other Asian economies also slowed significantly in 2001. Weak domestic demand along with the slowdown in export demand, in particular technology spending in the United States, led to declines in real gross domestic product for many countries in the region.

## RESULTS OF OPERATIONS

The composition of our net revenues has varied over time as financial markets and the scope of our operations have changed.

### Financial Overview

The following table sets forth an overview of our financial results:

The composition of net revenues can also vary over the shorter term due to fluctuations in U.S. and global economic and market conditions. In addition, our operating results have been affected by Goldman Sachs' conversion to corporate form in May 1999 and its combination with SLK LLC (SLK) in October 2000. As a result, period-to-period comparisons may not be meaningful.

### Financial Overview

(\$ IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	YEAR ENDED NOVEMBER			
	2001	2000 <sup>(1)</sup>	1999 <sup>(2)</sup>	PRO FORMA 1999 <sup>(3)</sup>
Net revenues	<b>\$15,811</b>	\$16,590	\$13,345	\$13,338
Pre-tax earnings	<b>3,696</b>	5,020	1,992	4,250
Net earnings	<b>2,310</b>	3,067	2,708	2,550
Diluted earnings per share	<b>4.26</b>	6.00	5.57	5.27
Return on tangible shareholders' equity <sup>(4)</sup>	<b>17.8%</b>	28.9%		

(1) As part of the combination with SLK, a \$702 million retention pool of restricted stock units was established for 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 2000. Excluding this charge, our diluted earnings per share were \$6.35.

(2) Net earnings 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. The nonrecurring items included \$2.26 billion (\$1.38 billion after taxes) for employee initial public offering awards and \$200 million (\$120 million after taxes) for the charitable contribution to The Goldman Sachs Foundation partially offset by a tax benefit of \$825 million related to our conversion to corporate form.

(3) 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 our 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.

(4) Return on tangible shareholders' equity is computed by dividing net earnings by average tangible shareholders' equity. Tangible shareholders' equity equals total shareholders' equity less goodwill and other intangible assets. Return on tangible shareholders' equity for 2000 excludes the charge related to our combination with SLK.

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		
		2001	2000	1999
Global Capital Markets	Net revenues	<b>\$10,185</b>	\$11,998	\$10,132
	Operating expenses	<b>8,251</b>	7,844	6,232
	Pre-tax earnings	<b>\$ 1,934</b>	\$ 4,154	\$ 3,900
Asset Management and Securities Services	Net revenues	<b>\$ 5,626</b>	\$ 4,592	\$ 3,213
	Operating expenses	<b>3,501</b>	3,008	2,396
	Pre-tax earnings	<b>\$ 2,125</b>	\$ 1,584	\$ 817
Total	Net revenues	<b>\$15,811</b>	\$16,590	\$13,345
	Operating expenses	<b>12,115<sup>(1)</sup></b>	11,570 <sup>(2)</sup>	11,353 <sup>(3)</sup>
	Pre-tax earnings	<b>\$ 3,696</b>	\$ 5,020	\$ 1,992

(1) Includes the amortization of employee initial public offering awards of \$363 million that has not been allocated to our segments.

(2) Includes the following expenses that have not been allocated to our segments: (i) the 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.

(3) 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 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 and electronic 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 operating results of our Global Capital Markets segment:

### Global Capital Markets Operating Results

(IN MILLIONS)	YEAR ENDED NOVEMBER		
	2001	2000	1999
Financial Advisory	\$ 2,070	\$ 2,592	\$ 2,270
Underwriting	1,766	2,779	2,089
Investment Banking	3,836	5,371	4,359
FICC	4,047	3,004	2,862
Equities	2,923	3,489	1,961
Principal Investments	(621)	134	950
Trading and Principal Investments	6,349	6,627	5,773
Total net revenues	10,185	11,998	10,132
Operating expenses	8,251	7,844	6,232
Pre-tax earnings	\$ 1,934	\$ 4,154	\$ 3,900

**2001 versus 2000**—Net revenues in Global Capital Markets decreased 15% compared with 2000 to \$10.19 billion. Operating expenses increased 5%, principally due to the inclusion of SLK and the growth in employment levels during 2000, partially offset by lower discretionary compensation and the effect of expense reduction initiatives implemented in 2001. Pre-tax earnings were \$1.93 billion in 2001 compared with \$4.15 billion in 2000.

**Investment Banking**—Investment Banking generated net revenues of \$3.84 billion compared with \$5.37 billion for 2000, as the slowdown in global economic growth led to significantly lower equity valuations and reduced investment banking activity.

Net revenues in Financial Advisory decreased 20% from the prior year to \$2.07 billion, primarily reflecting a 39% decline in industry-wide completed mergers and acquisitions. <sup>(1)</sup> Net revenues in our Underwriting business declined 36% to \$1.77 billion, primarily reflecting a 49% decline in industry-wide equity underwriting volumes. <sup>(1)</sup> Debt underwriting net revenues were essentially unchanged from 2000. The reduction in Investment Banking net revenues was primarily due to lower levels of activity in the communications, media and entertainment, telecommunications, high technology and industrial sectors. Our investment banking backlog at the end of 2001 was significantly lower than at the end of 2000.

**Trading and Principal Investments**—Net revenues in Trading and Principal Investments were \$6.35 billion for 2001 compared with \$6.63 billion in 2000, as negative net revenues in Principal Investments and declines in Equities were partially offset by higher net revenues in FICC.

Net revenues in FICC were \$4.05 billion, up 35% compared with 2000, as we capitalized on lower interest rates, increased volatility and strong customer demand. This increase in net revenues was driven by strong performances in commodities, currencies, our credit-sensitive businesses (which include high-yield debt, bank loans and investment-grade corporate debt) and fixed income derivatives.

Equities net revenues were \$2.92 billion compared with \$3.49 billion in 2000, primarily reflecting declining volatility and customer flow, the introduction of decimalization and lower net revenues in equity arbitrage, partially offset by the contribution from SLK.

Principal Investments experienced negative net revenues of \$621 million for 2001 due to mark-to-market losses on both private and public investments, primarily in the high technology and telecommunications sectors.

<sup>(1)</sup> Source: Thomson Financial Securities Data—January 1, 2001 through November 30, 2001 and January 1, 2000 through November 24, 2000.

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**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. 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. <sup>(1)</sup> 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. <sup>(1)</sup> 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. 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, primarily in our real estate portfolio, were substantially offset by these unrealized losses.

### **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 fees from executing and clearing client transactions on major stock, options and futures markets worldwide. Commissions also include revenues from the increased share of the income and gains derived from our merchant banking funds.

In January 2002, we began to implement a new fee-based pricing structure in our Nasdaq trading business. Previously we did not charge explicit fees in this business but rather earned market-making revenues based generally on the difference between bid and ask prices. Such market-making net revenues are reported in our Equities trading results. As a result of the change to the fee-based pricing structure, a substantial portion of our Nasdaq net revenues will be reported in Commissions beginning in the first quarter of 2002.

<sup>(1)</sup> Source: Thomson Financial Securities Data.

The following table sets forth the operating results of our Asset Management and Securities Services segment:

### Asset Management and Securities Services Operating Results

(IN MILLIONS)	YEAR ENDED NOVEMBER		
	2001	2000	1999
Asset Management	\$1,473	\$1,345	\$ 919
Securities Services	1,133	940	772
Commissions	3,020	2,307	1,522
Total net revenues	5,626	4,592	3,213
Operating expenses	3,501	3,008	2,396
Pre-tax earnings	\$2,125	\$1,584	\$ 817

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		
	2001	2000	1999
Assets under management	\$350,718	\$293,842	\$258,045
Other client assets	152,192	197,876	227,424
Total	\$502,910	\$491,718	\$485,469

**2001 versus 2000**—Net revenues in Asset Management and Securities Services were \$5.63 billion, an increase of 23% compared with 2000. All major components of the business contributed to the net revenue growth in 2001. Operating expenses increased 16%, primarily due to the inclusion of SLK and the growth in employment levels during 2000, partially offset by lower discretionary compensation and the effect of expense reduction initiatives implemented in 2001. Pre-tax earnings in Asset Management and Securities Services were \$2.13 billion in 2001 compared with \$1.58 billion in 2000.

Asset Management net revenues of \$1.47 billion increased 10% compared with 2000, primarily reflecting an increase of 11% in average assets under management. Net inflows of \$67 billion, principally in money market assets, were partially offset by declines in equity asset values due to market depreciation. Securities Services net revenues of \$1.13 billion increased 21% over 2000, primarily due to increased spreads in our fixed income matched book and the contribution from SLK, partially offset by lower net revenues in securities lending and margin lending. Commissions increased 31% compared with 2000 to \$3.02 billion, principally reflecting the contribution from SLK's clearing and execution business.

**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 1999, 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.

## Operating Expenses

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

(\$ IN MILLIONS)	YEAR ENDED NOVEMBER		
	2001	2000	1999
Compensation and benefits	\$ 7,700	\$ 7,773	\$ 6,459
Nonrecurring employee initial public offering and acquisition awards	—	290	2,257
Amortization of employee initial public offering and acquisition awards	464	428	268
Non-compensation expenses	3,951	3,079	2,369 <sup>(2)</sup>
<b>Total operating expenses</b>	<b>\$12,115</b>	<b>\$11,570</b>	<b>\$11,353</b>
Employees at year end <sup>(1)</sup>	<b>22,677</b>	<b>22,627</b>	<b>15,361</b>

(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 the charitable contribution to The Goldman Sachs Foundation of \$200 million made at the time of our initial public offering.

**2001 versus 2000**—Operating expenses were \$12.12 billion for 2001, 7% above 2000 excluding the SLK charge of \$290 million.

Compensation and benefits of \$7.70 billion were essentially unchanged from the prior year as lower discretionary compensation was offset by incremental expense related to the inclusion of SLK. The ratio of compensation and benefits to net revenues for 2001 was 49% compared with 47% for 2000. Substantially all of the equity-based compensation in 2001 was in the form of stock options. Employment levels were essentially unchanged from November 2000. Expenses associated with our temporary staff and consultants were \$720 million in 2001, an increase of 6% compared with 2000.

Non-compensation expenses were \$3.95 billion, an increase of 28% compared with 2000, primarily due to higher brokerage, clearing and exchange fees, intangible asset amortization, communications and technology costs, and occupancy and other fixed asset related expenses. In addition to the inclusion of SLK, the increase in our non-compensation expenses in 2001 was primarily due to growth in employment levels during 2000 partially offset by the effect of expense reduction initiatives implemented in 2001.

Certain properties occupied by Goldman Sachs were affected by the terrorist attack of September 11, 2001. We recorded expenses related to the attack in 2001, which were not material and were wholly offset by an expected insurance recovery. These expenses, and the related insurance recovery, pertain to write-offs of damaged technology and telecommunications equipment, certain employee-related expenditures and other business recovery costs.

**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%.

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



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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.

Non-compensation expenses were \$3.08 billion, 42% above 1999 excluding the \$200 million charitable contribution to The Goldman Sachs Foundation, primarily due to higher professional fees related to technology initiatives, increased brokerage, clearing and exchange fees, market development expenditures, communication and technology costs, and occupancy and other fixed asset related expenses. This increase was primarily due to incremental costs associated with global expansion, higher employment levels and increased business activity. Increased investment in technology-related expenditures also contributed to the increase in non-compensation expenses.

### **Provision for Taxes**

Our provision for taxes in 2001 and 2000 was \$1.39 billion and \$1.95 billion, respectively, compared with a net tax benefit of \$716 million in 1999.

The effective tax rate for 2001 was 37.5% compared with 38.9% in 2000. In 1999, Goldman Sachs' effective tax rate for the period from May 7, 1999 to the end of 1999, excluding the effect of nonrecurring items related to our conversion to corporate form, was 40.0%. The decline in the effective tax rate in 2000 and the further decline in 2001 were 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.

The net tax benefit of \$716 million in 1999 included non-recurring 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. 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.

### **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. In recent years, the financial markets in the United States and elsewhere have been volatile and a number of financial indices have declined substantially. The terrorist attack of September 11, 2001 and related developments have created further uncertainty in the financial markets and have negatively impacted the U.S. economy.

Uncertain or unfavorable economic and market conditions may adversely affect our business 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 fixed income, currency, commodity and equity positions and our merchant banking investments.
- The number and size of transactions in which we provide underwriting, mergers and acquisitions advisory, and other services may decline further. In particular, a continuation of industry-wide declines in the volume of equity underwritings and mergers and acquisitions is likely to have a continuing adverse effect on 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.

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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.

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 markets, an inability to access the repurchase and securities lending markets, or an inability to sell assets. This situation may arise due to circumstances that we may be unable to control, such as a general market disruption, perceptions about our creditworthiness or an operational problem that affects third parties or us. Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time.

Our credit ratings are important to our liquidity. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowing costs or trigger our obligations under certain bilateral provisions in some of our trading and collateralized financing contracts. Under such provisions, counterparties could be permitted to terminate such contracts with Goldman Sachs or require us to post additional collateral. Termination of our trading and collateralized financing contracts could cause us to sustain losses and impair our liquidity by requiring us to make significant cash payments.

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. In particular, 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 ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which they are located. This may include a disruption involving electrical, communications, transportation or other services used by Goldman Sachs or third parties with which we conduct business.

## **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 2001**—Cash and cash equivalents increased to \$6.91 billion in 2001. Cash of \$15.18 billion was used for operating activities. Cash of \$1.91 billion was used for investing activities, primarily for leasehold improvements and the purchase of telecommunications and technology-related equipment. Cash of \$20.12 billion was provided by financing activities, reflecting increases in net repurchase agreements and proceeds from the net issuances of long-term borrowings, partially offset by a decrease in short-term borrowings and common stock repurchases.

**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.

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## 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. The Finance Committee meets monthly, and more often when necessary, to evaluate our liquidity position and funding requirements. See “—Risk Management—Risk Management Structure” below for a further description of the committees that participate in our risk management process.

Our Corporate Treasury Department manages our capital structure, funding, liquidity, collateral, and relationships with creditors and rating agencies on a global basis. The Corporate Treasury Department works jointly with our global funding desks to manage our borrowings. The global funding desks are 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:

**Excess Liquidity**—To assure liquidity even during adverse conditions, we 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 \$24.55 billion during 2001 and \$18.19 billion during 2000. We also maintain smaller unencumbered collateral excesses in Europe and Japan in order to respond to local liquidity issues.

**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.

**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 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.

**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.

**Intercompany Funding**—Most of the unsecured 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 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:

(\$ IN BILLIONS, EXCEPT PER SHARE AMOUNTS)	AS OF NOVEMBER	
	2001	2000
Total assets	\$ 312	\$ 284 <sup>(5)</sup>
Adjusted assets <sup>(1)</sup>	240	217
Leverage ratio <sup>(2)</sup>	17.1x	17.2x
Adjusted leverage ratio <sup>(3)</sup>	13.2x	13.1x
Book value per share <sup>(4)</sup>	\$36.33	\$32.18

- (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 (SFAS) No. 140.
- (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 501.8 million as of November 2001 and 513.7 million as of November 2000.
- (5) In accordance with SFAS No. 140, total assets as of November 2000 exclude collateral of \$5.35 billion previously recognized under SFAS No. 125.

As of November 2001 and 2000, we held approximately \$3.10 billion and \$2.74 billion, respectively, in high-yield debt and emerging market securities and \$3.45 billion and \$2.83 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 2001 and 2000, the aggregate carrying value of our principal investments held directly or through our merchant banking funds was approximately \$2.85 billion and \$3.52 billion, respectively. These carrying values were comprised of corporate principal investments with an aggregate carrying value of approximately \$1.85 billion and \$2.51 billion, respectively, and real estate investments with an aggregate carrying value of approximately \$1.00 billion and \$1.01 billion, respectively.

## CREDIT RATINGS

Goldman Sachs relies upon the short-term and long-term 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 (OTC) derivatives. We believe our credit ratings are determined primarily based on the credit rating agencies' assessment of the external operating environment, our liquidity, market and credit risk management practices, the level and variability of our earnings base, our franchise, reputation and management and our capital base. An adverse change in any of these factors could result in a reduction in our credit ratings which, in turn, could increase our borrowing costs, limit our access to the capital markets or require us to post additional collateral, or permit counterparties to terminate transactions, pursuant to our obligations under bilateral provisions in certain of our trading and collateralized financing contracts. This could reduce our earnings and adversely affect our liquidity.

The following table sets forth our credit ratings as of November 2001:

	SHORT-TERM DEBT	LONG-TERM DEBT
Fitch	F1+	AA-
Moody's Investors Service	P-1	A1
Standard & Poor's <sup>(1)</sup>	A-1+	A+

- (1) On July 16, 2001 Standard & Poor's affirmed Goldman Sachs' credit ratings but revised its outlook from "stable" to "negative."

As of November 2001, additional collateral that would have been callable in the event of a one level reduction in our long-term credit ratings, pursuant to bilateral agreements with certain counterparties, was not material.

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## Contractual Obligations and Contingent Commitments

Goldman Sachs has contractual obligations to make future payments under long-term debt and long-term noncancelable lease agreements and has contingent commitments under a variety of commercial arrangements as disclosed in the notes to the consolidated financial statements. The following tables set forth these contractual obligations and contingent commitments as of November 2001:

### Contractual Obligations

(IN MILLIONS)	2002	2003 - 2004	2005 - 2006	2007 - THEREAFTER	TOTAL
Long-term borrowings by contract maturity	\$ —	\$9,472	\$9,840	\$11,704	\$31,016
Minimum rental commitments	354	729	594	2,241	3,918

Substantially all of our long-term 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 2001 was approximately 4.75 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.

As of November 2001, our minimum rental commitments, net of minimum sublease rentals, under noncancelable leases was \$3.92 billion. These lease commitments, principally for office space, expire on various dates through 2029. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges.

Goldman Sachs also 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 as of November 2001 are set forth below:

### Short-Term Borrowings

(IN MILLIONS)	
Commercial paper	\$ 8,353
Promissory notes	15,281
Bank loans and other	13,963
Total	\$37,597

Our liquidity depends to an important degree on our ability to refinance these borrowings on a continuous basis. Investors who hold our outstanding commercial paper and promissory notes have no obligation to purchase new instruments when the outstanding instruments mature. For a discussion of factors that could impair our ability to access these and other markets, see “—Results of Operations—Certain Factors That May Affect Our Results of Operations.” See Note 5 to the consolidated financial statements for further information regarding our short-term borrowings.

## Contingent Commitments

(IN MILLIONS)	AMOUNT OF COMMITMENT EXPIRATION BY PERIOD				TOTAL
	2002	2003 - 2004	2005 - 2006	2007 - THEREAFTER	
Commitments to extend credit	\$ 4,090	\$8,301	\$ 359	\$ 597	\$13,347
Commitments under letters of credit issued by banks to counterparties	11,477	12	9	—	11,498
Other commercial commitments <sup>(1)</sup>	74	327	850	711	1,962
Total	\$15,641	\$8,640	\$1,218	\$1,308	\$26,807

(1) Includes our merchant banking commitments and guarantees related to construction debt obligations and our fund management activities.

As of November 2001, we had commitments to enter into repurchase and resale agreements of \$47.54 billion. See Note 7 to the consolidated financial statements for additional information on our commitments and contingencies.

## 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 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, the Securities and Futures Commission in Hong Kong and the Monetary Authority of Singapore. 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.

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**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, and reviews our legal, reputational, operational and control risks.

**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 provides oversight of the ongoing development and implementation of our 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, 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.

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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, we generally weight historical data to give greater importance to more recent observations. Given its reliance on historical data, VaR is most effective in estimating risk exposures in markets in which there are no sudden fundamental changes or shifts in market conditions. An inherent limitation of VaR is that the distribution of past changes in market risk factors may not produce accurate predictions of future market risk. Different VaR methodologies and distributional assumptions could produce a materially different VaR. 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.



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

### Daily VaR

(IN MILLIONS) RISK CATEGORIES	AS OF NOVEMBER		YEAR ENDED NOVEMBER 2001		
	2001	2000	AVERAGE	HIGH	LOW
Interest rates	\$ 39	\$ 11	\$ 20	\$45	\$10
Currency rates	13	11	15	27	6
Equity prices	21	17	20	38	15
Commodity prices	12	7	9	14	5
Diversification effect <sup>(1)</sup>	(33)	(21)	(25)		
Firmwide	\$ 52	\$ 25	\$ 39	58	25

<sup>(1)</sup> 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.

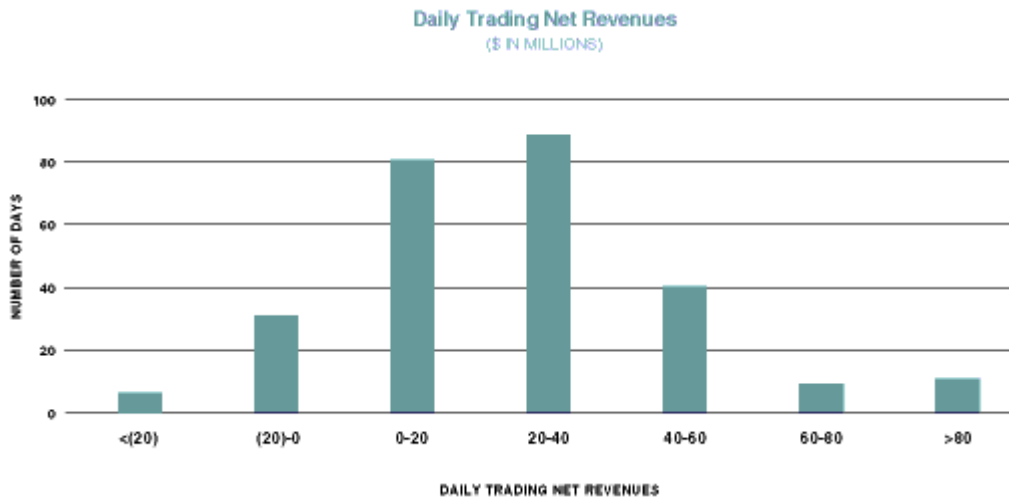
The increase in firmwide VaR to \$52 million as of November 2001 from \$25 million as of November 2000 was primarily due to significant increases in market volatility in 2001, particularly during the fourth quarter. As previously noted, the historical data used to calculate VaR is weighted to give greater importance to more recent observations.

The following chart presents the daily VaR for substantially all of our trading positions during 2001:



## 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 2001:



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 exceeded our 95% one-day VaR on one occasion during 2001.

## Nontrading Risk

The market risk for financial instruments in the firm's nontrading portfolio, 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 equity markets. This sensitivity analysis is based on certain assumptions regarding the relationship between changes in the stock price indices and changes in the fair value of the individual financial instruments in our nontrading portfolio. Different assumptions could produce materially different risk estimates. As of November 2001, the sensitivity of our nontrading portfolio to a 10% equity market decline was \$155 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, and 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, stress tests 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.

## Derivatives

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 privately negotiated contracts, which are often referred to as OTC 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 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 OTC 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 OTC derivatives as of November 2001, 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 <sup>(2)</sup>	EXPOSURE NET OF COLLATERAL	PERCENTAGE OF EXPOSURE NET OF COLLATERAL
AAA/Aaa	\$ 3,604	\$ 117	\$ 3,487	13%
AA/Aa2	6,651	491	6,160	24
A/A2	9,763	606	9,157	35
BBB/Baa2	5,512	532	4,980	19
BB/Ba2 or lower	2,915	666	2,249	9
Unrated <sup>(1)</sup>	938	862	76	—
	\$29,383	\$3,274	\$26,109	100%

(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 is usually received under agreements entitling Goldman Sachs to require additional collateral upon specified increases in exposure or the occurrence of adverse credit events.

The following tables set forth our OTC derivative credit exposure, net of collateral, by remaining contractual maturity:

### Exposure Net of Collateral

(\$ IN MILLIONS)

CREDIT RATING EQUIVALENT	0 – 6 MONTHS	6 – 12 MONTHS	1 – 5 YEARS	5 YEARS OR GREATER	TOTAL <sup>(2)</sup>
AAA/Aaa	\$ 238	\$ 106	\$ 896	\$ 2,247	\$ 3,487
AA/Aa2	1,529	520	1,618	2,493	6,160
A/A2	1,706	692	2,196	4,563	9,157
BBB/Baa2	1,443	886	1,699	952	4,980
BB/Ba2 or lower	887	464	630	268	2,249
Unrated <sup>(1)</sup>	20	5	28	23	76
	\$5,823	\$2,673	\$7,067	\$10,546	\$26,109

PRODUCT	0 – 6 MONTHS	6 – 12 MONTHS	1 – 5 YEARS	5 YEARS OR GREATER	TOTAL <sup>(2)</sup>
Interest rate contracts	\$ 699	\$ 336	\$4,532	\$ 9,532	\$15,099
Currency contracts	2,769	837	836	798	5,240
Commodity contracts	1,835	1,121	1,343	164	4,463
Equity contracts	520	379	356	52	1,307
	\$5,823	\$2,673	\$7,067	\$10,546	\$26,109

(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) Where we have obtained collateral from a counterparty under a master trading agreement that covers multiple products and transactions, we have allocated the collateral ratably based on exposure before giving effect to such collateral.

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 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 is responsible for establishing, maintaining and approving our operational risk management framework and policies for the overall effective management of operational risk.

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## OFF-BALANCE-SHEET ARRANGEMENTS

In the normal course of business, Goldman Sachs securitizes commercial and residential mortgages and home equity loans, government and corporate bonds, lease and trade receivables, and other types of financial assets through unconsolidated limited-purpose entities. We have also invested in investment grade, real estate and mortgage-related assets through other unconsolidated limited-purpose entities. Our financial interests in, and derivative transactions with, unconsolidated limited-purpose entities are accounted for at fair value, in the same manner as transactions with non-limited-purpose entities. As of November 2001, there were no material additional financial commitments required from Goldman Sachs in respect of these entities. See Note 4 to the consolidated financial statements for additional information about our securitization activities.

In addition, Goldman Sachs facilitated the establishment of certain limited-purpose entities in connection with the construction of an office complex in Jersey City, New Jersey, which we intend to occupy. Future minimum rental commitments associated with this office complex and a guarantee provided by Goldman Sachs on related construction debt obligations are disclosed in Note 7 to the consolidated financial statements.

## CRITICAL ACCOUNTING POLICIES

“Financial instruments owned” and “Financial instruments sold, but not yet purchased” on the consolidated statements of financial condition are carried at fair value or amounts that approximate fair value, with related unrealized gains or losses recognized in our results of operations. The determination of fair value is fundamental to our financial condition and results of operations and, in certain circumstances, it requires management to make complex judgments.

Fair value is based generally on listed market prices or broker or dealer price quotations. If prices are not readily determinable or if liquidating our positions 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 financial instruments, including OTC derivative instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlations, time value, credit, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair value.

See Note 2 to the consolidated financial statements for a summary of our significant accounting policies.

## ACCOUNTING DEVELOPMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, “Business Combinations,” and SFAS No. 142, “Goodwill and Other Intangible Assets.” SFAS No. 141 requires that companies use the purchase method of accounting for all business combinations initiated after June 30, 2001 and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired outside a business combination and the recognition and measurement of goodwill and other intangible assets subsequent to acquisition. Under the new standards, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but, instead, will be tested at least annually for impairment. Other intangible assets will continue to be amortized over their useful lives. We adopted the new standards on accounting for goodwill and other intangible assets on December 1, 2001, the beginning of fiscal 2002. Application of the non-amortization provisions of SFAS No. 142 is currently expected to result in an increase in net earnings of approximately \$95 million in 2002. Cash flows will not be affected. During 2002, we will perform the required impairment tests of goodwill and indefinite-lived intangible assets as of December 1, 2001. We do not expect these tests to have a material effect on our financial condition or results of operations.

**REPORT OF INDEPENDENT ACCOUNTANTS**

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**To the Board of Directors and Shareholders of  
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 30, 2001 and November 24, 2000, and the results of their operations and their cash flows for each of the three fiscal years in the period ended November 30, 2001, 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.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
New York, New York  
January 28, 2002

## CONSOLIDATED STATEMENTS OF EARNINGS

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	YEAR ENDED NOVEMBER		
	2001	2000	1999
Revenues			
Global capital markets			
Investment banking	\$ 3,677	\$ 5,339	\$ 4,359
Trading and principal investments	6,254	6,528	5,758
Asset management and securities services	4,587	3,737	2,524
Interest income	16,620	17,396	12,722
Total revenues	31,138	33,000	25,363
Interest expense	15,327	16,410	12,018
Revenues, net of interest expense	15,811	16,590	13,345
Operating expenses			
Compensation and benefits	7,700	7,773	6,459
Nonrecurring employee initial public offering and acquisition awards	—	290	2,257
Amortization of employee initial public offering and acquisition awards	464	428	268
Brokerage, clearing and exchange fees	843	573	446
Market development	406	506	364
Communications and technology	604	435	306
Depreciation and amortization	613	441	323
Amortization of goodwill and other intangible assets	260	45	14
Occupancy	591	440	314
Professional services and other	634	639	402
Charitable contribution	—	—	200
Total non-compensation expenses	3,951	3,079	2,369
Total operating expenses	12,115	11,570	11,353
Pre-tax earnings	3,696	5,020	1,992
Provision/(benefit) for taxes	1,386	1,953	(716)
Net earnings	\$ 2,310	\$ 3,067	\$ 2,708
Earnings per share			
Basic	\$ 4.53	\$ 6.33	\$ 5.69
Diluted	4.26	6.00	5.57
Dividends declared per common share	0.48	0.48	0.24
Average common shares outstanding			
Basic	509.7	484.6	475.9
Diluted	541.8	511.5	485.8

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

**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

(IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS)	AS OF NOVEMBER	
	2001	2000
<b>Assets</b>		
Cash and cash equivalents	\$ 6,909	\$ 3,870
Cash and securities segregated in compliance with U.S. federal and other regulations	22,134	17,132
Receivables from brokers, dealers and clearing organizations	5,453	6,226
Receivables from customers and counterparties	28,010	33,060
Securities borrowed	101,164	82,409
Securities purchased under agreements to resell	27,651	37,324
Financial instruments owned, at fair value	99,654	94,174
Financial instruments owned and pledged as collateral, at fair value	9,231	—
Total financial instruments owned, at fair value	108,885	94,174
Other assets	12,012	10,215
<b>Total assets</b>	<b>\$312,218</b>	<b>\$284,410</b>
<b>Liabilities and shareholders' equity</b>		
Short-term borrowings, including commercial paper	\$ 37,597	\$ 33,471
Payables to brokers, dealers and clearing organizations	4,014	3,871
Payables to customers and counterparties	93,283	78,277
Securities loaned	6,862	9,215
Securities sold under agreements to repurchase	39,369	30,996
Financial instruments sold, but not yet purchased, at fair value	74,717	72,894
Other liabilities and accrued expenses	7,129	7,761
Long-term borrowings	31,016	31,395
Total liabilities	293,987	267,880
Commitments and contingencies		
<b>Shareholders' equity</b>		
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, 499,017,511 and 489,964,838 shares issued as of November 2001 and November 2000, respectively, and 476,228,933 and 483,474,693 shares outstanding as of November 2001 and November 2000, respectively	5	5
Restricted stock units	4,542	4,760
Nonvoting common stock, par value \$0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding	—	—
Additional paid-in capital	11,785	11,127
Retained earnings	5,373	3,294
Unearned compensation	(1,220)	(1,878)
Accumulated other comprehensive loss	(168)	(130)
Treasury stock, at cost, par value \$0.01 per share; 22,788,578 and 6,490,145 shares as of November 2001 and November 2000, respectively	(2,086)	(648)
Total shareholders' equity	18,231	16,530
<b>Total liabilities and shareholders' equity</b>	<b>\$312,218</b>	<b>\$284,410</b>

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		
	2001	2000	1999
<b>Partners' capital</b>			
Balance, beginning of year	\$ —	\$ —	\$ 6,310
Transfer of beginning partners' capital allocated for income taxes and potential withdrawals	—	—	74
Net earnings	—	—	2,264 <sup>(1)</sup>
Capital contributions	—	—	48
Return on capital and certain distributions to partners	—	—	(306)
Distributions of remaining partners' capital	—	—	(4,520) <sup>(2)</sup>
Exchange of partnership interests for shares of common stock	—	—	(3,901)
Transfer to accumulated other comprehensive income	—	—	31
Balance, end of year	—	—	—
<b>Common stock, par value \$0.01 per share</b>			
Balance, beginning of year	5	4	—
Issued	—	1	4
Balance, end of year	5	5	4
<b>Restricted stock units</b>			
Balance, beginning of year	4,760	4,339	—
Granted	648	1,150	4,381
Delivered	(600)	(507)	—
Forfeited	(266)	(222)	(42)
Balance, end of year	4,542	4,760	4,339
<b>Nonvoting common stock, par value \$0.01 per share</b>			
Balance, beginning of year	—	—	—
Exchanged	—	—	—
Balance, end of year	—	—	—
<b>Additional paid-in capital</b>			
Balance, beginning of year	11,127	7,359	—
Exchange of partnership interests for shares of common stock	—	—	3,901
Issuance of common stock	535	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	123	116	—
Dividends declared	—	—	(107)
Balance, end of year	11,785	11,127	7,359
<b>Retained earnings</b>			
Balance, beginning of year	3,294	444	—
Net earnings	2,310	3,067	444 <sup>(3)</sup>
Dividends declared	(231)	(217)	—
Balance, end of year	5,373	3,294	444
<b>Unearned compensation</b>			
Balance, beginning of year	(1,878)	(2,038)	—
Restricted stock units granted	(375)	(842)	(2,334)
Restricted stock units forfeited	108	163	23
Amortization of restricted stock units	925	839	273
Balance, end of year	(1,220)	(1,878)	(2,038)
<b>Accumulated other comprehensive (loss)/income</b>			
Balance, beginning of year	(130)	37	—
Transfer from partners' capital	—	—	(31)
Currency translation adjustment	(38)	(167)	68
Balance, end of year	(168)	(130)	37
<b>Treasury stock, at cost, par value \$0.01 per share</b>			
Balance, beginning of year	(648)	—	—
Shares repurchased	(1,438)	(648)	—
Balance, end of year	(2,086)	(648)	—
	<b>\$18,231</b>	<b>\$16,530</b>	<b>\$10,145</b>

- (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 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

(IN MILLIONS)	YEAR ENDED NOVEMBER		
	2001	2000	1999
Cash flows from operating activities			
Net earnings	\$ 2,310	\$ 3,067	\$ 2,708
Noncash items included in net earnings			
Depreciation and amortization	613	441	323
Amortization of goodwill and other intangible assets	260	45	14
Deferred income taxes	52	(352)	(1,387)
Stock-based compensation	789	1,345	2,989
Changes in operating assets and liabilities			
Cash and securities segregated in compliance with U.S. federal and other regulations	(5,002)	(5,389)	(1,248)
Net receivables from brokers, dealers and clearing organizations	931	336	1,453
Net payables to customers and counterparties	20,056	14,570	(3,990)
Securities borrowed, net	(21,098)	(916)	(11,179)
Financial instruments owned, at fair value	(14,390)	(8,386)	(13,718)
Financial instruments sold, but not yet purchased, at fair value	1,809	5,507	9,059
Other, net	(1,506)	867	2,387
Net cash (used for)/provided by operating activities	(15,176)	11,135	(12,589)
Cash flows from investing activities			
Property, leasehold improvements and equipment	(1,370)	(1,552)	(656)
Business combinations, net of cash acquired	(314)	(1,988)	(187)
Other, net	(225)	(116)	189
Net cash used for investing activities	(1,909)	(3,656)	(654)
Cash flows from financing activities			
Short-term borrowings, net	(2,803)	(11,550)	755
Issuance of long-term borrowings	6,694	16,060	11,000
Repayment of long-term borrowings	(144)	(782)	(753)
Securities sold under agreements to repurchase, net of agreements to resell	18,046	(9,528)	4,304
Common stock repurchased	(1,438)	(648)	—
Dividends paid	(231)	(217)	(107)
Proceeds from issuance of common stock	—	1	2,633
Capital contributions	—	—	48
Returns on capital and certain distributions to partners	—	—	(306)
Partners' capital distributions, net	—	—	(4,112)
Net cash provided by/(used for) financing activities	20,124	(6,664)	13,462
Net increase in cash and cash equivalents	3,039	815	219
Cash and cash equivalents, beginning of year	3,870	3,055	2,836
Cash and cash equivalents, end of year	\$ 6,909	\$ 3,870	\$ 3,055

### SUPPLEMENTAL DISCLOSURES:

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

Payments of income taxes were \$1.30 billion, \$1.96 billion and \$463 million for the years ended November 2001, November 2000 and November 1999, respectively.

#### *Noncash activities:*

The value of common stock issued in connection with business combinations was \$223 million, \$3.41 billion and \$245 million for the years ended November 2001, 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

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(IN MILLIONS)	YEAR ENDED NOVEMBER		
	2001	2000	1999
Net earnings	<b>\$2,310</b>	\$3,067	\$2,708
Currency translation adjustment, net of tax	<b>(38)</b>	(167)	37
Comprehensive income	<b>\$2,272</b>	\$2,900	\$2,745

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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., its wholly-owned subsidiaries and other entities in which the firm has a controlling financial interest. In determining whether to consolidate an entity, management considers, among other factors, the nature and extent of the firm's ownership and financial interests and other attributes of control. The firm's principal U.S. and international subsidiaries include 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. 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 2001, 2000 and 1999 refer to the firm's fiscal year ended, or the date, as the context requires, November 30, 2001, November 24, 2000 and November 26, 1999, respectively. Certain reclassifications have been made to prior-year amounts to conform to the current-year presentation.

**Cash and Cash Equivalents**

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

**Transfers of Financial Assets**

The firm accounts for transfers of financial assets in accordance with 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." In general, transfers are accounted for as sales under SFAS No. 140 when the firm has relinquished control over the transferred assets. Transfers that are not accounted for as sales are accounted for as repurchase agreements and collateralized financing arrangements.

**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.

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As of November 2001, the firm adopted the provisions of SFAS No. 140 relating to the accounting for collateral. SFAS No. 140 eliminates the requirement under SFAS No. 125 to report collateral received from certain repurchase agreements and collateralized financing arrangements. Comparative restatement prior to November 2001 was required. Accordingly, collateral previously recognized in the consolidated statement of financial condition as of November 2000 of \$5.35 billion has been derecognized in these financial statements. SFAS No. 140 also requires certain disclosures regarding collateral and separate classification of certain pledged assets on the consolidated statements of financial condition. Comparative reclassification of these pledged assets and related disclosures prior to November 2001 were not required and, accordingly, were not reflected in these financial statements.

## **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 on a trade date basis.

“Financial instruments owned” and “Financial instruments sold, but not yet purchased” on the consolidated statements of financial condition are carried at fair value or amounts that approximate fair value, with related unrealized gains or losses recognized in the consolidated statements of earnings. Fair value is based generally on listed market prices or broker or dealer price quotations. If prices are not readily determinable 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 financial instruments, including over-the-counter (OTC) derivative instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlations, time value, credit, yield curve, volatility factors and/or prepayment rates of the underlying positions.

**Derivatives**—On November 25, 2000, the firm adopted SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended. The adoption of this statement did not have a material effect on the firm’s statements of financial condition or the results of operations. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities on 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.

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. 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. Gains and losses on derivatives used for trading purposes are generally included in “Trading and principal investments” on the consolidated statements of earnings.

The firm also enters into derivative contracts, which are designated as fair-value hedges, to manage the interest rate and currency exposure on its long-term borrowings. These derivatives generally include interest rate futures contracts, interest rate swap agreements 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. The gains and losses associated with the ineffective portion of these fair-value hedges are included in “Trading and principal investments” on the consolidated statements of earnings and are not material for the year ended November 2001.

**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 determinable, principal investments are initially recorded at cost. The carrying value of such investments is adjusted when changes in the underlying fair values are readily determinable, generally as evidenced by listed market prices or transactions that directly affect the value of such investments. Downward adjustments are made if management determines that realizable value is less than the carrying 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

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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 the consolidated statements of 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.

### **Property, Leasehold Improvements and Equipment**

Depreciation and amortization generally are computed using accelerated cost recovery methods for 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. Property, leasehold improvements and equipment, net of depreciation and amortization are included in "Other assets" on the consolidated statements of financial condition.

### **Goodwill and Identifiable Intangible Assets**

The cost of acquired companies in excess of the fair value of net assets at acquisition date is recorded as goodwill, and through November 2001 was amortized over periods of 15 to 20 years on a straight-line basis. Subsequent to November 2001, goodwill will no longer be amortized but, instead, will be tested at least annually for impairment, in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Identifiable intangible assets consist primarily of specialist rights and customer lists and are amortized over a weighted average life of approximately 21 years.

### **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. Expense reimbursements related to advisory activities are recorded as a reduction of related non-compensation expenses.

### **Earnings Per Share**

Earnings per share (EPS) is computed in accordance with 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 either accelerated or straight-line amortization methodologies, as determined by the applicable vesting provisions.

## 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 and included in the consolidated statements of comprehensive income. 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 was 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 was \$4.2 billion, of which \$2.4 billion was recorded as goodwill and \$1.8 billion was recorded as identifiable intangible assets.

As part of the combination with SLK, the firm established a \$702 million retention pool of restricted stock units for 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 2000. The remaining restricted stock units, for which future service is required, are being amortized over the five-year vesting period following the date of consummation.

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)

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	YEAR ENDED NOVEMBER	
	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



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**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, generally 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**

The following table sets forth the firm's total financial instruments owned, including those pledged as collateral, at fair value, and financial instruments sold, but not yet purchased, at fair value:

(IN MILLIONS)	AS OF NOVEMBER			
	2001		2000	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Commercial paper, certificates of deposit and time deposits	\$ 1,351	\$ —	\$ 866	\$ —
U.S. government, federal agency and sovereign obligations	31,173	18,606	22,926	21,483
Corporate debt	16,697	6,453	13,348	4,090
Equities and convertible debentures	20,075	12,201	21,481	8,829
State, municipal and provincial obligations	771	—	494	—
Derivative contracts	38,521	36,660	34,627	37,815
Physical commodities	297	797	432	677
Total	\$108,885	\$74,717	\$94,174	\$72,894

**Credit Concentrations**

Credit concentrations may arise from trading, underwriting and securities borrowing activities and may be impacted by changes in economic, industry or political factors. As of November 2001 and 2000, U.S. government and federal agency obligations represented 7% and 6%, 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**

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. 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.

Derivative contracts are reported on a net-by-counterparty basis on the firm's consolidated statements of financial condition where management believes a legal right of setoff exists under an enforceable netting agreement. The fair value of derivative financial instruments, computed in accordance with the firm's netting policy, is set forth below:

(IN MILLIONS)	AS OF NOVEMBER			
	2001		2000 <sup>(1)</sup>	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Forward settlement contracts	\$ 5,265	\$ 4,491	\$ 6,315	\$ 6,748
Swap agreements	18,438	15,931	15,770	16,321
Option contracts	14,818	16,238	12,543	15,118
<b>Total</b>	<b>\$38,521</b>	<b>\$36,660</b>	<b>\$34,628</b>	<b>\$38,187</b>

(1) Includes the fair value of nontrading derivative contracts previously accounted for under the accrual basis.

### Securitization Activities

The firm securitizes commercial and residential mortgages and home equity loans, government and corporate bonds, lease and trade receivables, and other types of financial assets. Gains or losses on securitizations are determined with reference to the carrying amount of the financial assets transferred, which is allocated to the assets sold and the retained interests, if any, based on their relative fair values at the date of transfer. During 2001, the firm securitized \$94.2 billion of financial assets, including \$50.3 billion of agency mortgage-backed securities. Retained interests in these securitized assets were not material as of November 2001.

### Secured Borrowing and Lending Activities

The firm enters into secured borrowing and lending transactions to obtain securities for settlement, to finance inventory positions and to meet customers' needs. In these transactions, the firm either provides or receives collateral, including U.S. government, federal agency and investment-grade non-U.S. sovereign obligations.

The firm receives collateral in connection with resale agreements, securities lending transactions, derivative transactions, customer margin loans and other secured lending activities. In many cases, the firm is permitted to sell or repledge securities held as collateral. These securities may be used to secure repurchase agreements, enter into securities lending or derivative transactions, or cover short positions. As of November 2001, the fair value of securities received as collateral by the firm that it was permitted to sell or repledge was \$267.7 billion, of which \$224.4 billion was sold or repledged.

The firm also pledges its own assets to collateralize repurchase agreements and other secured financings. As of November 2001, the carrying value of securities included in "Financial instruments owned, at fair value" that had been loaned or pledged to counterparties that did not have the right to sell or repledge was \$22.3 billion.

## 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, mortgage-backed, 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:

(IN MILLIONS)	AS OF NOVEMBER	
	2001	2000
Commercial paper	\$ 8,353	\$10,721
Promissory notes	15,281	14,516
Bank loans and other <sup>(1)</sup>	13,963	8,234
Total <sup>(2)</sup>	\$37,597	\$33,471

(1) As of November 2001 and November 2000, short-term borrowings included \$7.20 billion and \$4.06 billion of long-term borrowings maturing within one fiscal year, respectively.

(2) As of November 2001 and November 2000, weighted average interest rates for short-term borrowings, including commercial paper, were 3.05% and 6.43%, 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:

(IN MILLIONS)	AS OF NOVEMBER	
	2001	2000
Fixed rate obligations <sup>(1)</sup>		
U.S. dollar	\$14,462	\$11,825
Non-U.S. dollar	3,425	3,238
Floating rate obligations <sup>(2)</sup>		
U.S. dollar	10,415	13,873
Non-U.S. dollar	2,714	2,459
Total <sup>(3)</sup>	\$31,016	\$31,395

(1) During 2001 and 2000, interest rates on U.S. dollar fixed rate obligations ranged from 5.90% to 12.00%, and from 5.75% to 12.00%, respectively. During 2001 and 2000, non-U.S. dollar fixed rate obligations interest rates ranged from 1.20% to 8.88%, and from 0.55% to 8.88%, 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 fiscal maturity date are set forth below:

(IN MILLIONS)	AS OF NOVEMBER					
	2001			2000		
	U.S. DOLLAR	NON-U.S. DOLLAR	TOTAL	U.S. DOLLAR	NON-U.S. DOLLAR	TOTAL
2002	\$ —	\$ —	\$ —	\$ 9,484	\$ 779	\$10,263
2003	5,810	371	6,181	2,856	366	3,222
2004	3,172	119	3,291	1,618	116	1,734
2005	4,694	2,608	7,302	4,707	2,562	7,269
2006	1,734	804	2,538	1,143	27	1,170
2007-thereafter	9,467	2,237	11,704	5,890	1,847	7,737
Total	\$24,877	\$6,139	\$31,016	\$25,698	\$5,697	\$31,395

The firm enters into derivative contracts, such as interest rate futures contracts, interest rate swap agreements 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:

(\$ IN MILLIONS)	AS OF NOVEMBER			
	2001		2000	
	AMOUNT	RATE	AMOUNT	RATE
Fixed rate obligations	\$ 757	10.58%	\$ 852	10.41%
Floating rate obligations	30,259	3.02	30,543	6.96
Total	\$31,016	3.20	\$31,395	7.06

## 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 may 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 2002 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	
2002	\$ 354
2003	347
2004	382
2005	300
2006	294
2007-thereafter	2,241
Total	\$3,918
Net rent expense	
2001	\$ 299
2000	240
1999	154

### Other Commitments

The firm had commitments to enter into repurchase and resale agreements of \$47.54 billion and \$37.36 billion as of November 2001 and November 2000, respectively.

In connection with its lending activities, the firm issued commitments of \$13.35 billion and \$10.43 billion as of November 2001 and November 2000, 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 \$11.50 billion and \$9.61 billion as of November 2001 and November 2000, 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 \$1.63 billion and \$1.74 billion in corporate and real estate merchant banking investment funds and a bridge loan fund as of November 2001 and November 2000, respectively.

The firm had outstanding commitments and guarantees of \$134 million and \$284 million relating primarily to client and fund management activities as of November 2001 and November 2000, respectively. The firm also had a guarantee on construction debt obligations of \$199 million as of November 2001.

## NOTE 8 EQUITY CAPITAL

Dividends declared per common share were \$0.48 in 2001 and 2000 and \$0.24 in 1999. On December 19, 2001, the Board of Directors of Group Inc. (the Board) declared a dividend of \$0.12 per share to be paid on February 21, 2002 to common shareholders of record on January 22, 2002.

The Board authorized the repurchase of an additional 15 million shares of common stock pursuant to the firm's existing share repurchase program. The total share authorization under the repurchase program was 30 million shares as of November 2001, of which approximately 23 million shares had been repurchased at a cost of \$2.09 billion.

On August 21, 2000, SMBC Capital Markets, Inc., formerly 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 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:

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	YEAR ENDED NOVEMBER		
	2001	2000	1999
Numerator for basic and diluted EPS—earnings available to common shareholders	<b>\$2,310</b>	\$3,067	\$2,708
Denominator for basic EPS—weighted average number of common shares	<b>509.7</b>	484.6	475.9
Effect of dilutive securities			
Restricted stock units	<b>22.0</b>	16.2	5.6
Stock options	<b>10.1</b>	10.7	4.3
Dilutive potential common shares	<b>32.1</b>	26.9	9.9
Denominator for diluted EPS—weighted average number of common shares and dilutive potential common shares	<b>541.8<sup>(1)</sup></b>	511.5	485.8
Basic EPS	<b>\$ 4.53</b>	\$ 6.33	\$ 5.69
Diluted EPS	<b>4.26</b>	6.00	5.57

(1) The exercise prices for approximately one million options exceeded average market prices. Accordingly, these antidilutive options were excluded from the diluted EPS computation.

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 largely-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' benefit obligations and the fair value of assets for 2001 and 2000 and a statement of the funded status of the plans as of November 2001 and November 2000:

(IN MILLIONS)	AS OF OR FOR YEAR ENDED NOVEMBER					
	2001			2000		
	U.S. PENSION	NON-U.S. PENSION	POST-RETIREMENT <sup>(1)</sup>	U.S. PENSION	NON-U.S. PENSION	POST-RETIREMENT
Benefit obligation						
Balance, beginning of year	\$ 120	\$ 163	\$ 59	\$ 108	\$ 148	\$ 61
Service cost	4	35	6	4	28	2
Interest cost	9	7	5	8	7	4
Plan amendments	—	—	—	—	1	—
Actuarial loss/(gain)	9	(12)	18	2	6	(9)
Benefits paid	(2)	(7)	(4)	(2)	(6)	(2)
Effect of foreign exchange rates	—	(2)	—	—	(21)	—
Balance, end of year	\$ 140	\$ 184	\$ 84	\$ 120	\$ 163	\$ 56
Fair value of plan assets						
Balance, beginning of year	\$ 148	\$ 128	\$ 15	\$ 148	\$ 116	\$ —
Actual return on plan assets	(8)	(18)	(3)	2	6	—
Firm contributions	—	61	4	—	29	2
Benefits paid	(2)	(7)	(4)	(2)	(6)	(2)
Effect of foreign exchange rates	—	—	—	—	(17)	—
Balance, end of year	\$ 138	\$ 164	\$ 12	\$ 148	\$ 128	\$ —
Prepaid/(accrued) benefit cost						
Funded status	\$ (2)	\$ (20)	\$ (72)	\$ 28	\$ (35)	\$ (56)
Unrecognized actuarial loss/(gain)	40	36	12	11	19	(5)
Unrecognized transition (asset)/obligation	(31)	16	2	(34)	19	—
Unrecognized prior service cost	—	3	(1)	—	3	(2)
Prepaid/(accrued) benefit cost	\$ 7	\$ 35	\$ (59)	\$ 5	\$ 6	\$ (63)

(1) Includes certain plans that had previously been deemed immaterial for the fiscal year ended November 2000.

For plans in which the accumulated benefit obligation exceeded plan assets, the aggregate projected benefit obligation and accumulated benefit obligation was \$63 million and \$46 million, respectively, as of November 2001, and \$57 million and \$35 million, respectively, as of November 2000. The fair value of plan assets for each of these plans was \$35 million and \$19 million as of November 2001 and November 2000, respectively.

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

(IN MILLIONS)	YEAR ENDED NOVEMBER		
	2001	2000	1999
U.S. pension			
Service cost	\$ 4	\$ 4	\$ 4
Interest cost	9	8	8
Expected return on plan assets	(12)	(10)	(10)
Net amortization	(3)	(3)	(2)
Total	\$ (2)	\$ (1)	\$ —
Non-U.S. pension			
Service cost	\$ 35	\$ 28	\$ 15
Interest cost	7	7	5
Expected return on plan assets	(9)	(8)	(5)
Net amortization	1	1	3
Total	\$ 34	\$ 28	\$ 18
Postretirement			
Service cost	\$ 6	\$ 2	\$ 3
Interest cost	5	4	4
Expected return on plan assets	(1)	—	—
Net amortization	—	—	—
Total	\$ 10	\$ 6	\$ 7

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 non-U.S. plans and are based on the economic environment of each applicable country.

	YEAR ENDED NOVEMBER		
	2001	2000	1999
Defined benefit pension plans			
U.S. pension			
Discount rate	7.0%	7.5%	7.5%
Rate of increase in future compensation levels	5.0	5.0	5.0
Expected long-term rate of return on plan assets	8.5	8.5	7.5
Non-U.S. pension			
Discount rate	4.9	4.7	4.6
Rate of increase in future compensation levels	4.1	4.3	4.3
Expected long-term rate of return on plan assets	5.7	5.8	6.0
Postretirement plans			
Discount rate	7.0%	7.5%	7.5%
Rate of increase in future compensation levels	5.0	5.0	5.0
Expected long-term rate of return on plan assets	8.5	—	—

For measurement purposes, a 9.5% annual growth rate in the per capita cost of covered healthcare benefits was assumed for the fiscal year ending November 2002. The rate was assumed to decrease ratably to 5.0% for the fiscal year ending November 2011 and remain at that level thereafter.

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

(IN MILLIONS)	1% INCREASE		1% DECREASE	
	2001	2000	2001	2000
Cost	\$ 2	\$ 1	\$(1)	\$(1)
Obligation	10	7	(9)	(6)

### Defined Contribution Plans

The firm contributes to employer-sponsored U.S. and non-U.S. defined contribution plans. The firm's contribution to these plans was \$193 million, \$129 million and \$94 million for 2001, 2000 and 1999, respectively. Contributions in 2001 reflect a full year of contributions to the defined contribution plans included as a result of the firm's combination with SLK.

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 2001 were 12.5 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 years ended November 2001 and 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 2001 and November 2000, 135.0 million shares and 156.2 million shares, respectively, were available for grant under the stock incentive plan, after considering stock-based compensation awards that were issued subsequent to year end, as part of year-end compensation.

### Restricted Stock Units

The firm issued restricted stock units to employees under the stock incentive plan, primarily in connection with its initial public offering, acquisitions and as part of year-end compensation. Of the total restricted stock units outstanding as of November 2001 and November 2000, (i) 41.7 million units and 46.3 million units, respectively, required future service as a condition to the delivery of the underlying shares of common stock, and (ii) 25.6 million units and 33.5 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 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 <sup>(1)</sup>	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
Granted	116,968	1,638,536
Forfeited	(975,713)	(3,065,731)
Delivered	(10,253,224)	—
Vested	3,239,683	(3,239,683)
<b>Outstanding, November 2001</b>	<b>25,629,933</b>	<b>41,669,062</b>

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

Noncash compensation expense, net of forfeitures, was \$789 million, \$1.35 billion and \$2.32 billion for the years ended November 2001, November 2000 and November 1999, respectively.

### Stock Options

Stock options granted to employees will generally become exercisable either in installments on or about the third, fourth and fifth anniversaries of the date of grant or entirely on or about the third anniversary 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 in accordance with SFAS No. 128.

The activity related to these stock options is set forth below:

	OPTIONS OUTSTANDING	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 <sup>(1)</sup>	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
Granted <sup>(1)</sup>	29,004,359	91.89	
Exercised	(104,155)	52.03	
Forfeited	(1,969,077)	64.46	
<b>Outstanding, November 2001</b>	<b>84,366,885</b>	<b>73.04</b>	<b>8.65</b>
<b>Exercisable, November 2001</b>	<b>237,952</b>	<b>\$48.13</b>	<b>7.83</b>

<sup>(1)</sup> Includes stock options granted to employees, subsequent to year end, as part of year-end compensation.

The options outstanding as of November 2001 are set forth below:

EXERCISE PRICE	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING LIFE (YEARS)
\$45.00–\$ 59.99	36,395,783	\$52.92	7.42
\$60.00–\$ 74.99	—	—	—
\$75.00–\$ 89.99	19,101,939	82.88	9.00
\$90.00–\$104.99	28,869,163	91.90	9.97
	84,366,885		

The weighted average fair value of options granted during 2001, 2000 and 1999 was \$30.82 per option, \$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		
	2001	2000	1999
Risk-free interest rate	5.2%	5.6%	6.1%
Expected volatility	35.0	35.0	30.0
Dividend yield	0.5	0.6	1.0
Expected life	7 years	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:

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	YEAR ENDED NOVEMBER		
	2001	2000	1999
Net earnings, as reported	<b>\$2,310</b>	\$3,067	\$2,708
Pro forma net earnings	<b>1,965</b>	2,971	2,650
EPS, as reported			
Basic	<b>\$ 4.53</b>	\$ 6.33	\$ 5.69
Diluted	<b>4.26</b>	6.00	5.57
Pro forma EPS			
Basic	<b>\$ 3.86</b>	\$ 6.13	\$ 5.57
Diluted	<b>3.63</b>	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		
	2001	2000	1999
Current taxes			
U.S. federal	<b>\$ 781</b>	\$1,063	\$ 16
State and local	<b>64</b>	285	67
Non-U.S.	<b>489</b>	957	588
Total current tax expense	<b>1,334</b>	2,305	671
Deferred taxes			
U.S. federal	<b>(9)</b>	(299)	(688)
State and local	<b>95</b>	49	(342)
Non-U.S.	<b>(34)</b>	(102)	(357)
Total deferred tax expense/(benefit)	<b>52</b>	(352)	(1,387)
Net tax expense/(benefit)	<b>\$1,386</b>	\$1,953	\$ (716)

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	
	2001	2000
Deferred tax assets		
Compensation and benefits	\$1,768	\$1,781
Foreign tax credits	—	114
Other, net	197	219
	<b>1,965</b>	2,114
Less: valuation allowance <sup>(1)</sup>	(7)	(37)
Total deferred tax assets	<b>1,958</b>	2,077
Deferred tax liabilities		
Depreciation and amortization	111	35
Unrealized gains	20	158
Total deferred tax liabilities	<b>131</b>	193
Net deferred tax assets	<b>\$1,827</b>	\$1,884

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

The decrease of \$30 million in the valuation allowance was primarily due to increased utilization of foreign tax credits. Acquired net operating loss carryforwards of \$75 million are subject to annual limitations on utilization. These loss carryforwards will begin to expire in 2018.

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		
	2001	2000	1999
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
Increase related to state and local taxes, net of U.S. income tax effects	2.8	4.3	5.0
Revaluation of deferred tax assets upon change in tax status pursuant to initial public offering	—	—	(41.4) <sup>(1)</sup>
Rate benefit for partnership period	—	—	(37.7) <sup>(2)</sup>
Other	(0.3)	(0.4)	3.2
Effective income tax rate	<b>37.5%</b>	38.9%	(35.9)%

(1) 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.

(2) 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.

Tax benefits of approximately \$123 million during 2001 and \$116 million in 2000, related to the delivery of restricted stock units and the exercise of options, were credited directly to "Additional paid-in capital" on the consolidated statements of financial condition and changes in shareholders' equity and partners' capital.

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## 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 2001 and November 2000, GS&Co. had regulatory net capital, as defined, of \$4.59 billion and \$4.50 billion, respectively, which exceeded the amounts required by \$3.91 billion and \$3.81 billion, respectively. As of November 2001 and November 2000, Spear, Leeds & Kellogg, L.P. had regulatory net capital, as defined, of \$952 million and \$837 million, respectively, which exceeded the amounts required by \$907 million and \$803 million, respectively.

GSI, a registered U.K. broker-dealer, is subject to the capital requirements of the Financial Services Authority, and GSJL, a Tokyo-based broker-dealer, is subject to the capital requirements of the Financial Services Agency. As of November 2001 and November 2000, 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 2001 and November 2000, 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 and electronic

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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 revenues primarily in the form of fees or interest rate spreads; and
- **Commissions** –Commissions include fees from executing and clearing client transactions on major stock, options and futures markets worldwide. Commissions also include 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)		AS OF OR FOR YEAR ENDED NOVEMBER		
		2001	2000	1999
Global Capital Markets	Net revenues <sup>(1)</sup>	<b>\$ 10,185</b>	\$ 11,998	\$ 10,132
	Operating expenses <sup>(2)</sup>	<b>8,251</b>	7,844	6,232
	Pre-tax earnings	<b>\$ 1,934</b>	\$ 4,154	\$ 3,900
	Segment assets	<b>\$163,376</b>	\$149,497	\$127,529
Asset Management and Securities Services	Net revenues <sup>(1)</sup>	<b>\$ 5,626</b>	\$ 4,592	\$ 3,213
	Operating expenses <sup>(2)</sup>	<b>3,501</b>	3,008	2,396
	Pre-tax earnings	<b>\$ 2,125</b>	\$ 1,584	\$ 817
	Segment assets	<b>\$148,004</b>	\$133,827	\$119,536
Total	Net revenues <sup>(1)</sup>	<b>\$ 15,811</b>	\$ 16,590	\$ 13,345
	Operating expenses <sup>(2)</sup>	<b>12,115<sup>(4)</sup></b>	11,570 <sup>(5)</sup>	11,353 <sup>(6)</sup>
	Pre-tax earnings	<b>\$ 3,696</b>	\$ 5,020	\$ 1,992
	Total assets <sup>(3)</sup>	<b>\$312,218</b>	\$284,410	\$248,348

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

(IN MILLIONS)	YEAR ENDED NOVEMBER		
	2001	2000	1999
Global Capital Markets	<b>\$ 254</b>	\$131	\$ 15
Asset Management and Securities Services	<b>1,039</b>	855	689
Total net interest	<b>\$1,293</b>	\$986	\$704

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

(IN MILLIONS)	YEAR ENDED NOVEMBER		
	2001	2000	1999
Global Capital Markets	<b>\$558</b>	\$336	\$228
Asset Management and Securities Services	<b>315</b>	150	109
Total depreciation and amortization	<b>\$873</b>	\$486	\$337

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

(4) Includes the amortization of employee initial public offering awards of \$363 million that has not been allocated to the firm's segments.

(5) Includes the following expenses that have not been allocated to the firm's segments: (i) the 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.

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

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

(IN MILLIONS)	YEAR ENDED NOVEMBER		
	2001	2000	1999
Financial Advisory	\$ 2,070	\$ 2,592	\$ 2,270
Underwriting	1,766	2,779	2,089
Investment Banking	3,836	5,371	4,359
FICC	4,047	3,004	2,862
Equities	2,923	3,489	1,961
Principal Investments	(621)	134	950
Trading and Principal Investments	6,349	6,627	5,773
Total Global Capital Markets	10,185	11,998	10,132
Asset Management	1,473	1,345	919
Securities Services	1,133	940	772
Commissions	3,020	2,307	1,522
Total Asset Management and Securities Services	5,626	4,592	3,213
Total net revenues	\$15,811	\$16,590	\$13,345



## 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:

(IN MILLIONS)	AS OF OR FOR YEAR ENDED NOVEMBER		
	2001	2000	1999
Net revenues			
United States	\$ 10,181	\$ 9,767	\$ 8,536
Other Americas	234	189	327
United Kingdom	3,483	4,400	3,103
Other Europe	473	622	375
Asia	1,440	1,612	1,004
Total net revenues	\$ 15,811	\$ 16,590	\$ 13,345
Pre-tax earnings			
United States	\$ 2,487	\$ 2,845	\$ 2,878
Other Americas	191	104	184
United Kingdom	665	1,882	1,203
Other Europe	241	391	198
Asia	475	516	254
Other	(363) <sup>(2)</sup>	(718) <sup>(3)</sup>	(2,725) <sup>(4)</sup>
Total pre-tax earnings	\$ 3,696	\$ 5,020	\$ 1,992
Identifiable assets			
United States	\$ 337,061	\$ 287,938	\$ 238,875
Other Americas	5,985	7,791	6,118
United Kingdom	131,812	121,257	119,350
Other Europe	8,129	7,979	11,737
Asia	25,367	16,848	18,088
Eliminations and other <sup>(1)</sup>	(196,136)	(157,403)	(145,820)
Total identifiable assets	\$ 312,218	\$ 284,410	\$ 248,348

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

(2) Includes the amortization of employee initial public offering awards of \$363 million that has not been allocated to the firm's segments.

(3) Includes the following expenses that have not been allocated to the firm's segments: (i) the 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.

(4) Includes the following expenses that have not been allocated to the firm's segments: (i) nonrecurring employee initial public offering awards of \$2.26 billion, (ii) the 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.

## SUPPLEMENTAL FINANCIAL INFORMATION

**Quarterly Results (unaudited)**

The following represents the firm's unaudited quarterly results for 2001 and 2000. These quarterly results were prepared in accordance with U.S. 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.

(IN MILLIONS, EXCEPT PER SHARE DATA)	2001 FISCAL QUARTER			
	FIRST	SECOND	THIRD	FOURTH
Total revenues	\$9,502	\$8,158	\$7,360	\$6,118
Interest expense	4,769	4,168	3,699	2,691
Revenues, net of interest expense	4,733	3,990	3,661	3,427
Operating expenses	3,474	3,044	2,894	2,703
Pre-tax earnings	1,259	946	767	724
Provision for taxes	491	369	299	227
Net earnings	\$ 768	\$ 577	\$ 468	\$ 497
Earnings per share				
Basic	\$ 1.49	\$ 1.12	\$ 0.92	\$ 0.99
Diluted	1.40	1.06	0.87	0.93
Dividends declared per common share	0.12	0.12	0.12	0.12

(IN MILLIONS, EXCEPT PER SHARE DATA)	2000 FISCAL QUARTER			
	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 <sup>(1)</sup>
Provision for taxes	592	503	549	309
Net earnings	\$ 887	\$ 755	\$ 824	\$ 601 <sup>(1)</sup>
Earnings per share				
Basic	\$ 1.83	\$ 1.56	\$ 1.71	\$ 1.23
Diluted	1.76	1.48	1.62	1.16 <sup>(2)</sup>
Dividends declared 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.

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## 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					
	2001		2000		1999	
	HIGH	LOW	HIGH	LOW	HIGH	LOW
First Quarter	<b>\$118.62</b>	<b>\$80.50</b>	\$ 94.19	\$74.50	\$ —	\$ —
Second Quarter	<b>103.29</b>	<b>77.53</b>	121.31	69.81	74.13	64.50
Third Quarter	<b>97.35</b>	<b>75.40</b>	120.75	72.00	72.25	55.81
Fourth Quarter	<b>91.50</b>	<b>65.75</b>	132.00	79.94	82.81	57.69

As of January 31, 2002, there were approximately 3,440 holders of record of the firm's common stock.

On January 31, 2002, the last reported sales price for the firm's common stock on the New York Stock Exchange was \$86.98 per share.

## Selected Financial Data

(\$ AND SHARE AMOUNTS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	AS OF OR FOR YEAR ENDED NOVEMBER				
	2001	2000 <sup>(4)</sup>	1999 <sup>(5)</sup>	1998	1997
<b>Income statement data</b>					
Total revenues	\$ 31,138	\$ 33,000	\$ 25,363	\$ 22,478	\$ 20,433
Interest expense	15,327	16,410	12,018	13,958	12,986
Net revenues	15,811	16,590	13,345	8,520	7,447
Compensation and benefits <sup>(1)</sup>	7,700	7,773	6,459	3,838	3,097
Nonrecurring employee initial public offering and acquisition awards	—	290	2,257	—	—
Amortization of employee initial public offering and acquisition awards	464	428	268	—	—
Other operating expenses	3,951	3,079	2,369	1,761	1,336
Pre-tax earnings <sup>(1)</sup>	\$ 3,696	\$ 5,020	\$ 1,992	\$ 2,921	\$ 3,014
<b>Balance sheet data</b>					
Total assets	\$312,218	\$284,410	\$248,348	\$205,739	\$178,401
Long-term borrowings	31,016	31,395	20,952	19,906	15,667
Total liabilities	293,987	267,880	238,203	199,355	171,864
Shareholders' equity	18,231	16,530	10,145	—	—
Partners' capital	—	—	—	6,310	6,107
<b>Common share data</b>					
Earnings per share—basic	\$ 4.53	\$ 6.33	\$ 5.69	—	—
Earnings per share—diluted	4.26	6.00	5.57	—	—
Dividends declared per share	0.48	0.48	0.24	—	—
Book value per share	36.33	32.18	20.94	—	—
Average common shares outstanding—basic	509.7	484.6	475.9	—	—
Average common shares outstanding—diluted	541.8	511.5	485.8	—	—
<b>Selected data (unaudited)</b>					
<b>Employees</b>					
United States	14,565	14,755	9,746	8,349	6,879
International	8,112	7,872	5,615	4,684	3,743
Total employees <sup>(2)</sup>	22,677	22,627 <sup>(6)</sup>	15,361	13,033	10,622
<b>Assets under supervision<sup>(3)</sup></b>					
Assets under management	\$350,718	\$293,842	\$258,045	\$194,821	\$135,929
Other client assets	152,192	197,876	227,424	142,018	102,033
Total assets under supervision	\$502,910	\$491,718	\$485,469	\$336,839	\$237,962

(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 and 1997 are not comparable with 2001, 2000 or 1999.

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

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

(4) 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.

(5) 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.

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

## Significant Subsidiaries of the Registrant

The following are significant subsidiaries of The Goldman Sachs Group, Inc. as of November 30, 2001 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 Group Holdings (U.K.)	United Kingdom
Goldman Sachs Holdings (U.K.)	United Kingdom
Goldman Sachs International	United Kingdom
GS Financial Services L.P. (Del)	Delaware
Goldman Sachs Capital Markets, L.P.	Delaware
Goldman Sachs (Japan) Ltd.	British Virgin Islands
J. Aron Holdings, L.P.	Delaware
J. Aron & Company	New York
Goldman Sachs Mortgage Company	New York
Goldman Sachs Credit Partners L.P.	Bermuda
Goldman Sachs (UK) L.L.C.	Delaware
Goldman Sachs Holdings (Netherlands) B.V.	Netherlands
Goldman Sachs Mitsui Marine Derivative Products, L.P. <sup>(1)</sup>	Delaware
Goldman Sachs (Cayman) Holding Company	Cayman Islands
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 Gm.bH	Germany
Hull Trading (UK) Limited	United Kingdom
SLK — Hull Derivatives L.L.C.	Delaware
SLK LLC	New York
Spear, Leeds & Kellogg, L.P.	New York
SLK Holdings Inc.	Delaware
SLK Acquisition Co.	Delaware
First Options of Chicago, Inc.	Delaware

(1) Represents a joint venture owned by Goldman Sachs Holdings (Netherlands) B.V. (49%), Mitsui Sumitomo Insurance Co., Ltd. (50%) and GSMMDPGP Inc. (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, 333-49958, 333-63082 and 333-74006) and on Form S-8 (File Nos. 333-80839 and 333-42068) of our report dated January 28, 2002 relating to the financial statements of The Goldman Sachs Group, Inc. and Subsidiaries, which appears in the 2001 Annual Report to Shareholders and is incorporated by reference in this Annual Report on Form 10-K for the year ended November 30, 2001. 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, 333-49958, 333-63082 and 333-74006) and on Form S-8 (File Nos. 333-80839 and 333-42068) of our reports dated January 28, 2002 relating to the Financial Statement Schedule and Selected Financial Data which appear in this Annual Report on Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

New York, New York  
February 22, 2002

**REPORT OF INDEPENDENT ACCOUNTANTS**

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

We have audited the consolidated financial statements of The Goldman Sachs Group, Inc. and Subsidiaries (the "Company") as of November 30, 2001 and November 24, 2000, and for each of the three fiscal years in the period ended November 30, 2001 and have issued our report thereon appearing on page 46 of the Company's Annual Report to Shareholders, which expresses an unqualified opinion, dated January 28, 2002. 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 26, 1999, November 27, 1998 and November 28, 1997, and the related consolidated statements of earnings, changes in partners' capital, cash flows and comprehensive income for the years ended November 27, 1998 and November 28, 1997 (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 financial data for each of the five years in the period ended November 30, 2001, appearing on page 75 of the Company'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 28, 2002