UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended November 28, 2003 **Commission File Number: 001-14965**

The Goldman Sachs Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**13-4019460** (I.R.S. employer identification no.)
85 Broad Street New York, N.Y. (Address of principal executive offices)	**10004** (Zip Code)

(212) 902-1000
(Registrant's telephone number, including area code)

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

Title of each class:	Name of each exchange on which registered:
Common stock, par value $.01 per share, and attached Shareholder Protection Rights	**New York Stock Exchange**
Medium-Term Notes, Series B, 0.25% Exchangeable Notes due 2007; Index-Linked Notes due 2004; 1% Exchangeable Notes due 2007; 0.75% Exchangeable Notes due 2005; 0.50% Exchangeable Equity-Linked Notes due 2007; Index-Linked Notes due 2013; Index-Linked Notes due April 2013; Index-Linked Notes due May 2013; Index-Linked Notes due July 2010; Basket-Linked Notes due 2004; and Index-Linked Notes due 2011	**American Stock Exchange**
Medium-Term Notes, Series B, 7.35% Notes due 2009; 7.50% Notes due 2005; 7.80% Notes due 2010; Floating Rate Notes due 2005	**New York Stock Exchange**

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☑ No ☐

As of May 30, 2003, the aggregate market value of the common stock of the registrant held by non-affiliates of the registrant was approximately $35 billion.

As of February 2, 2004, there were 483,311,736 shares of the registrant's common stock outstanding.

Documents incorporated by reference: Portions of The Goldman Sachs Group, Inc.'s 2003 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 15. Portions of The Goldman Sachs Group, Inc.'s Proxy Statement dated February 24, 2004, for its 2004 Annual Meeting of Shareholders to be held on March 31, 2004, are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

THE GOLDMAN SACHS GROUP, INC.

ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED NOVEMBER 28, 2003

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PART I

Item 1. *Business*

Overview

Goldman Sachs is a leading global investment banking, securities and investment management firm that provides a wide range of services worldwide to a substantial and diversified client base. As of November 28, 2003, we operated offices in over 20 countries and approximately 34% of our 19,476 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 2003, 2002 and 2001 refer to our fiscal year ended, or the date, as the context requires, November 28, 2003, November 29, 2002 and November 30, 2001, respectively.

When we use the terms ''Goldman Sachs,'' ''we,'' ''us'' and ''our,'' we mean The Goldman Sachs Group, Inc., a Delaware corporation, and its consolidated subsidiaries.

Financial information concerning our business segments and geographic regions for each of 2003, 2002 and 2001 is set forth in ''Management's Discussion and Analysis,'' and the consolidated financial statements and the notes thereto, in our 2003 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.

Our Internet address is www.gs.com and the investor relations section of our web site is located at www.gs.com/investor_relations. We make available free of charge, on or through the investor relations section of our web site, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Also posted on our web site, and available in print upon request of any shareholder to our Investor Relations Department, are our charters for our Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee, our Policy Regarding Director Independence Determinations, our Policy on Reporting of Concerns Regarding Accounting and Other Matters, our Corporate Governance Guidelines and a Code of Business Conduct and Ethics governing our directors, officers and employees. Within the time period required by the SEC and the New York Stock Exchange, we will post on our web site any amendment to the Code of Business Conduct and Ethics and any waiver applicable to our senior financial officers, as defined in the Code, and our executive officers or directors. In addition, information concerning purchases and sales of our equity securities by our executive officers and directors is posted on our web site.

Our Investor Relations Department can be contacted at The Goldman Sachs Group, Inc., 85 Broad Street, 17th Floor, New York, New York 10004, Attn: Investor Relations, telephone: 212-902-0300, e-mail: gs-investorrelations@gs.com.

Business Segments

Our activities are divided into three segments:

- Investment Banking;
- Trading and Principal Investments; and
- Asset Management and Securities Services.

During 2003, we made certain changes to our segment reporting structure. These changes included:

- reclassifying equity commissions and clearing and execution fees from the Commissions component of the Asset Management and Securities Services segment to the Equities component of the Trading and Principal Investments segment;
- reclassifying merchant banking overrides from the Commissions component of the Asset Management and Securities Services segment to the Principal Investments component of the Trading and Principal Investments segment; and
- reclassifying the matched book businesses from the Securities Services component of the Asset Management and Securities Services segment to the Fixed Income, Currency and Commodities (FICC) component of the Trading and Principal Investments segment.

These reclassifications did not affect our previously reported consolidated results of operations. Prior period segment operating results have been changed to conform to the new segment reporting structure.

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

Operating Results by Segment
(in millions)

	Year Ended November		
	2003	**2002**	**2001**
Investment Banking:			
Net revenues	$ 2,711	$ 2,830	$ 3,836
Operating expenses	2,504	2,454	3,117
Pre-tax earnings	$ 207	$ 376	$ 719
Trading and Principal Investments:			
Net revenues	$10,443	$ 8,647	$ 9,570
Operating expenses	6,938	6,505	7,310
Pre-tax earnings	$ 3,505	$ 2,142	$ 2,260
Asset Management and Securities Services:			
Net revenues	$ 2,858	$ 2,509	$ 2,405
Operating expenses	1,890	1,562	1,325
Pre-tax earnings	$ 968	$ 947	$ 1,080
Total			
Net revenues	$16,012	$13,986	$15,811
Operating expenses(1)	11,567	10,733	12,115
Pre-tax earnings	$ 4,445	$ 3,253	$ 3,696

(1) Includes the following expenses that have not been allocated to our segments: (i) the amortization of employee initial public offering awards of $80 million, $212 million and $363 million for the years ended November 2003, November 2002 and November 2001, respectively, and (ii) provisions for a number of litigation and regulatory proceedings of $155 million for the year ended November 2003.

These segments consist of various products and activities that are set forth in the following chart:

Business Segment / *Component*	Primary Products and Activities
Investment Banking:	
Financial Advisory	• Mergers and acquisitions advisory services • Financial restructuring advisory services
Underwriting	• Equity and debt underwriting
Trading and Principal Investments:	
FICC	• Commodities and commodity derivatives, including our power generation business • Credit products — including investment-grade corporate securities, high-yield securities, bank loans, municipal securities, emerging market debt and credit derivatives • Currencies and currency derivatives • Interest rate products — including interest rate derivatives and global government securities • Money market instruments, including the matched book • Mortgage-backed securities and loans
Equities	• Equity securities and derivatives • Securities, futures and options clearing services • Specialist and market-making services in securities and options
Principal Investments	• Principal investments in connection with merchant banking activities • Investment in the convertible preferred stock of Sumitomo Mitsui Financial Group, Inc.
Asset Management and Securities Services:	
Asset Management	• Institutional and high-net-worth asset management • Merchant banking management fees • Mutual funds
Securities Services	• Margin lending • Prime brokerage • Securities lending

Investment Banking

Investment Banking represented 17% of 2003 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 by regional, industry and product 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 segment is divided into two components:

- ***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 instruments.

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 and cross-border structuring expertise, as well as services in other areas of the firm, such as currency hedging.

Underwriting

We underwrite a wide range of securities and other financial instruments, including common and preferred stock, convertible and exchangeable securities, investment-grade debt, high-yield debt, sovereign and emerging market 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, prior experience and distribution capabilities.

Debt Underwriting. We engage in the underwriting and origination of various types of debt instruments, including investment-grade debt securities, high-yield debt securities, bank and bridge loans and emerging market debt securities, which instruments may be issued by, among others, corporate, sovereign and agency issuers. In addition, we underwrite and originate structured securities, which include asset-backed and mortgage-backed securities and collateralized debt obligations. 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 65% of 2003 net revenues. Trading and Principal Investments facilitates customer 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

derivatives on such products. In addition, we engage in floor-based and electronic market making as a specialist on U.S. equities and options exchanges and we clear customer transactions on major stock, options and futures exchanges worldwide. In connection with our merchant banking and other investment activities, we make principal investments directly and through funds that we raise and manage.

In order to meet the needs of our clients, Trading and Principal Investments is diversified across a wide range of products. We believe our willingness and ability to take risk distinguishes us from many of our competitors and substantially enhances our client relationships.

Our Trading and Principal Investments segment is divided into three components:

- ***Fixed Income, Currency and Commodities.*** We make markets in and trade interest rate and credit products, mortgage-backed securities and loans, currencies and commodities, structure and enter into a wide variety of derivative transactions, and engage in proprietary trading;
- ***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. We also execute and clear customer transactions on major stock, options and futures exchanges worldwide; and
- ***Principal Investments.*** Principal Investments primarily represents net revenues from our merchant banking investments, including the increased share of the income and gains derived from our merchant banking funds when the return on a fund's investments exceeds certain threshold returns (merchant banking overrides), as well as unrealized gains or losses on our investment in the convertible preferred stock of Sumitomo Mitsui Financial Group, Inc. (SMFG).

Fixed Income, Currency and Commodities and Equities

FICC and Equities are large and diversified operations through which we engage in a variety of customer-driven and proprietary trading activities.

In their customer-driven businesses, FICC and Equities strive to deliver high-quality service by offering broad market-making and market knowledge to our clients on a global basis. In addition, we use our expertise to take positions in markets, often by committing capital and taking risk, to facilitate customer transactions and provide liquidity. Our willingness to make markets in a broad range of fixed income, currency, commodity and equity products and their derivatives is crucial both to our client relationships and to support our underwriting business by providing secondary market liquidity.

We generate trading net revenues from our customer-driven businesses in three ways.

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

In our proprietary activities in both FICC and Equities, we assume a variety of risks and devote resources to identify, analyze and benefit from these exposures. We leverage our strong proprietary research capabilities and capitalize on our analytical models to analyze information and make informed trading judgments. For example, as part of our FICC credit and mortgage products businesses, we have expanded and expect to continue to expand the extent to which we make principal investments in portfolios and single issues of distressed debt as well as other

special situation investments. In our proprietary activities, we seek to benefit from perceived disparities in the value of assets in the trading markets and from macroeconomic and company-specific trends.

Although FICC and Equities involve distinct product areas, we have recently increased coordination among their businesses. Among the steps we have taken are to integrate, to an increasing extent, management of FICC and Equities and to integrate the facilities and personnel of some of our FICC and Equities businesses, especially in Europe and Asia. We have also merged substantially all of our risk management functions for FICC and Equities. We expect to continue to increase the integration and coordination of these businesses in the future, as we respond to what we believe is client demand for more centralized services and as we attempt to take advantage of perceived synergies.

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, and from time to time in connection with large block trades.

In both our customer-driven and proprietary activities in FICC and Equities, we manage our exposure to credit and other financial risks on a global basis across all our products. Our trading risk management process seeks to balance our ability to profit from trading positions with our exposure to potential losses. As part of this process, we analyze not only market risk but also credit and other financial risks. 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 2003 Annual Report to Shareholders, which is incorporated by reference in Part II, Items 7 and 7A of this Annual Report on Form 10-K.

FICC. FICC's principal businesses are:

- Commodities and commodity derivatives, including our power generation business;
- Credit products, including investment-grade corporate securities, high-yield securities, bank loans, municipal securities, credit derivatives and emerging market debt;
- Currencies and currency derivatives;
- Interest rate products, including interest rate derivatives and global government securities;
- Money market instruments, including the matched book; and
- Mortgage-backed securities and loans.

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 FICC research capabilities enhance our ability to provide high-quality products and service to our clients and 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.

As part of our commodities business, we recently acquired equity interests in East Coast Power L.L.C. and Cogentrix Energy, Inc., companies engaged in the power generation business. As of February 1, 2004, we indirectly owned interests in 26 power plants located in the United States and one plant located outside of the United States.

Equities. In 2003, we reorganized certain of our Equities businesses. Our Equities principal businesses are:

- Equities Products Group;
- Exchange-Based Trading; and
- Principal Strategies.

Equities Products Group. Our equities products group (EPG) includes primarily customer-driven activities in the shares, convertible securities and derivatives businesses of the firm. These activities also include clearing client transactions on major stock, options and futures exchanges worldwide.

We trade equity securities and equity-related products (such as convertible securities, options, futures and over-the counter (OTC) derivative instruments) on a global basis as an agent, as a market maker or otherwise as a principal. As a principal, we facilitate customer transactions, often by committing capital and taking risk, to provide liquidity to clients with large blocks of stocks or options. For example, we are active in the execution of large block trades (trades of 50,000 or more shares).

We are a member of most of the world's major stock, options and futures exchanges, including those located in New York, Chicago, London, Paris, Frankfurt, Tokyo and Hong Kong. We are a designated market maker in over 3,000 stocks traded on the Nasdaq Stock Market.

In the options and futures markets, we structure, distribute and execute 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.

Exchange-Based Trading. Our exchange-based trading business includes our stock, option and exchange traded funds (ETF) specialist businesses. We engage in floor-based and electronic market making as a specialist on U.S. equities and options exchanges. In the United States, for stocks, we are one of the leading specialists on the NYSE. For options, we are a specialist on the American Stock Exchange, the Chicago Board Options Exchange, the International Securities Exchange and the Philadelphia Stock Exchange. For ETFs, we are a specialist on the American Stock Exchange and the NYSE.

Principal Strategies. Our equities principal strategies business includes equity arbitrage, as well as other proprietary trading in equity and related securities, including convertible securities and derivatives. Equity arbitrage includes, among other strategies, relative value trading (which involves trading strategies to take advantage of perceived discrepancies in the relative value of financial instruments, including debt and equity instruments), statistical arbitrage (which involves trading strategies based on analyses of historical price relationships among sectors of the equities markets) and risk arbitrage (which focuses on event-oriented special situations such as corporate restructurings, recapitalizations, mergers and acquisitions and legal and regulatory events).

Principal Investments

In connection with our merchant banking activities, we invest by making principal investments directly and through funds that we raise and manage. Principal investments also includes our investment in the convertible preferred stock of SMFG, which we acquired on February 7, 2003.

As of November 2003, we managed private investment funds with total equity capital commitments from our clients and from Goldman Sachs of $39.05 billion, including funded amounts; Goldman Sachs also had outstanding commitments to invest up to $1.38 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 2003, the aggregate carrying value of our principal investments held directly or through our merchant banking funds was approximately $3.76 billion. These carrying values were comprised of corporate principal investments with an aggregate carrying value of approximately $1.27 billion, real estate investments with an aggregate carrying value of approximately $799 million and our investment in the convertible preferred stock of SMFG with a carrying value of $1.68 billion. Principal Investments includes revenues from the increased share of the income and gains derived from our merchant banking funds when the return on a fund's investments exceeds certain threshold returns (typically referred to as an ''override'').

Asset Management and Securities Services

The components of the Asset Management and Securities Services segment, which represented 18% of 2003 net revenues, are set forth below:

- ***Asset Management.*** Asset Management provides investment advisory and financial planning services to a diverse client base of institutions and individuals and generates revenues in the form of management and incentive fees; and
- ***Securities Services.*** Securities Services includes prime brokerage, financing services and securities lending, all of which generate revenues primarily in the form of interest rate spreads or fees.

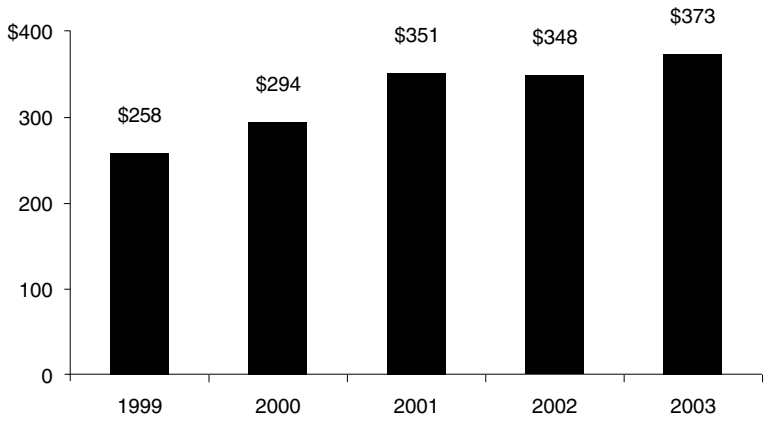
Asset Management

We offer a broad array of investment strategies, advice and planning across all major asset classes: equity, fixed income (including money markets) and currency and alternative investment products (*i.e.*, investment vehicles with non-traditional investment strategies and techniques).

Assets under management typically generate fees based on a percentage of their value or on their performance and include our mutual funds, separate accounts managed for institutional and individual investors, our merchant banking funds and other alternative investment funds. We also earn trading commissions on assets in brokerage accounts of high-net-worth individuals (which revenues are included in the Equities component of our Trading and Principal Investments segment), although the trend in our private wealth management business has been away from traditional brokerage accounts that generate commission revenue to accounts that pay fees based on the assets under management.

The amount of assets under management is set forth in the graph below. In the following graph, as well as in the following tables, substantially all assets under management are valued as of calendar month end.

Assets Under Management
(in billions)



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

Assets Under Management by Asset Class
(in billions)

	As of November		
	2003(2)	**2002**	**2001**
Asset Class			
Money markets	$ 89	$108	$122
Fixed income and currency	115	96	71
Equity	98	86	96
Alternative investments(1)	71	58	62
Total	$373	$348	$351

(1) Includes merchant banking funds, quantitatively-driven investment funds and other funds with non-traditional investment strategies and techniques that we manage, as well as funds where we recommend one or more subadvisors for our clients.

(2) Includes $4 billion in non-money-market assets acquired in our combination with The Ayco Company, L.P., a leading provider of sophisticated, fee-based financial counseling in the United States that we acquired on July 1, 2003.

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

The table below sets forth the amount of assets under management by distribution channel and client category as of November 2003:

Assets Under Management by Distribution Channel
(in billions)

	Assets Under Management(1)	Primary Investment Vehicles
• Directly Distributed		
— Institutional	$134	Separate managed accounts
— High-net-worth individuals	105	Commingled vehicles, such as mutual funds and private investment funds Brokerage accounts Separate managed accounts
• Third-party distributed		
— Institutional, high-net-worth and retail	116	Commingled vehicles Separate managed accounts
Total	$355	

(1) Excludes $18.47 billion in certain of our merchant banking funds.

Merchant Banking. Goldman Sachs has sponsored private investment funds in the corporate and real estate merchant banking business with $39.05 billion of committed capital as of November 2003, of which $27.23 billion has been funded. We have provided a portion of those amounts. See ''— Trading and Principal Investments — Principal Investments'' above. 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 2003, our corporate merchant banking funds had total committed capital of $26.96 billion. Other funds, with total committed capital of $12.09 billion as of November 2003, 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. Third, 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 of the income and gains from the fund's investments. The second and third of these revenue streams are included in net revenues of the Principal Investments component of our Trading and Principal Investments segment.

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 mutual funds, pension funds, hedge funds, foundations, endowments and high-net-worth individuals.

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 (with revenues from clearing and custody included in the Equities component of the Trading and Principal Investments segment), 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 and otherwise to make deliveries into the market. In addition, we are an active participant in the broker-to-broker securities lending business and the third-party agency lending business.

Global Investment Research

Our Global Investment Research Division provides fundamental research on companies, industries, economies, currencies, commodities and portfolio and quantitative strategy on a worldwide basis.

Global Investment Research employs a team approach that as of November 2003 provided research coverage of approximately 1,750 companies worldwide, over 50 economies and 25 stock markets. This is accomplished by six departments:

- the Americas Equity Research Department, the Europe Equity Research Department and the Asia Equity Research Department all provide fundamental analysis, forecasts and investment opinions for companies and industries in their respective regions. Equity research analysts are organized regionally by industry teams, which allows for extensive collaboration and knowledge sharing among analysts on important investment themes;
- the Economic Research Department, which has a presence in the Americas, Europe and Asia, formulates macroeconomic forecasts for economic activity, foreign exchange and interest rates based on the globally coordinated views of its regional economists;
- the Commodities Research Department, which has a presence in London and New York, provides research on the global commodity markets; and
- the Strategy Department, which includes Portfolio and Quantitative Strategy and has a presence in the Americas, Europe and Asia, formulates equity market forecasts and provides opinions on both asset and industry sector allocation.

Further information regarding research at Goldman Sachs is provided under ''— Regulation — Regulations applicable in and outside the United States,'' ''— Certain Factors That May Affect Our Business — Legal and Regulatory'' and ''Legal Proceedings — Research Independence Matters'' in Item 3 of this Annual Report on Form 10-K.

Technology Strategy

Goldman Sachs is committed to the ongoing development, maintenance and use of technology throughout the organization. Our technology initiatives can be broadly categorized into four efforts:

- enhancing client service through increased connectivity and the provision of value-added, tailored products and 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 have extended 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 have also used the Internet to improve the ease and quality of communication with our institutional and high-net-worth clients.

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

We have 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 2003, we had 19,476 employees, which excludes employees of Goldman Sachs' property management subsidiaries. Substantially all of the costs of the 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 legislation that 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. In particular, corporate clients sometimes seek to require such commitments from financial services firms in connection with investment banking assignments. In 2003, we established the William Street entities, through which we have issued commitments to lend to counterparties, primarily investment grade clients. Substantially all of the credit risk associated with these commitments has been hedged through credit loss protection provided to Goldman Sachs by SMFG. These arrangements may not be sufficient, however, to fully satisfy our clients' desire for capital commitments. In addition, the credit loss protection is limited generally to 95% of the first loss Goldman Sachs realizes on approved investment-grade loan commitments, subject to a maximum of $1 billion, and 70% of the second loss on such commitments, subject to a maximum of $1.125 billion. See ''Management's Discussion and Analysis'' and Note 6 to our consolidated financial statements for more information regarding the William Street entities, and our Current Report on Form 8-K, dated January 15, 2003, for a description of the credit loss protection provided by SMFG.

The trend toward consolidation and convergence has significantly increased the capital base and geographic reach of some 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. There has been considerable pressure in the pricing of large block trades, including situations where the bidding dealers may not have been able to pre-market the securities. Also, equity and debt underwriting discounts, as well as trading spreads, 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, has increased the pressure on trading commissions. It appears that this trend toward alternative trading systems will continue. We own interests in and participate in a number of these trading systems. Moreover, the introduction of decimalization has led to a reduction in the revenues of our specialist business and to the implementation of a fee-based pricing structure in our Nasdaq trading business. We believe that we will experience competitive pressures in these and other areas in the future as some of our competitors seek to obtain market share by reducing prices.

The trading of futures on single stocks commenced in November 2002. It is too early to tell whether the introduction of single stock futures contracts will have a long-term adverse impact on the businesses of Goldman Sachs. While commissions and clearing fees may increase, other aspects of our business, in particular, our OTC derivative 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.

Broker-dealers, in particular, are subject to regulations that cover all aspects of the securities business, including sales methods, trade practices, 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. A number of our affiliates are regulated by investment advisory laws in and outside the United States. 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 operation and profitability of Goldman Sachs.

Regulation in the United States

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 National Association of Securities Dealers, Inc., adopt rules that apply to, 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 OTC derivatives dealer and conducts certain OTC derivatives businesses previously conducted by other affiliates.

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 14 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.

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.

The USA PATRIOT Act of 2001, enacted in response to the terrorist attacks on September 11, 2001, contains anti-money laundering and financial transparency laws and mandates the implementation of various new regulations applicable to broker-dealers and other financial services companies, including standards for verifying client identification at account opening, and obligations to monitor client transactions and report suspicious activities. Through these and other provisions, the USA PATRIOT Act seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. Anti-money-laundering laws outside of the United States contain some similar provisions. The increased obligations of financial institutions, including Goldman Sachs, to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions, requires the implementation and maintenance of internal practices, procedures and controls which have increased, and may continue to increase, our costs and may subject us to liability.

In addition, our power generation business is subject to extensive and evolving energy, environmental and other governmental laws and regulations, as discussed under ''— Certain Factors That May Affect Our Business — Investments in the Power Generation Industry.''

Regulation Outside of the United States

Goldman Sachs is an active participant in the international fixed income and equities markets. Many of our affiliates that participate in these markets are subject to comprehensive regulations that include some form of capital adequacy rules and other customer protection rules. Goldman Sachs provides investment services in and from the United Kingdom under the regulation of the Financial Services Authority (FSA). Various Goldman Sachs entities are regulated by the banking and regulatory authorities of the other European countries in which Goldman Sachs operates, including, among others, the Federal Financial Supervisory Authority

(BaFin) and the Bundesbank in Germany, the Autorité des Marchés Financiers and Banque de France in France, the Commissione Nazionale per le Società e la Borsa (CONSOB) in Italy and the Swiss Federal Banking Commission. Goldman Sachs entities are also regulated by the European 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, among others, regulate various of our subsidiaries in Asia and also have capital standards and other requirements comparable to the rules of the SEC.

The European Financial Groups Directive (Directive 2002/87/EC of the European Parliament and of the Council) introduced certain changes to the way in which financial conglomerates and other financial services organizations operating in Europe will be regulated, with the changes to be implemented by member states for fiscal years beginning in 2005. These changes may affect the regulation of our European subsidiaries, and may have the effect of causing activities that are currently conducted in unregulated entities to become subject to certain forms of regulation, including consolidated supervision and capital adequacy requirements.

The SEC proposed new rules in October 2003 that would establish voluntary regulatory frameworks for the supervision of broker-dealers and their affiliates on a consolidated basis and, to comply with the requirements of the European Financial Groups Directive, it is possible that we may elect to become subject to such consolidated supervision by the SEC. If we become subject to such a framework, we will be required to comply with stringent rules regarding, among others, our group-wide internal risk management control system, recordkeeping and periodic reporting, including reporting of consolidated computations of allowable capital and risk allowances consistent with the standards adopted by the Basel Committee on Banking Supervision, which standards are currently being revised.

We continue to work with our regulators to understand the impact of these changes. We cannot fully predict the practical effect that any of these actions by the European Union, the SEC and the Basel Committee will have on our business. However, these rules, to the extent they ultimately apply to our businesses, may impose additional costs, affect our decisions with respect to raising and using capital and adversely affect our business.

Regulations Applicable in and Outside the United States

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.

Compliance with the net capital requirements of U.S. and non-U.S. 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.

Our specialist businesses are subject to extensive regulation by a number of securities exchanges. The rules of these exchanges generally require our specialists to maintain orderly markets in the securities in which they are specialists. These requirements, in turn, may require us to commit significant amounts of capital to our specialist businesses. Recently, certain NYSE specialist firms, including our specialist unit, agreed in principle to a global settlement with the SEC and the NYSE to resolve investigations into their activities as NYSE specialists during the years 1999 through 2003. We discuss this global settlement in principle and the related investigations under ''Legal Proceedings — Specialist Matters'' in Item 3 of this Annual Report on Form 10-K and under ''— Certain Factors That May Affect Our Business — Legal and Regulatory.'' In addition, changes to the rules and regulations governing stock markets and the conduct of specialists on those markets, including the NYSE, may impose additional costs on us, adversely affect our specialist businesses or impair the value of our goodwill and identifiable intangible assets relating to those businesses.

The research areas of investment banks have been and remain the subject of increased regulatory scrutiny. In 2002 and 2003, acting in part pursuant to a mandate contained in the Sarbanes-Oxley Act of 2002, the SEC, the NYSE and the NASD adopted rules imposing heightened restrictions on the interaction between equity research analysts and investment banking personnel at member securities firms. Various non-U.S. jurisdictions have also changed or proposed to change their requirements with respect to research. In addition, in 2003, several leading securities firms operating in the United States, including Goldman, Sachs & Co., reached a settlement with certain federal and state securities regulators and self-regulatory organizations to resolve investigations into their equity research analysts' alleged conflicts of interest pursuant to which the firms have been subject to certain restrictions and undertakings. As part of this settlement, restrictions have been imposed on the interaction between research and investment banking departments and these securities firms are required to fund the provision of independent research to their customers.

In connection with the research settlement, the firm has also subscribed to a voluntary initiative imposing restrictions on the allocation of shares in initial public offerings to executives and directors of public companies. The FSA in the United Kingdom has recently imposed new requirements on the conduct of the allocation process in equity and fixed income securities offerings (including initial public offerings and secondary distributions). We cannot fully predict the practical effect that such restrictions or measures will have on our business, and the SEC, NYSE and NASD and non-U.S. regulators such as the FSA may adopt additional and more stringent rules with respect to offering procedures and the management of conflicts of interest in the future.

Certain Factors That May Affect Our Business

Market Conditions

As an investment banking, securities and investment management 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. Although business conditions improved somewhat in the second half of 2003, in recent years we have been operating in a very challenging environment: the number and size of equity underwritings and mergers and acquisitions transactions have declined significantly; the equities markets in the United States and elsewhere have been volatile and are at levels below their record highs; investors have

exhibited concerns over the integrity of the financial markets as a result of highly publicized financial scandals; and the attention of management of many clients has been diverted from capital-raising transactions and acquisitions and dispositions in part as a result of corporate governance regulations, such as the Sarbanes-Oxley Act of 2002, and related uncertainty in capital markets.

Adverse or uncertain economic and market conditions have in the past adversely affected, and may in the future adversely affect, our business and profitability in many ways, including the following:

- We have been committing increasing amounts of capital in many of our businesses and generally maintain large trading, specialist and investment positions. Market fluctuations and volatility may adversely affect the value of those positions, including our interest rate and credit products, currency, commodity and equity positions and our merchant banking investments, or may reduce our willingness to enter into some new transactions.
- Industry-wide declines in the size and number of equity underwritings and mergers and acquisitions may continue to have an adverse effect on our revenues and, because we may be unable to reduce expenses correspondingly, our profit margins. In particular, because a significant portion of our investment banking revenues are derived from our participation in large transactions, a decrease in the number of large transactions due to uncertain or unfavorable market conditions may adversely affect our investment banking business.
- Pricing and other competitive pressures have continued, even as the volume and number of investment banking transactions have started to increase. These pressures have been particularly intense in the context of large block trades. In addition, the trend (particularly in the equity underwriting business) toward multiple book runners and co-managers handling transactions, where previously there would have been a single book runner, may adversely affect our business and reduce our revenues.
- Reductions in the level of the equities markets also tend to reduce the value of our clients' portfolios, which in turn may reduce the fees we earn for managing assets. 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 incentive and management fees we receive.
- Concentration of risk in the past has increased the losses that we have incurred in our market-making, proprietary trading, block trading, merchant banking, underwriting and lending businesses and may continue to do so in the future. This risk may increase to the extent we expand our proprietary trading businesses or commit capital to facilitate primarily client-driven business. For example, block trades are increasingly being effected without an opportunity for Goldman Sachs to pre-market the transaction, which increases the risk Goldman Sachs may be unable to resell the purchased securities at favorable prices. Moreover, because of concentration of risk, we may suffer losses even when economic and market conditions are generally favorable for others in the industry.
- We have been operating in a low or declining interest rate market for the past several years. Increasing or high interest rates and/or widening credit spreads, especially if such changes are rapid, may create a less favorable environment for certain of our businesses.
- 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. In our specialist businesses, we are obligated by stock exchange rules to maintain an orderly market, including by purchasing shares in a declining market. This may result in trading losses and an increased need for liquidity. Further weakness in global equities

markets, the trading of securities in multiple markets and on multiple exchanges and the ongoing NYSE and SEC investigations into the stock specialist business could adversely impact our trading businesses and impair the value of our goodwill and identifiable intangible assets.

Risk Management, Liquidity and Credit

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 secured and/or unsecured debt markets, an inability to access funds from our subsidiaries, 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 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, limit our access to the capital markets 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 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 find other sources of financing or to make significant cash payments or securities movements.

The Goldman Sachs Group, Inc. is a holding company and, therefore, 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., 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 payments on obligations, including debt obligations, or dividend payments. In addition, to the extent that The Goldman Sachs Group, Inc. (or any other entity) holds equity interests in the firm's regulated or unregulated subsidiaries, its rights as an equity holder to the assets of such subsidiaries are subject to the satisfaction of the claims of the creditors of such subsidiaries.

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, as has the breadth of the entities to which we have credit exposures. As a clearing member firm, we finance our customer positions and we could be held responsible for the defaults or misconduct of our customers. In addition, we have experienced, due to competitive factors, pressure to extend credit and price more aggressively the credit risks we take. In particular, corporate clients sometimes seek to require credit commitments from us in connection with investment banking and other assignments. 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.

Operations and Infrastructure

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 or if there are other shortcomings or failures in our internal processes, people or systems, 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.

We also face the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions. Any such failure or termination could adversely affect our ability to effect transactions and manage our exposure to risk.

In addition, despite the contingency plans we have in place, 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.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code, and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize our or our clients' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

Legal and Regulatory

Substantial legal liability or significant regulatory action against Goldman Sachs could have material adverse financial effects 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 of claims and amount of damages claimed in litigation and regulatory proceedings against financial intermediaries have been increasing.

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, prohibited from engaging in some of our business activities or subject to limitations or conditions on 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.

As discussed under ''Regulation'' above, the research areas of investment banks have been and remain the subject of increased regulatory scrutiny which has led to increased restrictions on the interaction between equity research analysts and investment banking personnel at securities firms. Various non-U.S. jurisdictions have also changed or proposed changing their requirements with respect to research matters. In addition, several leading securities firms in the United States, including Goldman, Sachs & Co., have reached a global settlement with certain federal and state securities regulators and self-regulatory organizations to resolve investigations into equity research analysts' alleged conflicts of interest pursuant to which the firms have been subject to certain restrictions and undertakings. Certain of these requirements and restrictions may impose costs and limitations on the conduct of our businesses. Current or future civil lawsuits implicating investment research analysts' conflicts of interest were not settled as part of the global settlement. Goldman Sachs' total potential liability in respect of such civil cases cannot be reasonably estimated but could be material to results of operations in a given period. The global settlement also did not resolve potential charges involving individual employees, including supervisors, and regulatory investigations are continuing.

In addition, the SEC and other federal and state regulators have increased their scrutiny of complex, structured finance transactions and have brought enforcement actions against a number of financial institutions in connection with such transactions. In some of the enforcement actions, clients of the financial institutions allegedly engaged in accounting, disclosure or other violations of the securities laws, and the financial institutions allegedly facilitated these improprieties by entering into transactions with the clients. We seek to create innovative solutions to address our clients' needs, and we have entered into, and continue to enter into, structured transactions with clients. While we have policies and procedures in place that are intended to ensure that the structured transactions we enter into comply with applicable laws and regulations, it is possible that certain of these transactions could give rise to litigation or enforcement actions. It is possible that the heightened regulatory scrutiny of, and litigation in connection with, structured finance transactions will make our clients less willing to enter into these transactions, and will adversely affect our business in this area.

Recently, there have been industry-wide and other investigations by federal and state authorities concerning market timing, late trading and other activities involving mutual funds. Federal and state authorities have reportedly made informational requests regarding trading practices broadly across all of the major fund companies and broker-dealers. Goldman Sachs has received requests for information and has been fully cooperating with those authorities. While we believe that we have in place reasonable measures to detect and deter disruptive and abusive trading practices and comply with applicable legal and regulatory requirements, we cannot predict the course that the existing inquiries and areas of focus may take or the impact that any new laws or regulations governing mutual funds may have on our business.

The NYSE and the SEC have also been conducting investigations into certain trading practices of NYSE specialist firms, including our specialist unit. In February 2004, certain of these NYSE specialist firms, including our specialist unit, agreed in principle to a global settlement with the SEC and the NYSE to resolve charges that the firms violated certain federal securities laws and NYSE rules in connection with their activities as NYSE specialists during the years 1999 through 2003. The global settlement, if ultimately consummated, would involve, among others, restitution and penalties, a censure, cease and desist order and an undetermined form of undertaking. The settlement would not resolve the related civil actions discussed under ''Legal Proceedings — Specialist Matters'' in Item 3 of this Annual Report on Form 10-K, or potential regulatory charges against individuals. We cannot predict the impact that the final global

settlement, including any restrictions that may be imposed on the activities of our specialist unit, or new laws or regulations governing specialists may have on our specialist businesses. Depending on the ultimate outcome of these investigations and of the global settlement and any related developments, our specialist businesses may be adversely affected and the value of our goodwill and identifiable intangible assets related to these businesses may be impaired.

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 or prevent employee misconduct and the precautions we take to prevent and detect this activity may not be effective in all cases.

Regulatory Impact on Capital Markets

Financial scandals in recent years have led to insecurity and uncertainty in the financial markets and contributed to declines in capital markets. In response to these scandals, the Sarbanes-Oxley Act of 2002 and the rules of the SEC, the NYSE and Nasdaq necessitate significant changes to corporate governance and public disclosure. These provisions generally apply to companies with securities listed on U.S. securities exchanges, and some provisions apply to non-U.S. issuers with securities traded on U.S. securities exchanges. To the extent that private companies, in order to avoid becoming subject to these new requirements, decide to forgo initial public offerings, our equity underwriting business may be adversely affected and our ability to successfully exit some of our merchant banking investments may be adversely affected. Similarly, it is possible that the imposition of those provisions on non-U.S. issuers may make these issuers less likely to list their securities in the United States or undertake merger or acquisition transactions that would result in their securities being listed in the United States. If these measures result in less activity by non-U.S. issuers in the United States, the U.S. capital markets and our investment banking business may be adversely affected.

The provisions of Sarbanes-Oxley and the NYSE and Nasdaq corporate governance rules, coupled with existing economic uncertainty, have diverted many companies' attention away from capital market transactions, including securities offerings and acquisition and disposition transactions. It is unclear how long this uncertainty and diversion will last, but so long as it does, it will have a negative impact on our investment banking business. In addition, adopted or proposed accounting and disclosure changes, including those relating to off-balance-sheet entities, may have an adverse effect on our financial advisory and other revenues relating to structured finance transactions.

Competition and Conflicts of Interest

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 legislation, which significantly expanded the activities permissible for firms affiliated with a U.S. bank, may accelerate this consolidation and further increase competition. This trend toward consolidation and convergence has significantly increased the capital base and geographic reach of our competitors. This trend has also hastened the globalization of the securities and other financial services markets. As a result, we have had to commit capital to support our international operations and to execute large global transactions.

Our reputation is one of our most important assets. As we have expanded the scope of our business and our client base, we increasingly have to address conflicts of interest. We have extensive procedures and controls that are designed to address these issues. However,

appropriately dealing with conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with conflicts of interest.

Technology is fundamental to our overall business strategy. The growth of the Internet and electronic trading, and the introduction of new technologies, is changing our business and presenting us with new challenges. Securities, futures and options 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 and may impair the value of our goodwill and identifiable intangible assets.

Recruiting and Employee Retention

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. In addition, competition with businesses outside the financial services industry for the most highly skilled individuals has become more intense as the economic downturn has lowered average compensation within the financial services industry significantly. 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. Changes in the business environment may cause us to move employees from one business to another or to reduce the number of employees in certain businesses; this may cause temporary disruptions as our employees adapt to new roles and may reduce our ability to take advantage of improvements in the business environment. In addition, current and future laws (including laws relating to immigration and outsourcing) may restrict our ability to move responsibilities or personnel from one jurisdiction to another. This may impact our ability to take advantage of business opportunities or potential efficiencies.

Acquisitions

We expect the growth of our core businesses to come through both internal expansion and acquisitions. To the extent we make acquisitions or enter into combinations, 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.

Investments in the Power Generation Industry

We own equity interests in companies engaged in electric power generation, principally East Coast Power L.L.C. and Cogentrix Energy, Inc. As a result of these interests and future investments that we may make in the power generation industry, we face numerous risks and uncertainties.

We are a relatively new entrant to the power generation business. As a result, we have less expertise and experience in owning power generation businesses than many of our competitors. Our management has limited experience in owning and managing companies engaged in power generation and we may not be successful in owning and managing our power generation facilities. In particular, in the future we may be unable to attract and retain qualified independent contractors and employees.

The operation of power generation facilities may be disrupted. The continued operation of power generation facilities involves many risks, including the breakdown or failure of power generation equipment, transmission lines or other equipment or processes, and performance below expected levels of output or efficiency. Although our facilities contain various redundancies and back-up mechanisms, a breakdown or failure may prevent the affected facilities from performing under applicable power sales agreements or otherwise operating as planned.

We are subject to extensive and evolving energy, environmental and other governmental laws and regulations. In the past several years, intensified scrutiny of the energy market by federal, state and local authorities and the public has resulted in increased regulatory and legal proceedings involving energy companies, including those engaged in power generation. We may incur substantial costs in complying with current or future laws and regulations relating to power generation, and our overall businesses and reputation may be adversely affected by legal and regulatory proceedings arising out of our power generation business. In particular, our power generation operations are subject to extensive federal, state and local environmental laws and regulations relating to, among others, air quality, water quality, waste management, natural resources, site remediation, and health and safety. Compliance with these environmental laws and regulations may require us to commit significant capital toward environmental monitoring, installation of pollution control equipment, payment of emission fees, and application for, and holding of, permits at our facilities. Our failure to comply with environmental laws or regulations may result in the assessment of severe civil or criminal liabilities against us and the need to expend substantial additional capital for compliance or remediation. Insurance covering some of these environmental risks with respect to our power generation facilities may not be available and the proceeds from insurance recovery, if any, may not be adequate to cover our liabilities in a particular incident. As a result, our financial condition and results of operations may be adversely affected by an environmental problem at one of our facilities.

We are subject to the risk of unforeseen or catastrophic events, including terrorist attacks and other hostile or catastrophic events. We may not have insurance against these risks and, if we do have insurance, the insurance proceeds may be inadequate to cover our losses.

International Operations

In conducting our businesses and maintaining and supporting our operations 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, as well as the outbreak of hostilities. 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.

Shares Available for Sale

A significant amount of our outstanding shares of common stock are held by our former limited partners. A significant number of these shares are subject to restrictions on transfer that lapse in May 2004. In addition, significant amounts of shares are delivered to our employees as

compensation from time to time, and these shares will generally be freely saleable upon delivery. 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, as well as statements about the objectives and effectiveness of our liquidity policies, statements about trends in our businesses 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, outbreak of hostilities, 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 2009 (with options to renew for up to five 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, including approximately 1 million square feet under leases expiring in 2004. We have additional offices in the United States and elsewhere in the Americas. Together, these offices comprise approximately 2 million square feet of leased space.

We own approximately four acres of land in Jersey City, New Jersey, a portion of which we are using for the construction of an office building. This project is being developed to complement our offices in lower Manhattan. The initial phase of development is expected to include approximately 1.3 million square feet of office space, with occupancy planned in phases beginning in April 2004.

We also have offices in Europe, Asia and Africa. In Europe, we have offices that total approximately 1.9 million square feet. Our European headquarters is located in London at Peterborough Court, pursuant to a lease expiring in 2016 that covers a property in which we also

have a 50% ownership interest. In total, we lease approximately 1.5 million square feet in London through various leases, relating to various properties.

In Asia, we have offices that total approximately 1.3 million square feet. Our headquarters in this region are in Tokyo, at the Roppongi Hills Mori Tower, and in Hong Kong, at the Cheung Kong Center. In Tokyo, we currently lease 290,918 square feet through a lease that expires in 2018 and 96,961 square feet through a lease that expires in 2005 at the Roppongi Hills Mori Tower. In Hong Kong, we currently lease approximately 300,000 square feet under lease agreements, the majority of which expire in fiscal 2012.

Our occupancy expenses include costs associated with office space held in excess of our current requirements. This excess space, the cost of which is charged to earnings as incurred, is being held for potential growth or to replace currently occupied space that we may exit in the future. We continually evaluate our current and future space capacity in relation to current and projected future staffing levels. In 2003, we reduced our global office space and incurred exit costs of $153 million. We may incur additional exit costs in 2004 and thereafter to the extent we (i) further reduce our capacity or (ii) commit to new properties in the locations in which we operate and, consequently, dispose of existing space that had been held for potential growth. Such exit costs may be material to our results of operations in a given period.

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

The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. are among the numerous financial services companies that have been named as defendants in a variety of lawsuits alleging improprieties in the process by which those companies participated in the underwriting of public offerings in recent years.

Certain purported class actions have been 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 appealed, and by a decision dated December 20, 2002, the U.S. Court of Appeals for the Second Circuit affirmed the dismissal of their complaint. The plaintiffs filed a petition for review by the U.S. Supreme Court of the ruling by the U.S. Court of Appeals for the Second Circuit affirming dismissal of the complaint, and on October 6, 2003, the U.S. Supreme Court entered an order declining to hear plaintiffs' appeal from the ruling.

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 9, 2001, the federal district court granted with prejudice the defendants' motion to dismiss the claims asserted by the purchasers of securities on the ground that they lacked antitrust standing. The plaintiffs in those actions appealed, and by a decision dated December 13, 2002, the U.S. Court of Appeals for the Second Circuit vacated the dismissal on the ground that the lower court had engaged in improper fact-finding on the motion and remanded for consideration of other potential bases for dismissal. On September 28, 2001, the defendants moved to dismiss the complaints filed by the issuer plaintiffs on statute of limitations grounds. On September 25, 2002, the federal district court denied the underwriter defendants' motion to dismiss. On March 26, 2003, defendants moved to dismiss the claims asserted by both the issuers and the purchasers of securities on preemption grounds, but the motion was denied on June 27, 2003. On June 24, 2003, defendants filed a motion to dismiss the claims asserted by the purchasers of securities on standing grounds.

Goldman, Sachs & Co. 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 defendants moved to dismiss the consolidated amended complaint on May 24, 2002, the motion was granted by a decision dated November 3, 2003, and the plaintiffs have moved for reconsideration. The plaintiffs have also filed notices of appeal. Goldman, Sachs & Co. 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. On July 1, 2002, the underwriter defendants moved to dismiss those complaints. By an opinion and order dated February 19, 2003, the federal district court denied the motion to dismiss in all material respects relating to the underwriter defendants. On June 26, 2003, plaintiffs announced that they had entered into a Memorandum of Understanding regarding a proposed settlement of their claims against the issuer defendants and the issuers' present or former officers and directors named in the lawsuits.

Goldman, Sachs & Co. has been named as a defendant in an action commenced on May 15, 2002 in New York Supreme Court, New York County, by an official committee of unsecured creditors on behalf of eToys, Inc., alleging that the firm intentionally underpriced eToys, Inc.'s initial public offering. The action seeks, among other things, consequential damages resulting from the alleged lower amount of offering proceeds. On August 1, 2002, Goldman, Sachs & Co. moved to dismiss the complaint. On May 2, 2003, the court granted Goldman, Sachs & Co.'s motion to dismiss as to five of the claims; plaintiff has appealed from the dismissal of the five claims, and Goldman, Sachs & Co. has appealed from the denial of its motion as to the remaining claim.

The Goldman Sachs Group, Inc. has also been named as a defendant in a purported shareholder derivative action commenced in Delaware Court of Chancery on October 23, 2002 alleging that certain officers and directors of eBay, Inc. (who are also defendants), aided and abetted by The Goldman Sachs Group, Inc., breached their fiduciary duties and usurped corporate opportunities by receiving allocations of initial public offerings as customers of The

Goldman Sachs Group, Inc. Defendants moved to dismiss the complaint on December 23, 2002, but the motions were denied by a decision dated January 23, 2004.

The Goldman Sachs Group, Inc. has, together with other underwriters in certain offerings, received subpoenas and requests for documents and information from various governmental agencies and the U.S. House of Representatives Committee on Financial Services in connection with investigations relating to the public offering process. In particular, the SEC has been conducting an investigation of certain allocation practices employed by Goldman, Sachs & Co. and other firms, and the SEC staff has advised that it is considering recommending disciplinary charges alleging violations of the federal securities laws. Goldman Sachs is cooperating with the investigations.

Stock Options 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 federal district 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 appealed, and by a decision dated January 9, 2003, the U.S. Court of Appeals for the Second Circuit affirmed the grant of summary judgment, but held that the decision did not divest the lower court of jurisdiction to entertain the proposed settlement, and remanded for further proceedings. By an Order dated March 17, 2003, the U.S. Court of Appeals denied plaintiffs' motion for rehearing or rehearing en banc of the Court's January 9, 2003 decision.

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. By a decision dated March 25, 2002, the federal district court granted

plaintiffs' motion for class certification with respect to a class under Section 11 of the Securities Act of 1933, but denied the motion with respect to a subclass under Section 12 of the Securities Act. By a decision dated May 21, 2002, the federal district court reconsidered its March 25, 2002 decision with respect to plaintiffs' motion for class certification and determined that the class includes persons who purchased AMF stock pursuant to the initial public offering prior to February 26, 1999. On January 30, 2004, the defendants moved for summary judgment.

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. On May 13, 2002, plaintiffs filed a consolidated amended complaint alleging substantively identical claims as the original complaints. On July 15, 2002, the defendants moved to dismiss the consolidated amended complaint.

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.

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. By a decision dated May 7, 2003, the court held that the claims failed and dismissed the complaint. The plaintiffs have appealed.

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 and a rejoinder on January 14, 2003. By a decision dated December 17, 2003, the court rejected the claims against Goldman Sachs International, but found World Online liable in an amount to be determined.

Owens Corning 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 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. By a decision dated August 26, 2002, the federal district court denied the underwriter defendants' motion to dismiss.

On October 5, 2000, Owens Corning filed for protection under the U.S. bankruptcy laws.

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, including the New York State Attorney General, the Utah Attorney General, the NYSE (which has issued a joint inquiry together with the SEC and NASD), the U.S. Attorney's Office for the Southern District of New York, and the U.S. House of Representatives Committee on Financial Services. Goldman Sachs is cooperating with the requests.

On April 28, 2003, a final global settlement relating to investment research analysts' alleged conflicts of interest and involving various of the leading securities firms operating in the United States, including The Goldman Sachs Group, Inc.'s U.S. broker-dealer subsidiary Goldman, Sachs & Co., was announced. In that connection, without admitting or denying the allegations, findings or conclusions by various federal and state regulators, Goldman Sachs entered into consents, agreements and other definitive documentation with the SEC, the NYSE, the NASD and the Utah Division of Securities, to resolve their investigations of Goldman, Sachs & Co. relating to those matters. Pursuant to the final arrangements, Goldman, Sachs & Co. agreed, among other things, to (i) pay an aggregate of $25 million as penalties, (ii) pay an aggregate of $25 million as disgorgement of commissions and other monies, (iii) contribute an aggregate of $50 million over five years to provide independent third-party research to clients, (iv) contribute an aggregate of $10 million over five years for investor education, (v) adopt various additional policies, systems, procedures and other safeguards to ensure further the integrity of Goldman, Sachs & Co. investment research and (vi) be permanently restrained and enjoined from violating certain rules of the NYSE and the NASD relating to investment research activities. In connection with the global settlement, Goldman, Sachs & Co. also subscribed to a voluntary initiative imposing restrictions on the allocation of shares in initial public offerings to executives and directors of public companies. In connection with effectuation of the global settlement, in a civil action brought by the SEC in the U.S. District Court for the Southern District of New York against the settling firms, including Goldman, Sachs & Co., on October 31, 2003, the court entered a final judgment imposing the permanent restraint and injunction. In addition, Goldman, Sachs & Co. has entered into 50 separate settlement stipulations with states and certain U.S. territories and expects to reach similar arrangements with most or all of the remaining states, the District of Columbia and the Commonwealth of Puerto Rico. Current or future civil lawsuits implicating investment research analysts' conflicts of interest were not settled as part of the global settlement. The global settlement also did not resolve potential charges involving individual employees, including supervisors, and regulatory investigations are continuing.

Goldman, Sachs & Co. is one of several investment firms that have been named as defendants in substantively identical purported class actions filed in the U.S. District Court for the Southern District of New York alleging violations of the federal securities laws in connection with research coverage of certain issuers and seeking compensatory damages. In one such action, commenced on August 30, 2002 with respect to coverage of Covad Communications Company, defendants moved to dismiss the action on December 26, 2002, and on February 6, 2003, the motion was granted with leave to replead. Plaintiffs filed an amended complaint on April 9, 2003, defendants moved to dismiss the amended complaint on May 8, 2003, the motion was granted by a decision dated June 30, 2003, and plaintiffs have appealed. In a second action relating to coverage of Allied Riser Communications Corp. commenced on September 12, 2002, plaintiffs filed an amended complaint on June 5, 2003, Goldman, Sachs & Co. moved to dismiss the amended complaint on August 8, 2003, and the motion was granted by decision dated October 20, 2003. In a third action relating to coverage of RSL Communications, Inc. commenced on July 5, 2003, Goldman, Sachs & Co. moved to dismiss the complaint on January 13, 2004. Goldman, Sachs & Co. is also a defendant in several actions relating to coverage of Exodus Communications, Inc. commenced beginning in May 2003.

A purported shareholder derivative action was filed in New York Supreme Court, New York County on June 13, 2003 against The Goldman Sachs Group, Inc. and its board of directors alleging that the directors breached their fiduciary duties in connection with the firm's research activities.

The Goldman Sachs Group, Inc., Goldman, Sachs & Co. and Henry M. Paulson, Jr. have been named as defendants in a purported class action filed on July 18, 2003 in the U.S. District Court for the District of Nevada on behalf of purchasers of The Goldman Sachs Group, Inc. stock from July 1, 1999 through May 7, 2002. The complaint alleges that defendants breached their fiduciary duty and violated the federal securities laws in connection with the firm's research activities. The complaint seeks, among other things, unspecified compensatory damages and/or rescission.

On June 23, 2003, the West Virginia Attorney General filed an action against all of the settling securities firms in West Virginia Circuit Court, Marshall County, alleging violations of the West Virginia Consumer Credit and Protection Act in connection with their research activities and seeking monetary penalties. On August 25, 2003, defendants moved to dismiss the complaint and to disqualify the private law firms retained by the Attorney General in connection with the action.

Enron Litigation Matters

Goldman Sachs affiliates are defendants in certain actions arising relating to Enron Corp., which filed for protection under the U.S. bankruptcy laws on December 2, 2001.

Goldman, Sachs & Co. and co-managing underwriters have been named as defendants in certain purported securities class and individual actions commenced beginning on December 14, 2001 in the U.S. District Court for the Southern District of Texas and California Superior Court brought by purchasers of $222,500,000 of Exchangeable Notes of Enron Corp. in August 1999. The notes were mandatorily exchangeable in 2002 into shares of Enron Oil & Gas Company held by Enron Corp. or their cash equivalent. The complaints also name as defendants certain past and present officers and directors of Enron Corp. and the company's outside accounting firm. The complaints generally allege violations of the disclosure requirements of the federal securities laws and/or state law, and seek 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 Exchangeable 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. By an Order dated June 24, 2002, the Judicial Panel on Multidistrict Litigation entered an order transferring that action to the Texas federal district court for purposes of coordinated or consolidated pretrial proceedings with other matters relating to Enron Corp. On March 20, 2002, Goldman, Sachs & Co. moved to dismiss the complaint. By a decision dated December 10, 2003, the motion was granted in part and denied in part; Goldman, Sachs & Co. has sought clarification and reconsideration of the decision.

The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. have been named as defendants in two substantively identical purported class actions filed on June 5, 2003 in Oregon Circuit Court, Multnomah County, on behalf of former shareholders of Portland General Corporation. The complaints generally allege that defendants breached their fiduciary duties in connection with Portland General's 1997 merger with Enron Corp., in respect of which Goldman, Sachs & Co. acted as financial advisor to Portland General. The defendants also include Arthur Andersen, LLP, Andersen-U.S., and certain former officers and directors of Portland General. The complaints seek unspecified compensatory damages. In July 2003, defendants removed the actions to the U.S. District Court for the District of Oregon, and the actions have been transferred by the Judicial Panel on Multidistrict Litigation to the U.S. District Court for the Southern District of Texas for coordinated proceedings with other actions relating to Enron Corp.

On September 26, 2003, Enron North America Corp. commenced an adversary proceeding in the U.S. Bankruptcy Court for the Southern District of New York against Goldman Sachs Capital Markets, L.P., The Goldman Sachs Group, Inc. and The Goldman Sachs Group, L.P. seeking to recover approximately $45 million and other unspecified damages in connection with the early termination in late 2001 of an agreement for the trading of over-the-counter derivatives between Enron North America Corp. and Goldman Sachs Capital Markets, L.P., whose obligations under the agreement were allegedly guaranteed by The Goldman Sachs Group, Inc. and its predecessor, The Goldman Sachs Group, L.P.

Goldman, Sachs & Co. is among numerous defendants in two substantively identical actions filed in the U.S. Bankruptcy Court for the Southern District of New York beginning in November 2003 seeking to recover as fraudulent transfers and/or preferences payments made by Enron Corp. in repurchasing its commercial paper shortly before its bankruptcy filing. Goldman, Sachs & Co., which had acted as a commercial paper dealer for Enron Corp., resold to Enron Corp. approximately $30 million of commercial paper as principal, and as an agent facilitated Enron Corp.'s repurchase of additional commercial paper from various customers who have also been named as defendants. Goldman, Sachs & Co. moved to dismiss the complaints on February 19, 2004.

Exodus Securities Litigation

By an amended complaint dated July 11, 2002, Goldman, Sachs & Co. and the other lead underwriters for the February 2001 offering of 13,000,000 shares of common stock and $575,000,000 of 5¼% convertible subordinated notes of Exodus Communications, Inc. were added as defendants in a purported class action pending in the U.S. District Court for the Northern District of California. The complaint, which also names as defendants certain officers and directors of Exodus Communications, Inc., alleges violations of the disclosure requirements of the federal securities laws and seeks compensatory damages. On October 23, 2002, the underwriter defendants moved to dismiss the complaint. By a decision dated August 19, 2003, the California district court granted the defendants' motion to dismiss with leave to replead, and the plaintiffs filed an amended complaint on January 15, 2004. Goldman, Sachs & Co. underwrote 5,200,000 shares of common stock for a total offering price of approximately $96,200,000, and $230,000,000 principal amount of the notes.

On September 26, 2001, Exodus Communications, Inc. filed for protection under the U.S. bankruptcy laws.

Montana Power Shareholders Litigation

Goldman, Sachs & Co. and The Goldman Sachs Group, Inc. have been named as defendants in a purported class action commenced against it originally on October 1, 2001 in Montana District Court, Second Judicial District on behalf of shareholders of Montana Power Company. The complaint generally alleges that Montana Power Company violated Montana law by failing to procure shareholder approval of certain corporate strategies and transactions, that the company's board breached its fiduciary duties in pursuing those strategies and transactions, and that Goldman, Sachs & Co. rendered negligent advice as well as aided and abetted the board's breaches in its role as financial advisor to the company. The complaint seeks, among other things, compensatory damages. In addition to Goldman, Sachs & Co. and The Goldman Sachs Group, Inc., the defendants include Montana Power Company, certain of its officers and directors, an outside law firm for the Montana Power Company, and certain companies that purchased assets from Montana Power Company. The Montana state court denied motions to dismiss by a decision dated August 1, 2002. On July 18, 2003, following the bankruptcies of certain defendants in the action, defendants removed the action to federal court. On August 7, 2003, plaintiffs moved to remand the action to the state court, but on October 3, 2003, plaintiffs entered into a stipulation pursuant to which plaintiffs withdrew their motion to remand with prejudice and agreed not to contest the jurisdiction of the federal court. By a stipulation dated December 9, 2003, the action has been stayed until April 12, 2004.

WorldCom Bondholders Litigation

Goldman, Sachs & Co. and other underwriters of WorldCom, Inc. bonds have been named as defendants in certain purported securities class and individual actions commenced beginning on July 19, 2002 alleging that the offering materials issued in connection with certain securities offerings were false and misleading. Certain of the lawsuits (some of which were originally filed in various state courts and removed to federal court) have been transferred by order of the Judicial Panel on Multidistrict Litigation to the U.S. District Court for the Southern District of New York, and similar requests for transfer are pending in other actions. Goldman, Sachs & Co. underwrote $75,000,000 principal amount of 8% notes due 2006 in a May 24, 2000 offering out of a total principal amount of $1,250,000,000 of the notes. Among the defendants in these actions in addition to the underwriters are WorldCom, Inc., certain of WorldCom, Inc.'s present or former officers and/or directors, and/or WorldCom, Inc.'s outside accounting firm. Each of these actions seeks, among other things, compensatory damages. The district court denied the underwriter defendants' motion to dismiss by a decision dated May 19, 2003 and granted plaintiffs' motion for class certification by an order dated October 24, 2003.

On July 21, 2002, WorldCom, Inc. filed for protection under the U.S. bankruptcy laws.

Global Crossing and Asia Global Crossing Securities Litigation

The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. have been named as defendants in a consolidated class action lawsuit in the U.S. District Court for the Southern District of New York relating to various securities offerings by the Global Crossing, Ltd. and Asia Global Crossing Ltd. in which Goldman, Sachs & Co. acted as an underwriter. The claims had originally been asserted in separate actions, reflected in an amended complaint filed on January 28, 2003 as to the Global Crossing, Ltd. and in a complaint filed on November 8, 2002 as to Asia Global Crossing Ltd., but the claims were consolidated into a single amended complaint on August 11, 2003. The consolidated action includes claims relating to the Global Crossing, Ltd.'s concurrent April 2000 offerings of 43 million shares of common stock at $33 per share and 4.6 million shares (including the overallotment) of 6$^{3}/_{4}$% cumulative preferred stock at

$250 per share, as well as Asia Global Crossing Ltd.'s October 2000 initial public offering of 68,500,000 shares (including the overallotment) of common stock at a price of $7 per share. Goldman, Sachs & Co. acted as a co-lead underwriter of both Global Crossing, Ltd. offerings, underwriting 12.9 million shares of common stock and 1,840,000 shares of convertible preferred stock. Goldman, Sachs & Co. underwrote 20,670,000 shares of common stock in the Asia Global Crossing Ltd. offering for a total offering price of approximately $145 million. The claims assert violations of the disclosure requirements of the federal securities laws as to such offerings and seek compensatory and/or rescissory damages. The defendants as to such claims include certain officers and directors of the Global Crossing, Ltd. and Asia Global Crossing Ltd., the lead and other underwriters in the offerings, and the company's former outside auditors. On April 21, 2003, the underwriter defendants as to the Global Crossing, Ltd. offerings moved to dismiss the claims relating to such offerings; the motion was denied in significant part by a decision dated December 18, 2003. On October 10, 2003, the underwriter defendants as to the Asia Global Crossing Ltd. offering moved to dismiss the claims relating to that offering.

The Goldman Sachs Group, Inc. is among numerous defendants named in an adversary proceeding commenced in the U.S. Bankruptcy Court for the Southern District of New York on February 6, 2004 by the Global Crossing, Ltd., as the Liquidating Trustee of the Global Crossing Liquidating Trust. The complaint names as defendants various former officers and directors of the Global Crossing, Ltd., the company's former outside accountants, and various financial services firms that allegedly performed services for the Global Crossing, Ltd. from time to time. With respect to its claims against the financial services defendants, the complaint alleges that such defendants received fraudulent conveyances or preferential transfers in respect of their services, and otherwise aided and abetted misconduct by the former officers and directors thereby contributing to unspecified damage to the Global Crossing, Ltd.

The Global Crossing, Ltd. filed for protection under the U.S. bankruptcy laws on January 28, 2002, and Asia Global Crossing Corp. filed for such protection on November 17, 2002.

Adelphia Communications Fraudulent Conveyance Litigation

Goldman, Sachs & Co. is among numerous entities named as defendants in an adversary proceeding commenced in the U.S. Bankruptcy Court for the Southern District of New York on July 6, 2003 by a creditors' committee of Adelphia Communications, Inc. The complaint seeks, among other things, to recover, as fraudulent conveyances, payments made by Adelphia Communications, Inc. and its affiliates to certain brokerage firms, including approximately $62.9 million allegedly paid to Goldman, Sachs & Co., in respect of margin calls made in the ordinary course of business on accounts owned by members of the family that formerly controlled Adelphia Communications, Inc.

Specialist Matters

Spear, Leeds & Kellogg Specialists LLC and certain affiliates have received requests for information from the SEC and the NYSE as part of an industry-wide investigation relating to the activities of NYSE floor specialists in recent years. Goldman Sachs is cooperating with the requests. On February 17, 2004, Spear, Leeds & Kellogg Specialists LLC and certain other specialist firms agreed in principle to a global settlement with the SEC and the NYSE to resolve charges that the firms violated certain federal securities laws and NYSE rules in connection with their activities as NYSE specialists during the years 1999 through 2003. The settlement, which would involve no admission or denial of wrongdoing, is subject to, among other things, approval by the SEC and the NYSE as well as negotiation of definitive documentation, and if consummated will involve relief ordered as part of an administrative proceeding that is expected to include restitution and penalties for Spear, Leeds & Kellogg Specialists LLC totaling approximately $45.5 million, a censure, cease and desist order, and an undetermined form of undertaking. The settlement would not resolve the related civil actions discussed below (although a significant

portion of the payment is expected to be committed to restitution for allegedly injured investors), or potential regulatory charges against individuals.

Spear, Leeds & Kellogg Specialists LLC, Spear, Leeds & Kellogg, L.P. and The Goldman Sachs Group, Inc. are among numerous defendants named in purported class actions brought on behalf of investors beginning in October 2003 in the U.S. District Court for the Southern District of New York alleging violations of the federal securities laws in connection with NYSE floor specialist activities. The actions seek unspecified compensatory damages, restitution, and disgorgement on behalf of purchasers and sellers of unspecified securities between October 17, 1998 and October 15, 2003. Spear, Leeds & Kellogg Specialists LLC and The Goldman Sachs Group, Inc. are also among the defendants in a purported class action filed in December 2003 in California Superior Court, Los Angeles County alleging violation of California law in connection with the same conduct.

Treasury Proceeding

On September 4, 2003, the SEC announced that Goldman, Sachs & Co. had settled an administrative proceeding arising from certain trading in U.S. Treasury bonds over an approximately eight-minute period after Goldman, Sachs & Co. received an October 31, 2001 telephone call from a Washington, D.C.-based political consultant concerning a forthcoming Treasury refunding announcement. The administrative complaint alleged that Goldman, Sachs & Co. (i) violated Section 15(c)(1) and Rule 15c1-2 of the Securities Exchange Act of 1934 as a result of the trading; and (ii) violated Section 15(f) of the Securities Exchange Act of 1934 by failing to maintain policies and procedures specifically addressed to the possible misuse of information obtained by consultants from confidential government sources. Without admitting or denying the allegations, Goldman, Sachs & Co. consented to the entry of an order that, among other things, (i) censured Goldman, Sachs & Co.; (ii) directed Goldman, Sachs & Co. to cease and desist from committing or causing any violations of Section 15(c)(1)(A) & (C) and 15(f) of, and Rule 15c1-2 under, the Securities Exchange Act of 1934; (iii) ordered Goldman, Sachs & Co. to pay disgorgement and prejudgment interest in the amount of $1,742,642, and a civil monetary penalty of $5 million; and (iv) directed Goldman, Sachs & Co. to conduct a review of its policies and procedures and adopt, implement and maintain policies and procedures consistent with the order and that review. Goldman, Sachs & Co. also undertook to pay $2,562,740 in disgorgement and interest relating to certain trading in U.S. Treasury bond futures during the same eight-minute period.

Mutual Fund Investigations

Goldman, Sachs & Co. and certain mutual fund affiliates have received subpoenas and requests for information from various regulators including the SEC as part of the industry-wide investigation relating to the practices of mutual funds and their customers. Goldman, Sachs & Co. and its affiliates are cooperating with such requests.

Corporate Bond Mark-Up Investigation

On December 23, 2003, in connection with an industry-wide investigation relating to corporate bond transactions, the NASD advised that its staff had preliminarily determined that Goldman, Sachs & Co. and certain of its employees had charged undisclosed mark-up or mark-downs on five specific transactions during the years 2000 and 2001 that exceeded permissible levels, in violation of certain NASD rules and the federal securities laws. Goldman, Sachs & Co. has cooperated with the investigation.

Item 4. *Submission of Matters 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 28, 2003.

EXECUTIVE OFFICERS OF THE GOLDMAN SACHS GROUP, INC.

Set forth below are the name, age, present title, principal occupation, and certain biographical information for our executive officers as of February 13, 2004, all of whom have been appointed by and serve at the pleasure of our board of directors.

Henry M. Paulson, Jr., 57

Mr. Paulson has been our Chairman and Chief Executive Officer 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 not on the board of any public company other than Goldman Sachs. He is affiliated with certain non-profit organizations, including as a member of the Board of Directors of Catalyst. He also serves on the Advisory Board of the J.L. Kellogg Graduate School of Management at Northwestern University and is a member of the Board of the Dean's Advisors of the Harvard Business School. Mr. Paulson is a member of the Advisory Board of the Tsinghua University School of Economics and Management and a member of the Governing Board of the Indian School of Business. He is also Chairman of the Board of Governors of The Nature Conservancy, Co-Chairman of the Asia/Pacific Council of The Nature Conservancy and a member of the Board of Directors of The Peregrine Fund, Inc.

Lloyd C. Blankfein, 49

Mr. Blankfein has been our President and Chief Operating Officer since January 15, 2004, and has been a director since April 2003. Prior to serving as our President and Chief Operating Officer, since April 2002 he was a Vice Chairman, with shared management responsibility for the Fixed Income, Currency and Commodities Division (FICC) and the Equities Division. Prior to becoming Vice Chairman, he had been Co-Head of FICC since its formation in 1997. From 1994 until then, he headed or co-headed the J. Aron Currency and Commodities Division. Mr. Blankfein is not on the board of any public company other than Goldman Sachs. He is affiliated with certain non-profit organizations, including as Co-Chair of the Harvard University Financial Aid Task Force, as a member of the Executive Committee of the Harvard University Committee on University Resources and as a member of the Board of Directors of The Robin Hood Foundation.

Alan M. Cohen, 53

Mr. Cohen has been our Executive Vice President and Global Head of Compliance since February 2004. From 1991 until January 2004, he was a partner in the law firm of O'Melveny & Myers LLP. Mr. Cohen is also affiliated with the Chelsea Piers Scholarship Fund, a non-profit organization.

Edward C. Forst, 43

Mr. Forst has been our Executive Vice President and Chief Administrative Officer since February 13, 2004. Prior to that, he was our Chief of Staff for FICC from November 2003 to February 2004 (after having served in that position earlier from July 2000 to March 2002), our Chief of Staff for the Equities Division from August 2003 to February 2004, and Co-Head of Global Credit Markets in FICC from March 2002 to August 2003. Prior to July 2000, Mr. Forst served as Co-Head of our Global Bank Debt business. Mr. Forst also serves as Vice Chairman of the Board of Directors and as a member of the Executive Committee of The Bond Market Association and as a corporation member of the Woods Hole Oceanographic Institution, a non-profit organization.

Robert S. Kaplan, 46

Mr. Kaplan has been our Vice Chairman since April 2002. He served as global Co-Head of the Investment Banking Division from 1999 through April 2002 and was Co-Chief Operating Officer of global Investment Banking from 1998 to 1999. He became Head of the Americas Corporate Finance Department in 1994. Previously, he had been Head of Asia-Pacific Investment Banking from 1990 through 1993. Mr. Kaplan is a Director of Bed Bath & Beyond Inc., which is a public company. In addition, he is affiliated with certain non-profit organizations, including as Co-Chairman of the Board of The TEAK Fellowship, Co-Chairman of the Board of Project A.L.S. and a Director of The Jewish Theological Seminary, Everybody Wins, Inc. and The Jewish Museum.

Kevin W. Kennedy, 55

Mr. Kennedy has been our Executive Vice President — Human Capital Management since December 2001. From 1999 until 2001, he served as a member of the Executive Office. From 1994 to 1999, he served as Head of the Americas Group, in the Investment Banking Division, and, from 1988 to 1994, as Head of Corporate Finance. Mr. Kennedy is a life trustee and a former Chairman of the Board of Hamilton College, a Managing Director and Vice President of the Board of the Metropolitan Opera, a trustee of the New York Public Library, a member of the Board of Directors of the Wallace Foundation and an honorary trustee of the Chewonki Foundation.

Gregory K. Palm, 55

Mr. Palm has been our General Counsel and Executive Vice President and Head or Co-Head of the Legal Department since May 1999. He was General Counsel of The Goldman Sachs Group, L.P. and Co-Head of the Legal Department from 1992 to May 1999.

Esta E. Stecher, 46

Ms. Stecher has been our General Counsel and Executive Vice President and Co-Head of the Legal Department since December 2000. From 1994 to 2000, she was Head of the firm's Tax Department, and she continues to have senior oversight responsibility for the Tax Department. She is also a trustee of Columbia University.

David A. Viniar, 48

Mr. Viniar has been our Chief Financial Officer and Executive Vice President since May 1999. He has been the Head of the Operations, Technology and Finance Division since December 2002. He was Head of the Finance Division and Co-Head of Credit Risk Management and Advisory and Firmwide Risk December 2001 to December 2002. Mr. Viniar 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, he was Head of Treasury and prior to that was in the Structured Finance Department of Investment Banking. He also serves on the Board of Trustees of Union College.

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

The principal market on which our common stock is traded is the NYSE. Information relating to the high and low sales prices per share on the NYSE for each full quarterly period during fiscal 2002 and 2003 is set forth under the caption ''Supplemental Financial Information — Common Stock Price Range'' on page 102 of the 2003 Annual Report to Shareholders, which is incorporated herein by reference. As of February 2, 2004, there were 6,038 holders of record of our common stock.

During fiscal 2002 and 2003, dividends of $0.12 per share of common stock were declared on December 19, 2001, March 18, 2002, June 19, 2002, September 23, 2002, December 18, 2002 and March 19, 2003, and dividends of $0.25 per share of common stock were declared on June 24, 2003 and September 23, 2003. The holders of our 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.

The table below sets forth the information with respect to purchases made by or on behalf of The Goldman Sachs Group, Inc. or any ''affiliated purchaser'' (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the fourth quarter of our fiscal year ended November 28, 2003.

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs(2)
Month #1 ..... (August 30, 2003 to September 26, 2003)	149,300	$86.00	149,300	9,779,153
Month #2 ..... (September 27, 2003 to October 31, 2003)	1,200,700	$87.59	1,200,700	8,578,453
Month #3 ..... (November 1, 2003 to November 28, 2003)	0	N/A	0	8,578,453
Total(3)	1,350,000	$87.41	1,350,000	

(1) No shares were purchased other than through our publicly announced repurchase program during the fourth quarter of our fiscal year ended November 28, 2003.

(2) On March 21, 2000, we announced that our board of directors had approved a share repurchase program, pursuant to which up to 15 million shares of our common stock may be repurchased. This repurchase program was increased by an aggregate of 60 million shares by resolutions of our board of directors adopted on June 18, 2001, March 18, 2002, November 20, 2002 and January 30, 2004. 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 20.28 million shares as of February 2, 2004; the repurchase program has no set expiration or termination date.

(3) As a matter of policy, Goldman Sachs did not repurchase, during the third month of the fourth quarter, shares of its common stock as part of the repurchase program due to a standard self-imposed ''black-out'' period prior to the release of its quarterly earnings.

Information relating to compensation plans under which equity securities of the Registrant are authorized for issuance is set forth under Part III, Item 12 of this Form 10-K and such information is incorporated herein by reference.

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

The Selected Financial Data table is set forth on page 103 of the 2003 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 32 to 66 of the 2003 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 54 to 64 of the 2003 Annual Report to Shareholders under the caption ''Management's Discussion and Analysis — Risk Management'' and on pages 80 to 84 of such Annual Report in Note 3 to the consolidated financial statements, and is incorporated herein by reference.

Item 8. ***Financial Statements and Supplementary Data***

The consolidated financial statements of the Registrant and its subsidiaries, together with the notes thereto and the Report of Independent Auditors thereon, are contained in the 2003 Annual Report to Shareholders on pages 67 to 100, and are incorporated herein by reference. In addition, the information on page 101 of the 2003 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.

Item 9A. ***Controls and Procedures***

As of the end of the period covered by this report, an evaluation was carried out by Goldman Sachs' management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fourth quarter of our fiscal year ended

November 28, 2003 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

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

Information relating to the Registrant's executive officers is included on pages 37 to 38 of this Annual Report on Form 10-K. Information relating to directors of the Registrant, including its audit committee and audit committee financial experts, is set forth under the caption ''Election of Directors'' on pages 5 to 9 of the Proxy Statement for its 2004 Annual Meeting of Shareholders to be held on March 31, 2004 (the ''2004 Proxy Statement'') and such information is incorporated herein by reference. Also incorporated herein by reference is the information under the caption ''Other Matters — Section 16(a) Beneficial Ownership Reporting Compliance'' on pages 30 to 31 of the 2004 Proxy Statement. Information relating to the Registrant's Code of Business Conduct and Ethics that applies to its senior financial officers, as defined in the Code, is included on page 2 of this Annual Report on Form 10-K.

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'' and ''— Fiscal Year-End Option Holdings'' on pages 10 to 15 of the 2004 Proxy Statement and all such information is incorporated herein by reference.

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

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 pages 27 to 28 of the 2004 Proxy Statement and information relating to the security ownership of the Registrant's management is set forth under the caption ''Beneficial Ownership of Directors, Nominees and Executive Officers'' on pages 26 to 27 of the 2004 Proxy Statement and all such information is incorporated herein by reference.

The following table provides information as of November 28, 2003, the last day of fiscal 2003, regarding securities issued under our equity compensation plans that were in effect during fiscal 2003, including those granted on December 17, 2003 for fiscal 2003 performance.

Plan Category		Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the Second Column)
Equity compensation plans approved by security holders	The Goldman Sachs Amended and Restated Stock Incentive Plan(1)	89,152,100(2)	$75.4575(2)	284,290,366(3)(4)
Equity compensation plans not approved by security holders	None	—	—	—
Total		89,152,100(2)	—	284,290,366(3)(4)

(1) The Goldman Sachs Amended and Restated Stock Incentive Plan (the ''SIP'') was approved by the shareholders of Goldman Sachs at our 2003 Annual Meeting of Shareholders and is a successor plan to The Goldman Sachs 1999 Stock Incentive Plan, which was approved by our shareholders immediately prior to our initial public offering in May 1999 and under which no additional awards will be granted.

(2) The number of securities to be issued upon exercise of outstanding options, warrants and rights, as well as the weighted-average exercise price of the outstanding options, warrants and rights, excludes approximately 240,000 options granted with a strike price of $0.01 or less in foreign jurisdictions that were intended to replicate the economic effect of our restricted stock units.

(3) The total number of shares of common stock that may be delivered pursuant to awards granted under the SIP initially may not exceed 250,000,000 shares. Beginning November 29, 2008 and each fiscal year thereafter, the number of shares of common stock that may be delivered pursuant to awards granted after April 1, 2003 under the SIP 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 then covered by awards granted in such years.

(4) Of the 284,290,366 shares remaining available for future issuance under the SIP (including shares that may be delivered in the future under existing awards), 47,498,349 of these shares may be issued pursuant to outstanding restricted stock units.

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

Information regarding certain relationships and related transactions is set forth under the caption ''Certain Relationships and Related Transactions'' on page 28 of the 2004 Proxy Statement and all such information is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services***

Information regarding principal accountant fees and services is set forth under the caption ''Ratification of Selection of Independent Auditors — Fees Paid to Independent Auditors'' on page 29 of the 2004 Proxy Statement and all such information is incorporated herein by reference.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules, 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 2003 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-11 hereof.

3. Exhibits

   2.1 Plan of Incorporation.*

   3.1 Amended and Restated Certificate of Incorporation of The Goldman Sachs Group, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's registration statement on Form S-1 (No. 333-75213)).

   3.2 Amended and Restated By-Laws of The Goldman Sachs Group, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended August 29, 2003).

   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).

   4.2 Subordinated Debt Indenture, dated as of February 20, 2004, between The Goldman Sachs Group, Inc. and The Bank of New York, as trustee.

   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 The Goldman Sachs Amended and Restated Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended February 28, 2003).†

   10.2 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)).†

   10.3 The Goldman Sachs Restricted Partner Compensation Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended February 28, 2003).†

   10.4 Form of Employment Agreement (incorporated by reference to Exhibit 10.19 to the Registrant's registration statement on Form S-1 (No. 333-75213)).†

   10.5 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)).†

   10.6 Form of Pledge Agreement (incorporated by reference to Exhibit 10.21 to the Registrant's registration statement on Form S-1 (No. 333-75213)).†

10.7 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)).

10.8 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)).†

10.9 Form of 2003 Year-End Option Award Agreement.†

10.10 Form of 2003 Year-End RSU Award Agreement.†

10.11 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)).

10.12 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).

10.13 Instrument of Indemnification (incorporated by reference to Exhibit 10.27 to the Registrant's registration statement on Form S-1 (No. 333-75213)).

10.14 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).

10.15 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)).

10.16 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).

10.17 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).

10.18 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).

10.19 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).

10.20 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).

10.21 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).

10.22 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).†

10.23 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).†

10.24 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).

10.25 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)).

10.26 Supplemental Registration Rights Instrument, dated as of December 20, 2002 (incorporated by reference to Exhibit 4.4 to Registrant's registration statement on Form S-3 (No. 333-101093)).

10.27 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).†

10.28 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).†

10.29 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).†

10.30 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).†

10.31 Letter, dated December 18, 2002, from The Goldman Sachs Group, Inc. to Mr. William W. George (incorporated by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 29, 2002).†

10.32 Letter, dated June 20, 2003, from The Goldman Sachs Group, Inc. to Mr. Claes Dahlbäck (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended May 30, 2003).†

10.33 Letter, dated June 20, 2003, from The Goldman Sachs Group, Inc. to Mr. Edward M. Liddy (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended May 30, 2003).†

10.34 Supplemental Registration Rights Instrument, dated as of December 19, 2003 (incorporated by reference to Exhibit 4.4 to the Registrant's registration statement on Form S-3 (No. 333-110371)).

12.1 Statement re computation of ratios of earnings to fixed charges.

13 The following portions of the Registrant's 2003 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 32 to 66).

13.2 Consolidated Financial Statements of the Registrant and its subsidiaries, together with the Notes thereto and the Report of Independent Accountants thereon (pages 67 to 100).

13.3 ''Supplemental Financial Information — Quarterly Results'' and ''— Common Stock Price Range'' (pages 101 and 102).

13.4 Selected Financial Data (page 103).

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).

31.1 Rule 13a-14(a) Certifications.

32.1 Section 1350 Certifications.

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).

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

(b) Reports on Form 8-K:

On September 23, 2003, we filed a Current Report on Form 8-K reporting our earnings for our fiscal third quarter ended August 29, 2003.

On December 12, 2003, we filed a Current Report on Form 8-K announcing certain changes to our business segment reporting structure.

On December 18, 2003, we filed a Current Report on Form 8-K reporting our earnings for our fiscal fourth quarter and fiscal year ended November 28, 2003.

On December 19, 2003, we filed a Current Report on Form 8-K announcing certain management changes.

THE GOLDMAN SACHS GROUP, INC.
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ITEMS 15(a)(1) AND 15(a)(2)

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

(i)	Management's Discussion and Analysis;	32 to 66
(ii)	Supplemental Financial Information — Quarterly Results;	101
(iii)	Supplemental Financial Information — Common Stock Price Range; and	102
(iv)	Supplemental Financial Information — Selected Financial Data.	103

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 2003 Annual Report to Shareholders, which information is incorporated herein by reference.

REPORT OF INDEPENDENT AUDITORS

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 26, 2004 appearing in the 2003 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 26, 2004

SCHEDULE I

THE GOLDMAN SACHS GROUP, INC.

CONDENSED STATEMENTS OF EARNINGS (PARENT COMPANY ONLY)

	Year Ended November		
	2003	2002	2001
	(in millions)		
Revenues			
Equity in earnings of subsidiaries	$3,571	$2,754	$3,820
Principal investments	466	2	(124)
Interest income	2,181	2,135	3,785
Total revenues	6,218	4,891	7,481
Interest expense	2,154	2,131	3,882
Revenues, net of interest expense	4,064	2,760	3,599
Operating expenses			
Compensation and benefits	226	118	167
Other	2	115	120
Total operating expenses	228	233	287
Pre-tax earnings	3,836	2,527	3,312
Provision for taxes	831	413	1,002
Net earnings	$3,005	$2,114	$2,310

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)

	As of November	
	2003	2002
	(in millions, except share and per share amounts)	
Assets		
Cash and cash equivalents	$ 1	$ 1
Financial instruments owned, at fair value	6,702	5,089
Receivables from affiliates	68,925	56,026
Subordinated loan receivables from affiliates	16,784	13,312
Investments in subsidiaries	20,625	17,930
Other assets	2,133	2,875
Total assets	$115,170	$95,233
Liabilities and shareholders' equity		
Short-term borrowings, including the current portion of long-term borrowings	$ 37,870	$35,001
Payables to affiliates	2,545	2,294
Other liabilities and accrued expenses	1,073	968
Long-term borrowings		
With third parties	49,087	35,123
With affiliates	2,963	2,844
Total liabilities	93,538	76,230
Commitments, contingencies and guarantees		
Shareholders' equity		
Preferred stock, par value $0.01 per share; 150,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, par value $0.01 per share; 4,000,000,000 shares authorized, 527,371,946 and 515,084,810 shares issued as of November 2003 and November 2002, respectively, and 473,014,926 and 472,940,724 shares outstanding as of November 2003 and November 2002, respectively	5	5
Restricted stock units and employee stock options	2,984	3,517
Nonvoting common stock, par value $0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding	—	—
Additional paid-in capital	13,562	12,750
Retained earnings	9,914	7,259
Unearned compensation	(339)	(845)
Accumulated other comprehensive income/(loss)	6	(122)
Treasury stock, at cost, par value $0.01 per share; 54,357,020 and 42,144,086 shares as of November 2003 and November 2002, respectively	(4,500)	(3,561)
Total shareholders' equity	21,632	19,003
Total liabilities and shareholders' equity	$115,170	$95,233

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		
	2003	2002	2001
	(in millions)		
Cash flows from operating activities			
Net earnings	$ 3,005	$ 2,114	$ 2,310
Noncash items included in net earnings			
Undistributed earnings of subsidiaries	(1,323)	(118)	(1,246)
Depreciation and amortization	99	97	90
Deferred income taxes	225	52	490
Stock-based compensation	67	31	23
Other, net	(17)	(14)	(9)
Changes in operating assets and liabilities			
Financial instruments owned, at fair value	(2,126)	938	879
Other, net	318	(928)	34
Net cash provided by operating activities	248	2,172	2,571
Cash flows from investing activities			
Receivables from affiliates, net	(12,025)	(6,568)	(3,547)
Subordinated loan receivables from affiliates	(3,472)	(1,200)	294
Investment in subsidiaries, net	(165)	(774)	(456)
Property, leasehold improvements and equipment	(8)	(44)	(134)
Business combinations	(740)	(68)	(314)
Other investments	339	(1,165)	(1,391)
Net cash used for investing activities	(16,071)	(9,819)	(5,548)
Cash flows from financing activities			
Short-term borrowings, net	164	4,332	3,957
Issuance of long-term borrowings	22,168	13,616	6,315
Repayment of long-term borrowings, including the current portion of long-term borrowings	(5,363)	(8,657)	(5,631)
Common stock repurchased	(939)	(1,475)	(1,438)
Dividends paid	(350)	(228)	(231)
Proceeds from issuance of common stock	143	60	5
Net cash provided by financing activities	15,823	7,648	2,977
Net increase/(decrease) in cash and cash equivalents	—	1	—
Cash and cash equivalents, beginning of year	1	—	—
Cash and cash equivalents, end of year	$ 1	$ 1	$ —

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest were $1.97 billion, $2.21 billion and $3.84 billion for the years ended November 2003, November 2002 and November 2001, respectively.

Cash payments for income taxes, net of refunds, were $324 million, $546 million and $545 million for the years ended November 2003, November 2002 and November 2001, respectively.

Noncash activities:

The value of common stock issued in connection with business combinations was $165 million, $47 million and $223 million for the years ended November 2003, November 2002 and November 2001, respectively.

Stock-based compensation expense included in subsidiary net earnings was $644 million, $609 million and $766 million for the years ended November 2003, November 2002 and November 2001, respectively.

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

SCHEDULE I

THE GOLDMAN SACHS GROUP, INC.

NOTES TO CONDENSED NONCONSOLIDATED FINANCIAL STATEMENTS (PARENT COMPANY ONLY)

Note 1. Significant Accounting Policies

Basis of Presentation

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

Investments in subsidiaries are accounted for using the equity method.

These condensed nonconsolidated financial statements have been prepared in accordance with generally accepted accounting principles that require management to make estimates and assumptions regarding fair value measurement, accounting for goodwill and identifiable intangible assets, the provision for potential losses that may arise from litigations and regulatory proceedings and other matters that affect the condensed nonconsolidated financial statements and related disclosures. These estimates and assumptions are based on the best available information; nonetheless, actual results could be materially different from these estimates.

Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

Affiliate Transactions

Most of the consolidated unsecured liquidity of the firm is raised by the parent company. 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.

In addition, the parent company charges certain affiliates for rental and other costs relating to properties occupied by those affiliates.

Interest income is largely generated from loans made to affiliates.

Note 2. Long-Term Borrowings

Long-term borrowings with third parties are set forth below:

	As of November	
	2003	2002
	(in millions)	
Fixed rate obligations(1)		
U.S. dollar	$26,647	$18,104
Non-U.S. dollar	8,303	4,124
Floating rate obligations(2)		
U.S. dollar	8,776	9,768
Non-U.S. dollar	5,361	3,127
Total	$49,087	$35,123

(1) During 2003 and 2002, interest rates on U.S. dollar fixed rate obligations ranged from 4.13% to 12.00% and from 5.50% to 12.00%, respectively. During 2003 and 2002, interest rates on non-U.S. dollar fixed rate obligations ranged from 0.70% to 8.88% and from 1.20% 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.

Long-term borrowings with third parties by fiscal maturity date are set forth below:

	As of November					
	2003(1)(2)(3)			2002(2)		
	U.S. Dollar	Non-U.S. Dollar	Total	U.S. Dollar	Non-U.S. Dollar	Total
	(in millions)					
2004	$ —	$ —	$ —	$ 6,801	$ 158	$ 6,959
2005	6,765	3,438	10,203	4,803	2,725	7,528
2006	4,471	1,580	6,051	1,349	883	2,232
2007	843	557	1,400	899	566	1,465
2008	2,881	2,236	5,117	222	355	577
2009-thereafter	20,463	5,853	26,316	13,797	2,565	16,362
Total	$35,423	$13,664	$49,087	$27,871	$7,252	$35,123

(1) Long-term borrowings maturing within one year and certain long-term borrowings that may be redeemable within one year at the option of the holder are included as ''short-term borrowings'' in the condensed non-consolidated statements of financial condition.

(2) Long-term borrowings repayable at the option of the parent company are reflected at their contractual maturity dates. Certain long-term borrowings that may be redeemable prior to

maturity at the option of the holder are reflected at the date such options first become exercisable.

(3) Long-term borrowings have maturities that range from one to 30 years from the date of issue.

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

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

	As of November			
	2003		2002	
	Amount	Rate	Amount	Rate
	($ in millions)			
Fixed rate obligations	$ 637	10.99%	$ 692	10.85%
Floating rate obligations	48,450	1.73	34,431	2.23
Total	$49,087	1.85	$35,123	2.40

Long-term borrowings with affiliates are set forth below:

	As of November	
	2003	2002
	(in millions)	
Fixed rate obligations(1)		
U.S. dollar	$ 682	$ 682
Non-U.S. dollar	485	366
Floating rate obligations(2)		
U.S. dollar	1,796	1,796
Non-U.S. dollar	—	—
Total	$2,963	$2,844

(1) During 2003 and 2002, the interest rate on U.S. dollar fixed rate obligations was 5.78%. During 2003 and 2002, interest rates on non-U.S. dollar fixed rate obligations ranged from 3.35% to 6.00%.

(2) Floating interest rates generally are based on LIBOR.

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

	As of November					
	2003(1)			2002		
	U.S. Dollar	Non-U.S. Dollar	Total	U.S. Dollar	Non-U.S. Dollar	Total
	(in millions)					
2004	$ —	$ —	$ —	$ —	$ —	$ —
2005	—	—	—	—	—	—
2006	297	—	297	297	—	297
2007	—	44	44	—	—	—
2008	—	173	173	—	144	144
2009-thereafter	2,181	268	2,449	2,181	222	2,403
Total	$2,478	$485	$2,963	$2,478	$366	$2,844

(1) Long-term borrowings with affiliates have maturities that range from three to eight years from the date of issue.

Note 3. Commitments, Contingencies and Guarantees

Commitments

The parent company 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 $119 million and $164 million as of November 2003 and November 2002, respectively.

The parent company 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 parent company had commitments to invest up to $1.30 billion and $1.33 billion in corporate and real estate merchant banking investment funds as of November 2003 and November 2002, respectively.

The parent company had other purchase commitments of $5 million and $7 million as of November 2003 and November 2002, respectively.

The parent company has obligations under long-term noncancelable lease agreements, principally for office space occupied by affiliates, expiring on various dates through 2029. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and

other charges. Future minimum rental payments, which are generally reimbursed by affiliates, are set forth below:

	(in millions)
Minimum rental payments	
2004	$ 135
2005	87
2006	89
2007	90
2008	92
2009-thereafter	911
Total	$1,404

Contingencies

The parent company 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 parent company's operating results for any particular period, depending, in part, upon the operating results for such period.

Guarantees

The parent company guarantees many of the obligations of its consolidated subsidiaries including its largest operating entities in Europe and Asia and many of its primary derivatives and commodities trading entities as well as certain other subsidiaries. The parent company typically does not guarantee all of the obligations of any particular subsidiary; rather, it guarantees obligations on a transaction-by-transaction basis, as negotiated with the counterparty. The parent company typically does not issue guarantees of the obligations of its U.S. broker-dealer subsidiaries, although the parent company is the general partner of Goldman, Sachs & Co. The parent company is unable to develop an estimate of the maximum payout under these guarantees. However, because the guaranteed obligations are obligations of consolidated subsidiaries, the parent company's liabilities as guarantor are included in the liabilities of the firm that are already reported and disclosed in the consolidated financial statements.

The following table sets forth certain information about guarantees issued by the parent company in respect of non-consolidated affiliates and third parties as of November 2003:

	Maximum Payout by Period of Expiration(1)					
	Carrying Value	2004	2005-2006	2007-2008	2009-Thereafter	Total
			(in millions)			
Fund related commitments	$—	$44	$20	$ 2	$ 2	$ 68
Miscellaneous	80	59	18	—	68	145

(1) Such amounts do not represent the anticipated losses in connection with these contracts.

In the normal course of its business, the parent company indemnifies and guarantees certain service providers, such as custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the parent company or its affiliates. The parent company also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including subcustodians and third-party brokers, improperly execute transactions. The parent company is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the parent company will have to make material payments under these arrangements, and no liabilities related to these guarantees and indemnifications have been recognized in the condensed non-consolidated financial statement as of November 2003.

The parent company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The parent company may also provide indemnifications protecting against changes in or adverse application of certain U.S. tax laws in connection with ordinary-course transactions such as securities issuances, borrowings or derivatives. In addition, the parent company may provide indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or an adverse application of certain non-U.S. tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. Generally, there are no stated or notional amounts included in these indemnifications, and the contingencies triggering the obligation to indemnify are not expected to occur. The parent company is unable to develop an estimate of the maximum payout under these guarantees. However, management believes that it is unlikely the parent company will have to make material payments under these arrangements, and no liabilities related to these arrangements have been recognized in the condensed non-consolidated financial statements as of November 2003.

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 24, 2004

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Henry M. Paulson, Jr., Lloyd C. Blankfein, David A. Viniar, Gregory K. Palm 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 by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Capacity	Date
/s/ Henry M. Paulson, Jr. Henry M. Paulson, Jr.	Director, Chairman and Chief Executive Officer (Principal Executive Officer)	February 24, 2004
/s/ Lloyd C. Blankfein Lloyd C. Blankfein	Director	February 24, 2004
/s/ Lord Browne of Madingley Lord Browne of Madingley	Director	February 24, 2004
/s/ John H. Bryan John H. Bryan	Director	February 24, 2004
/s/ Claes Dahlbäck Claes Dahlbäck	Director	February 24, 2004
/s/ William W. George William W. George	Director	February 24, 2004
/s/ James A. Johnson James A. Johnson	Director	February 24, 2004
/s/ Edward M. Liddy Edward M. Liddy	Director	February 24, 2004
/s/ Ruth J. Simmons Ruth J. Simmons	Director	February 24, 2004
/s/ David A. Viniar David A. Viniar	Chief Financial Officer (Principal Financial Officer)	February 24, 2004
/s/ Sarah E. Smith Sarah E. Smith	Principal Accounting Officer	February 24, 2004

EXHIBIT 4.2

THE GOLDMAN SACHS GROUP, INC.

to

THE BANK OF NEW YORK
Trustee

SUBORDINATED DEBT INDENTURE

Dated as of February 20, 2004

THE GOLDMAN SACHS GROUP, INC.

Certain Sections of this Indenture relating to
Sections 310 through 318, inclusive, of the
Trust Indenture Act of 1939:

Trust Indenture Act Section		Indenture Section
Section 310	(a)(1)	
	(a)(2)	609
	(a)(3)	Not Applicable
	(a)(4)	Not Applicable
Section 311	(a)	613
	(b)	613
Section 312	(a)	701 702
	(b)	702
	(c)	702
Section 313	(a)	703
	(b)	703
	(c)	703
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Section 314	(a)	704
	(a)(4)	101
	(b)	Not Applicable
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	(c)(3)	Not Applicable
	(d)	Not Applicable
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	(a)(1)(B)	513
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	(c)	104
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	(a)(2)	504
	(b)	1003
Section 318	(a)	107

Note: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

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Note: This table of contents shall not, for any purpose, be deemed to be a part of the Indenture.

SUBORDINATED DEBT INDENTURE, dated as of February 20, 2004, between The Goldman Sachs Group, Inc., a corporation duly organized and existing under the laws of the State of Delaware (herein called the "*Company*"), having its principal office at 85 Broad Street, New York, New York 10004 and The Bank of New York, a New York banking corporation, as Trustee (herein called the "*Trustee*").

Recitals of the Company

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured debentures, notes or other evidences of indebtedness (herein called the "*Securities*"), to be issued in one or more series as in this Indenture provided.

All things necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been done.

Now, Therefore, This Indenture Witnesseth:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually agreed, for the equal and proportionate benefit of all Holders of the Securities or of series thereof, as follows:

ARTICLE I

Definitions and Other Provisions of General Application

SECTION 101. *Definitions.*

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles;

(4) unless the context otherwise requires, any reference to an "*Article*" or a "*Section*" refers to an Article or a Section, as the case may be, of this Indenture;

(5) the words "*herein*", "*hereof*" and "*hereunder*" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision; and

(6) when used with respect to any Security, the words "*convert*", "*converted*" and "*conversion*" are intended to refer to the right of the Holder or the Company to convert or exchange such Security into or for securities or other property in accordance with such terms, if any, as may hereafter be specified for such Security as contemplated by Section 301, and these words are not intended to refer to any right of the Holder or the Company to exchange such Security for other Securities of the same series and like tenor pursuant to Section 304, 305, 306, 906 or 1107 or another similar provision of this Indenture, unless the context otherwise requires; and references herein to the terms of any Security that may be converted mean such terms as may be specified for such Security as contemplated in Section 301.

"*Act*", when used with respect to any Holder, has the meaning specified in Section 104.

"*Affiliate*" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "*control*" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "*controlling*" and "*controlled*" have meanings correlative to the foregoing.

"*Applicable Procedures*" of a Depositary means, with respect to any matter at any time, the policies and procedures of such Depositary, if any, that are applicable to such matter at such time.

"*Board of Directors*" means either the board of directors of the Company or any duly authorized committee of that board.

"*Board Resolution*" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"*Business Day*", when used with respect to any Place of Payment, means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in that Place of Payment are authorized or obligated by law or executive order to close; *provided* that, when used with respect to any Security, "Business Day" may have such other meaning, if any, as may be specified for such Security as contemplated by Section 301.

"*Commission*" means the Securities and Exchange Commission, from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"*Company*" means the Person named as the "Company" in the first paragraph of this instrument until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor Person.

"*Company Request*" or "*Company Order*" means a written request or order signed in the name of the Company by any two of the following: a Chairman of the Board, a Vice Chairman of the Board, a President, a Vice President, a Treasurer, an Assistant Treasurer, its Secretary or an Assistant Secretary of the Company, or any other officer or officers of the Company designated in writing by or pursuant to authority of the Board of Directors and delivered to the Trustee from time to time.

"*Corporate Trust Office*" means the principal office of the Trustee in New York, New York at which at any particular time its corporate trust business shall be administered, which at the date hereof is located at 101 Barclay Street, Floor 21 West, New York, New York 10286.

"*corporation*" means a corporation, association, company (including a limited liability company), joint-stock company, business trust or other similar entity.

"*Covenant Defeasance*" has the meaning specified in Section 1303.

"*Defaulted Interest*" has the meaning specified in Section 307.

"*Defeasance*" has the meaning specified in Section 1302.

"*Depositary*" means, with respect to Securities of any series issuable in whole or in part in the form of one or more Global Securities, a clearing agency that is designated to act as Depositary for such Securities as contemplated by Section 301.

"*Event of Default*" has the meaning specified in Section 501.

"*Exchange Act*" means the Securities Exchange Act of 1934 and any statute successor thereto, in each case as amended from time to time.

"*Expiration Date*" has the meaning specified in Section 104.

"*Global Security*" means a Security that evidences all or part of the Securities of any series and bears the legend set forth in Section 204 (or such legend as may be specified as contemplated by Section 301 for such Securities).

"*Holder*" means a Person in whose name a Security is registered in the Security Register.

"*Indenture*" means this instrument as originally executed and as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, including, for all purposes of this instrument and any such supplemental indenture, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this instrument and any such supplemental indenture, respectively. The term "Indenture" shall also include the terms of particular series of Securities established as contemplated by Section 301.

"*interest*", when used with respect to an Original Issue Discount Security which by its terms bears interest only after Maturity, means interest payable after Maturity.

"*Interest Payment Date*", when used with respect to any Security, means the Stated Maturity of an instalment of interest on such Security.

"*Investment Company Act*" means the Investment Company Act of 1940 and any statute successor thereto, in each case as amended from time to time.

"*Maturity*", when used with respect to any Security, means the date on which the principal of such Security or an instalment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"*Notice of Default*" means a written notice of the kind specified in Section 501(4).

"*Officers' Certificate*" means a certificate signed by any two of the following: a Chairman of the Board, a Vice Chairman of the Board, a President, a Vice President, a Treasurer, an Assistant Treasurer, a Secretary or an Assistant Secretary of the Company, or any other officer or officers of the Company designated in a writing by or pursuant to authority of the Board of Directors and delivered to the Trustee from time to time. One of the officers signing an Officers' Certificate given pursuant to Section 1004 shall be the principal executive, financial or accounting officer of the Company.

"*Opinion of Counsel*" means a written opinion of counsel, who may be counsel for the Company, and who shall be acceptable to the Trustee.

"*Original Issue Discount Security*" means any Security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502.

"*Outstanding*", when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

(1) Securities theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(2) Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities; provided that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made;

(3) Securities as to which Defeasance has been effected pursuant to Section 1302;

(4) Securities which have been paid pursuant to Section 306 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company; and

(5) Securities as to which any property deliverable upon conversion thereof has been delivered (or such delivery has been duly provided for), or as to which any other particular conditions have been satisfied, in each case as may be provided for such Securities as contemplated in Section 301;

provided, *however*, that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have given, made or taken any request, demand, authorization, direction, notice, consent, waiver or other action hereunder as of any date, (A) the principal amount of an Original Issue Discount Security which shall be deemed to be Outstanding shall be the amount of the principal thereof which would be due and payable as of such date upon acceleration of the Maturity thereof to such date pursuant to Section 502, (B) if, as of such date, the principal amount payable at the Stated Maturity of a Security is not determinable, the principal amount of such Security which shall be deemed to be Outstanding shall be the amount as specified or determined as contemplated by

Section 301, (C) the principal amount of a Security denominated in one or more foreign currencies, composite currencies or currency units which shall be deemed to be Outstanding shall be the U.S. dollar equivalent, determined as of such date in the manner provided as contemplated by Section 301, of the principal amount of such Security (or, in the case of a Security described in Clause (A) or (B) above, of the amount determined as provided in such Clause), and (D) Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, waiver or other action, only Securities which a Responsible Officer of the Trustee actually knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

"*Paying Agent*" means any Person authorized by the Company to pay the principal of or any premium or interest on any Securities on behalf of the Company.

"*Person*" means any individual, corporation, partnership, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"*Place of Payment*", when used with respect to the Securities of any series and subject to Section 1002, means the place or places where the principal of and any premium and interest on the Securities of that series are payable as specified as contemplated by Section 301.

"*Predecessor Security*" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"*Redemption Date*", when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"*Redemption Price*", when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"*Regular Record Date*" for the interest payable on any Interest Payment Date on the Securities of any series means the date specified for that purpose as contemplated by Section 301.

"*Responsible Officer*", when used with respect to the Trustee, means any vice president, any assistant secretary, any assistant treasurer, any trust officer, any assistant trust officer or any other officer of the Trustee, in each case, located in the Corporate Trust Office of the Trustee, and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"*Securities*" has the meaning stated in the first recital of this Indenture and more particularly means any Securities authenticated and delivered under this Indenture.

"*Securities Act*" means the Securities Act of 1933 and any statute successor thereto, in each case as amended from time to time.

"*Security Register*" and "*Security Registrar*" have the respective meanings specified in Section 305.

"*Senior Debt*" means all indebtedness and obligations (other than the Securities) of, or guaranteed or assumed by, the Company that are for borrowed money or are evidenced by bonds, debentures, notes or other similar instruments, whether outstanding on the date of this Indenture or thereafter created, incurred, assumed or guaranteed, and all amendments, renewals, extensions, modifications and refundings of such indebtedness and obligations, unless in any such case the instrument by which such indebtedness or obligations are created, incurred, assumed or guaranteed by the Company, or are evidenced, provides that they are subordinate, or are not superior, in right of payment to the Securities.

"*Special Record Date*" for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 307.

"*Stated Maturity*", when used with respect to any Security or any instalment of principal thereof or interest thereon, means the date specified in such Security as the fixed date on which the principal of such Security or such instalment of principal or interest is due and payable.

"*Subsidiary*" means any Person a majority of the combined voting power of the total outstanding ownership interests in which is, at the time of determination, beneficially owned or held, directly or indirectly, by the Company or one or more other Subsidiaries. For this purpose, "voting power" means power to vote in an ordinary election of directors (or, in the case of a Person that is not a corporation, ordinarily to appoint or approve the appointment of Persons holding

similar positions), whether at all times or only as long as no senior class of ownership interests has such voting power by reason of any contingency.

"*Trust Indenture Act*" means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed; *provided*, *however*, that in the event the Trust Indenture Act of 1939 is amended after such date, "Trust Indenture Act" means, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

"*Trustee*" means the Person named as the "Trustee" in the first paragraph of this instrument until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean or include each Person who is then a Trustee hereunder, and if at any time there is more than one such Person, "Trustee" as used with respect to the Securities of any series shall mean the Trustee with respect to Securities of that series.

"*U.S. Government Obligation*" has the meaning specified in Section 1304.

"*Vice President*", when used with respect to the Company or the Trustee, means any vice president, whether or not designated by a number or a word or words added before or after the title "vice president".

SECTION 102. *Compliance Certificates and Opinions.*

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee such certificates and opinions as may be required under the Trust Indenture Act; provided, however, that no such opinion shall be required in connection with the issuance of Securities of any Series. Each such certificate or opinion shall be given in the form of an Officers' Certificate, if to be given by an officer of the Company, or an Opinion of Counsel, if to be given by counsel, and shall comply with the requirements of the Trust Indenture Act and any other requirements set forth in this Indenture.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include,

(1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an

informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

SECTION 103. *Form of Documents Delivered to Trustee.*

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or opinion of, or representation by, counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

SECTION 104. *Acts of Holders; Record Dates.*

Any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Indenture to be given, made or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 601) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

The ownership of Securities shall be proved by the Security Register.

Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

The Company may set any day as a record date for the purpose of determining the Holders of Outstanding Securities of any series entitled to give, make or take any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Indenture to be given, made or taken by Holders of Securities of such series, *provided* that the Company may not set a record date for, and the provisions of this paragraph shall not apply with respect to, the giving or making of any notice, declaration, request or direction referred to in the next paragraph. If any record date is set pursuant to this paragraph, the Holders of Outstanding Securities of the relevant series on such record date, and no other Holders, shall be entitled to take the relevant action, whether or not such Holders remain Holders after such record date; *provided* that no such action shall be effective hereunder unless taken on or prior to the applicable Expiration Date by Holders of the requisite principal amount of Outstanding Securities of such series on such record date. Nothing in this paragraph shall be construed to prevent the Company from setting a new record date for any action for which a record date has previously been set pursuant to this paragraph (whereupon the record date previously set shall automatically and with no action by any Person be canceled and of no effect), and nothing in this paragraph shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Securities of the relevant series on the date such action is taken. Promptly after any record date is set pursuant to this paragraph, the Company, at its own expense, shall cause notice of such record date, the proposed action by Holders and the applicable Expiration Date to be given to the Trustee in writing and to each Holder of Securities of the relevant series in the manner set forth in Section 106.

The Trustee may set any day as a record date for the purpose of determining the Holders of Outstanding Securities of any series entitled to join in the giving or making of (i) any Notice of Default, (ii) any declaration of acceleration referred to in Section 502,

(iii) any request to institute proceedings referred to in Section 507(2) or (iv) any direction referred to in Section 512, in each case with respect to Securities of such series. If any record date is set pursuant to this paragraph, the Holders of Outstanding Securities of such series on such record date, and no other Holders, shall be entitled to join in such notice, declaration, request or direction, whether or not such Holders remain Holders after such record date; *provided* that no such action shall be effective hereunder unless taken on or prior to the applicable Expiration Date by Holders of the requisite principal amount of Outstanding Securities of such series on such record date. Nothing in this paragraph shall be construed to prevent the Trustee from setting a new record date for any action for which a record date has previously been set pursuant to this paragraph (whereupon the record date previously set shall automatically and with no action by any Person be canceled and of no effect), and nothing in this paragraph shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Securities of the relevant series on the date such action is taken. Promptly after any record date is set pursuant to this paragraph, the Trustee, at the Company's expense, shall cause notice of such record date, the proposed action by Holders and the applicable Expiration Date to be given to the Company in writing and to each Holder of Securities of the relevant series in the manner set forth in Section 106.

With respect to any record date set pursuant to this Section, the party hereto which sets such record dates may designate any day as the "*Expiration Date*" and from time to time may change the Expiration Date to any earlier or later day; *provided* that no such change shall be effective unless notice of the proposed new Expiration Date is given to the other party hereto in writing, and to each Holder of Securities of the relevant series in the manner set forth in Section 106, on or prior to the existing Expiration Date. If an Expiration Date is not designated with respect to any record date set pursuant to this Section, the party hereto which set such record date shall be deemed to have initially designated the 180th day after such record date as the Expiration Date with respect thereto, subject to its right to change the Expiration Date as provided in this paragraph. Notwithstanding the foregoing, no Expiration Date shall be later than the 180th day after the applicable record date.

Without limiting the foregoing, a Holder entitled hereunder to take any action hereunder with regard to any particular Security may do so with regard to all or any part of the principal amount of such Security or by one or more duly appointed agents each of which may do so pursuant to such appointment with regard to all or any part of such principal amount.

SECTION 105. *Notices, Etc., to Trustee and Company.*

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with, (1) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, Attention: Corporate Trust

Trustee Administration, or (2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to it at the address of its principal office specified in the first paragraph of this instrument or at any other address previously furnished in writing to the Trustee by the Company.

SECTION 106. *Notice to Holders; Waiver.*

Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at his address as it appears in the Security Register, not later than the latest date (if any), and not earlier than the earliest date (if any), prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

Where this Indenture provides for Notice of any event to a Holder of a Global Security, such notice shall be sufficiently given if given to the Depositary for such Security (or its designee), pursuant to its Applicable Procedures, not later than the latest date (if any), and not earlier than the earliest date (if any), prescribed for the giving of such notice.

SECTION 107. *Conflict with Trust Indenture Act.*

If any provision hereof limits, qualifies or conflicts with a provision of the Trust Indenture Act which is required under such Act to be a part of and govern this Indenture, the latter provision shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Act which may be so modified or excluded, the latter provision shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

SECTION 108. *Effect of Headings and Table of Contents.*

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 109. *Successors and Assigns.*

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

SECTION 110. *Separability Clause.*

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 111. *Benefits of Indenture.*

Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, the holders of Senior Debt and the Holders, any benefit or any legal or equitable right, remedy or claim under this Indenture, except as may otherwise be provided pursuant to Section 301 with respect to any Securities of a particular series or under this Indenture with respect to such Securities.

SECTION 112. *Governing Law.*

This Indenture and the Securities shall be governed by and construed in accordance with the law of the State of New York.

SECTION 113. *Legal Holidays.*

In any case where any Interest Payment Date, Redemption Date or Maturity of any Security, or any date on which a Holder has the right to convert his Security, shall not be a Business Day at any Place of Payment, then (notwithstanding any other provision of this Indenture or of the Securities (other than a provision of any Security which specifically states that such provision shall apply in lieu of this Section)) payment of interest or principal (and premium, if any), or conversion of such Security need not be made at such Place of Payment on such date, but may be made on the next succeeding Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date or Redemption Date, or at the Maturity, or on such date for conversion, as the case may be.

ARTICLE II

Security Forms

SECTION 201. *Forms Generally.*

The Securities of each series shall be in substantially the form set forth in this Article, or in such other form as shall be established by or pursuant to a Board Resolution or in one or more indentures supplemental hereto, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or Depositary therefor or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution thereof. If the form of Securities of any series is established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Company Order contemplated by Section 303 for the authentication and delivery of such Securities.

The definitive Securities shall be printed, lithographed or engraved on steel engraved borders or may be produced in any other manner, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

SECTION 202. *Form of Face of Security.*

[Insert any legend required by the Internal Revenue Code and the regulations thereunder.]

The Goldman Sachs Group, Inc.

No. $

The Goldman Sachs Group, Inc., a corporation duly organized and existing under the laws of the State of Delaware (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to , or registered assigns, the principal sum of Dollars on [if the Security is to bear interest prior to Maturity, insert — , and to pay interest thereon from or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on and in each year, commencing , and at the Maturity thereof, at the rate of % per annum, until the principal hereof is paid or made available for payment [if applicable, insert — , *provided* that any principal and premium, and any such instalment of interest, which is overdue shall bear interest at the

rate of % per annum (to the extent that the payment of such interest shall be legally enforceable), from the dates such amounts are due until they are paid or made available for payment, and such interest shall be payable on demand]. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the or (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest so payable, but not punctually paid or duly provided for, on any Interest Payment Date will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid in any other lawful manner not inconsistent with the requirements of any securities exchange on which this Security may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture].

[If the Security is not to bear interest prior to Maturity, insert — The principal of this Security shall not bear interest except in the case of a default in payment of principal upon acceleration, upon redemption or at Stated Maturity and in such case the overdue principal and any overdue premium shall bear interest at the rate of % per annum (to the extent that the payment of such interest shall be legally enforceable), from the dates such amounts are due until they are paid or made available for payment. Interest on any overdue principal or premium shall be payable on demand.]

Payment of the principal of (and premium, if any) and [if applicable, insert — any such] interest on this Security will be made at the office or agency of the Company maintained for that purpose in New York, New York, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts, against surrender of this Security in the case of any payment due at the Maturity of the principal thereof (other than any payment of interest that first becomes payable on a day other than an Interest Payment Date); *provided*, *however*, that at the option of the Company, payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register; and *provided*, *further*, that if this Security is a Global Security, payment may be made pursuant to the Applicable Procedures of the Depositary as permitted in said Indenture.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

The Goldman Sachs Group, Inc.

By: _____

Name:
Title:

Attest:

SECTION 203. *Form of Reverse of Security.*

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under a Subordinated Debt Indenture, dated as of February 20, 2004 (herein called the "Indenture", which term shall have the meaning assigned to it in such instrument), between the Company and The Bank of New York, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee, the holders of Senior Debt and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof [if applicable, insert — , limited in aggregate principal amount to $].

[If applicable, insert — The Securities of this series are subject to redemption upon not less than 30 days' nor more than 60 days' notice, at any time [if applicable, insert — on or after , 20], as a whole or in part, at the election of the Company, at the following Redemption Prices (expressed as percentages of the principal amount): If redeemed [if applicable, insert — on or before , %, and if redeemed] during the 12-month period beginning of the years indicated,

Year	Redemption Price	Year	Redemption Price

and thereafter at a Redemption Price equal to % of the principal amount, together in the case of any such redemption with accrued interest to the Redemption Date, but interest instalments whose Stated Maturity is on or prior to such Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of

record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.]

[If the Security is subject to redemption of any kind, insert — In the event of redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.]

The indebtedness evidenced by this Security is, to the extent provided in the Indenture, subordinate and subject in right of payment to the prior payment in full of all Senior Debt, and this Security is issued subject to the provisions of the Indenture with respect thereto. Each Holder of this Security, by accepting the same, (a) agrees to and shall be bound by such provisions, (b) authorizes and directs the Trustee on his or her behalf to take such actions as may be necessary or appropriate to effectuate the subordination so provided and (c) appoints the Trustee his or her attorney-in-fact for any and all such purposes. Each Holder hereof, by his or her acceptance hereof, waives all notice of the acceptance of the subordination provisions contained herein and in the Indenture by each holder of Senior Debt, whether now outstanding or hereafter created, incurred, assumed or guaranteed, and waives reliance by each such holder upon said provisions.

[If applicable, insert — The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security or certain restrictive covenants and Events of Default with respect to this Security, in each case upon compliance with certain conditions set forth in the Indenture.]

[If the Security is not an Original Issue Discount Security, insert — If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.]

[If the Security is an Original Issue Discount Security, insert — If an Event of Default with respect to Securities of this series shall occur and be continuing, an amount of principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture. Such amount shall be equal to — insert formula for determining the amount. Upon payment (i) of the amount of principal so declared due and payable and (ii) of interest on any overdue principal, premium and interest (in each case to the extent that the payment of such interest shall be legally enforceable), all of the Company's obligations in respect of the payment of the principal of and premium and interest, if any, on the Securities of this series shall terminate.]

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Securities at the time Outstanding of all series to be

affected (considered together as one class for this purpose). The Indenture also contains provisions (i) permitting the Holders of a majority in principal amount of the Securities at the time Outstanding of all series to be affected under the Indenture (considered together as one class for this purpose), on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and (ii) permitting the Holders of a majority in principal amount of the Securities at the time Outstanding of any series to be affected under the Indenture (with each such series considered separately for this purpose), on behalf of the Holders of all Securities of such series, to waive certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture, or for the appointment of a receiver or trustee, or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 25% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee indemnity reasonably satisfactory to it, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of $1,000 and any multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

This Security is a Global Security and is subject to the provisions of the Indenture relating to Global Securities, including the limitations in Section 305 thereof on transfers and exchanges of Global Securities.

This Security and the Indenture shall be governed by and construed in accordance with the laws of the State of New York.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

SECTION 204. *Form of Legend for Global Securities.*

Unless otherwise specified as contemplated by Section 301 for the Securities evidenced thereby, every Global Security authenticated and delivered hereunder shall bear a legend in substantially the following form:

THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF. THIS SECURITY MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A SECURITY REGISTERED, AND NO TRANSFER OF THIS SECURITY IN WHOLE OR IN PART MAY BE REGISTERED, IN THE NAME OF ANY PERSON OTHER THAN SUCH DEPOSITARY OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

SECTION 205. *Form of Trustee's Certificate of Authentication.*

The Trustee's certificates of authentication shall be in substantially the following form:

This is one of the Securities of the series designated herein and referred to in the within-mentioned Indenture.

Dated:

The Bank of New York, as Trustee

By: _____

Authorized Signatory

ARTICLE III

The Securities

SECTION 301. *Amount Unlimited; Issuable in Series.*

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series. There shall be established in or pursuant to a Board Resolution and, subject to Section 303, set forth, or determined in the manner provided, in an Officers' Certificate, or established in one or more indentures supplemental hereto, prior to the issuance of Securities of any series,

(1) the title of the Securities of the series (which shall distinguish the Securities of the series from Securities of any other series);

(2) any limit upon the aggregate principal amount of the Securities of the series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of the series pursuant to Section 304, 305, 306, 906 or 1107 and except for any Securities which, pursuant to Section 303, are deemed never to have been authenticated and delivered hereunder);

(3) the Person to whom any interest on a Security of the series shall be payable, if other than the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest;

(4) the date or dates on which the principal of any Securities of the series is payable;

(5) the rate or rates at which any Securities of the series shall bear interest, if any, the date or dates from which any such interest shall accrue, the Interest Payment Dates on which any such interest shall be payable and the Regular Record Date for any such interest payable on any Interest Payment Date;

(6) the place or places where the principal of and any premium and interest on any Securities of the series shall be payable and the manner in which any payment may be made;

(7) the period or periods within which, the price or prices at which and the terms and conditions upon which any Securities of the series may be redeemed, in whole or in part, at the option of the Company and, if other than by a Board Resolution, the manner in which any election by the Company to redeem the Securities shall be evidenced;

(8) the obligation, if any, of the Company to redeem or purchase any Securities of the series pursuant to any sinking fund or analogous provisions or at the option of the Holder thereof and the period or periods within which, the price or prices at which and the terms and conditions upon which any Securities of the series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;

(9) if other than denominations of $1,000 and any multiple thereof, the denominations in which any Securities of the series shall be issuable;

(10) if the amount of principal of or any premium or interest on any Securities of the series may be determined with reference to an index or pursuant to a formula, the manner in which such amounts shall be determined;

(11) if other than the currency of the United States of America, the currency, currencies, composite currency, composite currencies or currency units in which the principal of or any premium or interest on any Securities of the series shall be payable and the manner of determining the equivalent thereof in the currency of the United States of America for any purpose, including for the purposes of making payment in the currency of the United States of America and applying the definition of “Outstanding” in Section 101;

(12) if the principal of or any premium or interest on any Securities of the series is to be payable, at the election of the Company or the Holder thereof, in one or more currencies, composite currencies or currency units other than that or those in which such Securities are stated to be payable, the currency, currencies, composite currency, composite currencies or currency units in which the principal of or any premium or interest on such Securities as to which such election is made

shall be payable, the periods within which and the terms and conditions upon which such election is to be made and the amount so payable (or the manner in which such amount shall be determined);

(13) if other than the entire principal amount thereof, the portion of the principal amount of any Securities of the series which shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 502;

(14) if the principal amount payable at the Stated Maturity of any Securities of the series will not be determinable as of any one or more dates prior to the Stated Maturity, the amount which shall be deemed to be the principal amount of such Securities as of any such date for any purpose thereunder or hereunder, including the principal amount thereof which shall be due and payable upon any Maturity other than the Stated Maturity or which shall be deemed to be Outstanding as of any date prior to the Stated Maturity (or, in any such case, the manner in which such amount deemed to be the principal amount shall be determined);

(15) if applicable, that the Securities of the series, in whole or any specified part, shall be defeasible pursuant to Section 1302 or Section 1303 or both such Sections, any provisions to permit a pledge of obligations other than U.S. Government Obligations (or the establishment of other arrangements) to satisfy the requirements of Section 1304(1) for defeasance of such Securities and, if other than by a Board Resolution, the manner in which any election by the Company to defease such Securities shall be evidenced;

(16) if applicable, that any Securities of the series shall be issuable in whole or in part in the form of one or more Global Securities and, in such case, the respective Depositaries for such Global Securities, the form of any legend or legends which shall be borne by any such Global Security in addition to or in lieu of that set forth in Section 204, any addition to, elimination of or other change in the circumstances set forth in Clause (2) of the last paragraph of Section 305 in which any such Global Security may be exchanged in whole or in part for Securities registered, and any transfer of such Global Security in whole or in part may be registered, in the name or names of Persons other than the Depositary for such Global Security or a nominee thereof and any other provisions governing exchanges or transfers of any such Global Security;

(17) any addition to, elimination of or other change in the Events of Default which applies to any Securities of the series and any change in the right of the Trustee or the requisite Holders of such Securities to declare the principal amount thereof due and payable pursuant to Section 502;

(18) any addition to, elimination of or other change in the covenants set forth in Article Ten which applies to Securities of the series;

(19) any provisions necessary to permit or facilitate the issuance, payment or conversion of any Securities of the series that may be converted into securities or other property other than Securities of the same series and of like tenor, whether in addition to, or in lieu of, any payment of principal or other amount and whether at the option of the Company or otherwise;

(20) if applicable, that Persons other than those specified in Section 111 shall have such benefits, rights, remedies and claims with respect to any Securities of the series or under this Indenture with respect to such Securities, as and to the extent provided for such Securities; and

(21) any other terms of the series (which terms shall not be inconsistent with the provisions of this Indenture, except as permitted by Section 901(5)).

All Securities of any one series shall be substantially identical except as to denomination and except as may otherwise be provided in or pursuant to the Board Resolution referred to above and (subject to Section 303) set forth, or determined in the manner provided, in the Officers' Certificate referred to above or in any such indenture supplemental hereto.

If any of the terms of the series are established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Officers' Certificate setting forth the terms of the series.

The Securities shall be subordinated in right of payment to Senior Debt as provided in Article Fourteen.

SECTION 302. *Denominations.*

The Securities of each series shall be issuable only in registered form without coupons and only in such denominations as shall be specified as contemplated by Section 301. In the absence of any such specified denomination with respect to the Securities of any series, the Securities of such series shall be issuable in denominations of $1,000 and any multiple thereof.

SECTION 303. *Execution, Authentication, Delivery and Dating.*

The Securities shall be executed on behalf of the Company by a Chairman of the Board, a Vice Chairman of the Board, a President or a Vice President of the Company (or any other officer of the Company designated in writing by or pursuant to authority of the Board of Directors and delivered to the Trustee from time to time), under its corporate seal reproduced thereon attested by a Secretary or Assistant Secretary of the Company. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities, and the Trustee in accordance with the Company Order shall authenticate and deliver such Securities. If the form or terms of the Securities of the series have been established by or pursuant to one or more Board Resolutions as permitted by Sections 201 and 301, in authenticating such Securities, and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating,

(1) if the form of such Securities has been established by or pursuant to Board Resolution as permitted by Section 201, that such form has been established in conformity with the provisions of this Indenture;

(2) if the terms of such Securities have been established by or pursuant to Board Resolution as permitted by Section 301, that such terms have been established in conformity with the provisions of this Indenture; and

(3) that such Securities, when authenticated and delivered by the Trustee and issued by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute valid and legally binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

If such form or terms have been so established, the Trustee shall not be required to authenticate such Securities if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee.

Notwithstanding the provisions of Section 301 and of the preceding paragraph, if all Securities of a series are not to be originally issued at one time, it shall not be necessary to deliver the Officers' Certificate otherwise required pursuant to Section 301 or the Company Order and Opinion of Counsel otherwise required pursuant to such preceding paragraph at or prior to the authentication of each Security of such series if such documents are delivered at or prior to the authentication upon original issuance of the first Security of such series to be issued.

Each Security shall be dated the date of its authentication.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee by manual signature, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder. Notwithstanding the foregoing, if any Security shall have been authenticated and delivered hereunder but never issued and sold by the Company, and the Company shall deliver such Security to the Trustee for cancellation as provided in Section 309, for all purposes of this Indenture such Security shall be deemed never to have been authenticated and delivered hereunder and shall never be entitled to the benefits of this Indenture.

SECTION 304. *Temporary Securities.*

Pending the preparation of definitive Securities of any series, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as evidenced by their execution of such Securities.

If temporary Securities of any series are issued, the Company will cause definitive Securities of that series to be prepared without unreasonable delay. After the preparation of definitive Securities of such series, the temporary Securities of such series shall be exchangeable for definitive Securities of such series upon surrender of the temporary Securities of such series at the office or agency of the Company in a Place of Payment for that series, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities of any series, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor one or more definitive Securities of the same series, of any authorized denominations and of like tenor and aggregate principal amount. Until so exchanged, the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series and tenor.

SECTION 305. *Registration, Registration of Transfer and Exchange.*

The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such office and in any other office or agency of the Company in a Place of Payment being herein sometimes collectively referred to as the "*Security Register*") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities and of transfers of Securities. The Trustee is hereby appointed "Security Registrar" for the purpose of registering Securities and transfers of Securities as herein provided.

Upon surrender for registration of transfer of any Security of a series at the office or agency of the Company in a Place of Payment for that series, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of the same series, of any authorized denominations and of like tenor and aggregate principal amount.

At the option of the Holder, Securities of any series may be exchanged for other Securities of the same series, of any authorized denominations and of like tenor and aggregate principal amount, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed, by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 304, 906 or 1107 not involving any transfer.

If the Securities of any series (or of any series and specified tenor) are to be redeemed in part, the Company shall not be required (A) to issue, register the transfer of or exchange any Securities of that series (or of that series and specified tenor, as the case may be) during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of any such Securities selected for redemption under Section 1103 and ending at the close of business on the day of such mailing, or (B) to register the transfer of or exchange any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

The provisions of Clauses (1), (2), (3) and (4) below shall apply only to Global Securities:

(1) Each Global Security authenticated under this Indenture shall be registered in the name of the Depositary designated for such Global Security or a nominee thereof and delivered to such Depositary or a nominee thereof or

custodian therefor, and each such Global Security shall constitute a single Security for all purposes of this Indenture.

(2) Notwithstanding any other provision in this Indenture, and subject to such applicable provisions, if any, as may be specified as contemplated by Section 301, no Global Security may be exchanged in whole or in part for Securities registered, and no transfer of a Global Security in whole or in part may be registered, in the name of any Person other than the Depositary for such Global Security or a nominee thereof unless (A) such Depositary has notified the Company that it (i) is unwilling or unable to continue as Depositary for such Global Security or (ii) has ceased to be a clearing agency registered under the Exchange Act, (B) there shall have occurred and be continuing an Event of Default with respect to such Global Security or (C) the Company has executed and delivered to the Trustee a Company Order stating that such Global Security shall be exchanged in whole for Securities that are not Global Securities (in which case such exchange shall promptly be effected by the Trustee). If the Company receives a notice of the kind specified in Clause (A) above or has delivered a Company Order of the kind specified in Clause (C) above, it may, in its sole discretion, designate a successor Depositary for such Global Security within 60 days after receiving such notice or delivery of such order, as the case may be. If the Company designates a successor Depositary as aforesaid, such Global Security shall promptly be exchanged in whole for one or more other Global Securities registered in the name of the successor Depositary, whereupon such designated successor shall be the Depositary for such successor Global Security or Global Securities and the provisions of Clauses (1), (2), (3) and (4) of this Section shall continue to apply thereto.

(3) Subject to Clause (2) above and to such applicable provisions, if any, as may be specified as contemplated by Section 301, any exchange of a Global Security for other Securities may be made in whole or in part, and all Securities issued in exchange for a Global Security or any portion thereof shall be registered in such names as the Depositary for such Global Security shall direct.

(4) Every Security authenticated and delivered upon registration of transfer of, or in exchange for or in lieu of, a Global Security or any portion thereof, whether pursuant to this Section, Section 304, 306, 906 or 1107 or otherwise, shall be authenticated and delivered in the form of, and shall be, a Global Security, unless such Security is registered in the name of a Person other than the Depositary for such Global Security or a nominee thereof.

SECTION 306. *Mutilated, Destroyed, Lost and Stolen Securities.*

If any mutilated Security is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the

same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute and the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security of any series issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of that series duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

SECTION 307. *Payment of Interest; Interest Rights Preserved.*

Except as otherwise provided as contemplated by Section 301 with respect to any Securities of a series, interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest (or, if no business is conducted by the Trustee at its Corporate Trust Office on such date, at 5:00 P.M. New York City time on such date).

Any interest on any Security of any series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "*Defaulted Interest*") shall forthwith cease to be payable to the Holder on the relevant Regular

Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in Clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest payable on any Securities of a series to the Persons in whose names such Securities (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each of such Securities and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be given to each Holder of such Securities in the manner set forth in Section 106, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names such Securities (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following Clause (2).

(2) The Company may make payment of any Defaulted Interest on any Securities of a series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this Clause, such manner of payment shall be deemed practicable by the Trustee.

Except as may otherwise be provided in this Section 307 or as contemplated in Section 301 with respect to any Securities of a series, the Person to whom interest shall be payable on any Security that first becomes payable on a day that is not an Interest Payment Date shall be the Holder of such Security on the day such interest is paid.

Subject to the foregoing provisions of this Section, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other

Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

In the case of any Security which is converted after any Regular Record Date and on or prior to the next succeeding Interest Payment Date (other than any Security whose Maturity is prior to such Interest Payment Date), interest whose Stated Maturity is on such Interest Payment Date shall be payable on such Interest Payment Date notwithstanding such conversion, and such interest (whether or not punctually paid or duly provided for) shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on such Regular Record Date. Except as otherwise expressly provided in the immediately preceding sentence, in the case of any Security which is converted, interest whose Stated Maturity is after the date of conversion of such Security shall not be payable. Notwithstanding the foregoing, the terms of any Security that may be converted may provide that the provisions of this paragraph do not apply, or apply with such additions, changes or omissions as may be provided thereby, to such Security.

SECTION 308. *Persons Deemed Owners.*

Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of principal of and any premium and (subject to Section 307) any interest on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

SECTION 309. *Cancellation.*

All Securities surrendered for payment, redemption, registration of transfer or exchange or conversion or for credit against any sinking fund payment shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly canceled by it. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee (or to any other Person for delivery to the Trustee) for cancellation any Securities previously authenticated hereunder which the Company has not issued and sold, and all Securities so delivered shall be promptly canceled by the Trustee. No Securities shall be authenticated in lieu of or in exchange for any Securities canceled as provided in this Section, except as expressly permitted by this Indenture. All canceled Securities held by the Trustee shall be disposed of as directed by a Company Order; *provided*, *however*, that the Trustee shall not be required to destroy such canceled Securities.

SECTION 310. *Computation of Interest.*

Except as otherwise specified as contemplated by Section 301 for Securities of any series, interest on the Securities of each series shall be computed on the basis of a 360-day year of twelve 30-day months.

SECTION 311. *CUSIP Numbers.*

The Company in issuing the Securities may use CUSIP numbers (if then generally in use) and, if so, the Trustee shall use CUSIP numbers in notices of redemption as a convenience to Holders, provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of redemption and that reliance may be placed only on the other identification numbers printed on the Securities. Any such redemption shall not be affected by any defect in or omission of such numbers.

ARTICLE IV

Satisfaction and Discharge

SECTION 401. *Satisfaction and Discharge of Indenture.*

This Indenture shall upon Company Request cease to be of further effect (except as to any surviving rights of conversion, registration of transfer or exchange of any Security expressly provided for herein or in the terms of such Security), and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Securities theretofore authenticated and delivered (other than

(i) Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 306 and

(ii) Securities for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 1003) have been delivered to the Trustee for cancellation; or

(B) all such Securities not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable at their Stated Maturity within one year, or

(iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company, and the Company, in the case of (i), (ii) or (iii) above, has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose money in an amount sufficient to pay and discharge the entire indebtedness on such Securities not theretofore delivered to the Trustee for cancellation, for principal and any premium and interest to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 607 and, if money shall have been deposited with the Trustee pursuant to subclause (B) of Clause (1) of this Section, the obligations of the Trustee under Section 402 and the last paragraph of Section 1003 shall survive.

SECTION 402. *Application of Trust Money.*

Subject to the provisions of the last paragraph of Section 1003, all money deposited with the Trustee pursuant to Section 401 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal and any premium and interest for whose payment such money has been deposited with the Trustee. All moneys deposited with the Trustee pursuant to Section 401 (and held by it or any Paying Agent) for the payment of Securities subsequently converted shall be returned to the Company upon Company Request.

ARTICLE V

Remedies

SECTION 501. *Events of Default.*

"*Event of Default*", wherever used herein with respect to Securities of any series, means any one of the following events (whatever the reason for such Event of Default and whether it shall be occasioned by the provisions of Article Fourteen or be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) default in the payment of any interest upon any Security of that series when it becomes due and payable, and continuance of such default for a period of 30 days; or

(2) default in the payment of the principal of or any premium on any Security of that series at its Maturity; or

(3) default in the deposit of any sinking fund payment, when and as due by the terms of a Security of that series; or

(4) default in the performance, or breach, of any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section specifically dealt with or which has expressly been included in this Indenture solely for the benefit of series of Securities other than that series), and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 10% in principal amount of the Outstanding Securities of that series a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(5) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable Federal or State law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 60 consecutive days (provided that, if any Person becomes the successor to the Company

pursuant to Article Eight and such Person is a corporation, partnership or trust organized and validly existing under the law of a jurisdiction outside the United States, each reference in this Clause 5 to an applicable Federal or State law of a particular kind shall be deemed to refer to such law or any applicable comparable law of such non-U.S. jurisdiction, for as long as such Person is the successor to the Company hereunder and is so organized and existing); or

(6) the commencement by the Company of a voluntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company in furtherance of any such action (*provided* that, if any Person becomes the successor to the Company pursuant to Article Eight and such Person is a corporation, partnership or trust organized and validly existing under the law of a jurisdiction outside the United States, each reference in this Clause 6 to an applicable Federal or State law of a particular kind shall be deemed to refer to such law or any applicable comparable law of such non-U.S. jurisdiction, for as long as such Person is the successor to the Company hereunder and is so organized and existing); or

(7) any other Event of Default provided with respect to Securities of that series.

SECTION 502. *Acceleration of Maturity; Rescission and Annulment.*

If an Event of Default (other than an Event of Default specified in Section 501(5) or 501(6)) with respect to Securities of any series at the time Outstanding occurs and is continuing, then in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities of that series may declare the principal amount of all the Securities of that series (or, in the case of any Security of that series which specifies an amount to be due and payable thereon upon acceleration of the Maturity thereof, such amount as may be specified by the terms thereof) to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such principal amount (or specified amount) shall become immediately due and payable. If an Event of Default specified in Section

501(5) or 501(6) with respect to Securities of any series at the time Outstanding occurs, the principal amount of all the Securities of that series (or, in the case of any Security of that series which specifies an amount to be due and payable thereon upon acceleration of the Maturity thereof, such amount as may be specified by the terms thereof) shall automatically, and without any declaration or other action on the part of the Trustee or any Holder, become immediately due and payable.

At any time after such a declaration of acceleration with respect to Securities of any series has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Outstanding Securities of that series, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if

(1) the Company has paid or deposited with the Trustee a sum sufficient to pay

(A) all overdue interest on all Securities of that series,

(B) the principal of (and premium, if any, on) any Securities of that series which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate or rates prescribed therefor in such Securities,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate or rates prescribed therefor in such Securities, and

(D) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and

(2) all Events of Default with respect to Securities of that series, other than the non-payment of the principal of Securities of that series which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 513.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

SECTION 503. *Collection of Indebtedness and Suits for Enforcement by Trustee.*

The Company covenants that if

(1) default is made in the payment of any interest on any Security when such interest becomes due and payable and such default continues for a period of 30 days, or

(2) default is made in the payment of the principal of (or premium, if any, on) any Security at the Maturity thereof,

the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities for principal and any premium and interest and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal and premium and on any overdue interest, at the rate or rates prescribed therefor in such Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If an Event of Default with respect to Securities of any series occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

SECTION 504. *Trustee May File Proofs of Claim.*

In case of any judicial proceeding relative to the Company (or any other obligor upon the Securities), its property or its creditors, the Trustee shall be entitled and empowered, by intervention in such proceeding or otherwise, to take any and all actions authorized under the Trust Indenture Act in order to have claims of the Holders and the Trustee allowed in any such proceeding. In particular, the Trustee shall be authorized to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 607.

No provision of this Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of

reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding; *provided*, *however*, that the Trustee may, on behalf of the Holders, vote for the election of a trustee in bankruptcy or similar official and be a member of a creditors' or other similar committee.

SECTION 505. *Trustee May Enforce Claims Without Possession of Securities.*

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

SECTION 506. *Application of Money Collected.*

Any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal or any premium or interest, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under Section 607; and

SECOND: Subject to Article Fourteen, to the payment of the amounts then due and unpaid for principal of and any premium and interest on the Securities in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal and any premium and interest, respectively.

SECTION 507. *Limitation on Suits.*

No Holder of any Security of any series shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Securities of that series;

(2) the Holders of not less than 25% in principal amount of the Outstanding Securities of that series shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to the Trustee indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities of that series;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all of such Holders.

SECTION 508. *Unconditional Right of Holders to Receive Principal, Premium and Interest and to Convert.*

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of and any premium and (subject to Section 307) interest on such Security on the respective Stated Maturities expressed in such Security (or, in the case of redemption, on the Redemption Date), and, if the terms of such Security so provide, to convert such Security in accordance with its terms, and to institute suit for the enforcement of any such payment and, if applicable, any such right to convert, and such rights shall not be impaired without the consent of such Holder.

SECTION 509. *Restoration of Rights and Remedies.*

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

SECTION 510. *Rights and Remedies Cumulative.*

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 306, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall,

to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 511. *Delay or Omission Not Waiver.*

No delay or omission of the Trustee or of any Holder of any Securities to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

SECTION 512. *Control by Holders.*

The Holders of a majority in principal amount of the Outstanding Securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Securities of such series, *provided* that

(1) such direction shall not be in conflict with any rule of law or with this Indenture, and

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

SECTION 513. *Waiver of Past Defaults.*

The Holders of not less than a majority in principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series waive any past default hereunder with respect to such series and its consequences, except a default

(1) in the payment of the principal of or any premium or interest on any Security of such series, or

(2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 514. *Undertaking for Costs.*

In any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, a court may require any party litigant in such suit to file an undertaking to pay the costs of such suit, and may assess costs, including reasonable attorneys' fees and expenses, against any such party litigant, in the manner and to the extent provided in the Trust Indenture Act; *provided* that neither this Section nor the Trust Indenture Act shall be deemed to authorize any court to require such an undertaking or to make such an assessment in any suit instituted by the Company or the Trustee or, if applicable, in any suit for the enforcement of the right to convert any Security in accordance with its terms.

SECTION 515. *Waiver of Usury, Stay or Extension Laws.*

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any usury, stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE VI

The Trustee

SECTION 601. *Certain Duties and Responsibilities.*

The duties and responsibilities of the Trustee shall be as provided by the Trust Indenture Act. Notwithstanding the foregoing, no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it. Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

SECTION 602. *Notice of Defaults.*

If a default occurs hereunder with respect to Securities of any series, the Trustee shall give the Holders of Securities of such series notice of such default as and to the extent provided by the Trust Indenture Act; *provided*, *however*, that in the case of any

default of the character specified in Section 501(4) with respect to Securities of such series, no such notice to Holders shall be given until at least 30 days after the occurrence thereof. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default with respect to Securities of such series.

SECTION 603. *Certain Rights of Trustee.*

Subject to the provisions of Section 601:

(1) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(2) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order, and any resolution of the Board of Directors shall be sufficiently evidenced by a Board Resolution;

(3) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

(4) the Trustee may consult with counsel of its selection and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(5) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee security or indemnity reasonably satisfactory to it against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(6) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further

inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney;

(7) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder;

(8) the Trustee shall not be liable for any action taken, suffered or omitted to be taken by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture;

(9) the Trustee shall not be deemed to have notice of any default or Event of Default unless a Responsible Officer of the Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by the Trustee at the Corporate Trust Office of the Trustee, and such notice references the Securities and this Indenture; and

(10) the rights, privileges, protections, immunities and benefits given to the Trustee, including its rights to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder.

SECTION 604. *Not Responsible for Recitals or Issuance of Securities.*

The recitals contained herein and in the Securities, except the Trustee's certificates of authentication, shall be taken as the statements of the Company, and the Trustee does not assume any responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities. The Trustee shall not be accountable for the use or application by the Company of Securities or the proceeds thereof.

SECTION 605. *May Hold Securities.*

The Trustee, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Securities and, subject to Sections 608 and 613, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Paying Agent, Security Registrar or such other agent.

SECTION 606. *Money Held in Trust.*

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed in writing with the Company.

SECTION 607. *Compensation and Reimbursement.*

The Company agrees

(1) to pay to the Trustee from time to time such compensation as shall be agreed in writing between the parties for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and

(3) to indemnify each of the Trustee or any predecessor Trustee for, and to hold it harmless against, any and all losses, liabilities, damages, claims or expenses including taxes (other than taxes imposed on the income of the Trustee) incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the costs and expenses of defending itself against any claim (whether asserted by the Company, a Holder or any other Person) or liability in connection with the exercise or performance of any of its powers or duties hereunder.

When the Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 501(5) or Section 501(6), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable Federal or State bankruptcy, insolvency or other similar law.

The provisions of this Section shall survive the termination of this Indenture.

SECTION 608. *Conflicting Interests.*

If the Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture. To the extent permitted by the Trust Indenture Act, the Trustee shall not be deemed to have a conflicting interest by virtue of being a trustee under this Indenture with respect to Securities of more than one series.

SECTION 609. *Corporate Trustee Required; Eligibility.*

There shall at all times be one (and only one) Trustee hereunder with respect to the Securities of each series, which may be Trustee hereunder for Securities of one or

more other series. Each Trustee shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such, has a combined capital and surplus of at least $50,000,000 and has its Corporate Trust Office in the Borough of Manhattan, The City of New York. If any such Person publishes reports of condition at least annually, pursuant to law or to the requirements of its supervising or examining authority, then for the purposes of this Section and to the extent permitted by the Trust Indenture Act, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee with respect to the Securities of any series shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

SECTION 610. *Resignation and Removal; Appointment of Successor.*

No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 611.

The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 611 shall not have been delivered to the Trustee within 60 days after the giving of such notice of resignation, the resigning Trustee may petition, at the expense of the Company, any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

The Trustee may be removed at any time with respect to the Securities of any series by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series, delivered to the Trustee and to the Company. If the instrument of acceptance by a successor Trustee required by Section 611 shall not have been delivered to the Trustee within 30 days after the giving of a notice of removal pursuant to this paragraph, the Trustee being removed may petition, at the expense of the Company, any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

If at any time:

(1) the Trustee shall fail to comply with Section 608 after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for at least six months, or

(2) the Trustee shall cease to be eligible under Section 609 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be

appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (A) the Company by a Board Resolution may remove the Trustee with respect to all Securities, or (B) subject to Section 514, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities and the appointment of a successor Trustee or Trustees.

If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, with respect to the Securities of one or more series, the Company, by a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Securities of any particular series) and shall comply with the applicable requirements of Section 611. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 611, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any series shall have been so appointed by the Company or the Holders and accepted appointment in the manner required by Section 611, any Holder who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

The Company shall give notice of each resignation and each removal of the Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series to all Holders of Securities of such series in the manner provided in Section 106. Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its Corporate Trust Office.

SECTION 611. *Acceptance of Appointment by Successor.*

In case of the appointment hereunder of a successor Trustee with respect to all Securities, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall

become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates, (2) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates.

Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in the first or second preceding paragraph, as the case may be.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

SECTION 612. *Merger, Conversion, Consolidation or Succession to Business.*

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, *provided* such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

SECTION 613. *Preferential Collection of Claims Against Company.*

If and when the Trustee shall be or become a creditor of the Company (or any other obligor upon the Securities), the Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of claims against the Company (or any such other obligor).

ARTICLE VII

Holders' Lists and Reports by Trustee and Company

SECTION 701. *Company to Furnish Trustee Names and Addresses of Holders.*

The Company will furnish or cause to be furnished to the Trustee

(1) semi-annually, not later than May 15 and November 15 in each year, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders of Securities of each series as of the immediately preceding May 1 or November 1, as the case may be, and

(2) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished;

excluding from any such list names and addresses received by the Trustee in its capacity as Security Registrar.

SECTION 702. *Preservation of Information; Communications to Holders.*

The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list furnished to the Trustee as provided in Section 701 and the names and addresses of Holders received by the Trustee in its capacity as Security Registrar. The Trustee may destroy any list furnished to it as provided in Section 701 upon receipt of a new list so furnished.

The rights of Holders to communicate with other Holders with respect to their rights under this Indenture or under the Securities, and the corresponding rights and privileges of the Trustee, shall be as provided by the Trust Indenture Act.

Every Holder of Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of any disclosure of information as to names and addresses of Holders made pursuant to the Trust Indenture Act.

SECTION 703. *Reports by Trustee.*

The Trustee shall transmit to Holders such reports concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto.

Reports so required to be transmitted at stated intervals of not more than 12 months shall be transmitted no later than July 1 and shall be dated as of May 1 in each calendar year, commencing in 2001.

A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange upon which any Securities are listed, with the Commission and with the Company. The Company will notify the Trustee when any Securities are listed on any stock exchange and of any delisting thereof.

SECTION 704. *Reports by Company.*

The Company shall file with the Trustee and the Commission, and transmit to Holders, such information, documents and other reports, and such summaries thereof, as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant to such Act; *provided* that any such information, documents or reports required to be filed with the Commission pursuant to Section 13 or 15(d) of the Exchange Act shall be filed with the Trustee within 15 days after the same is so required to be filed with the Commission.

ARTICLE VIII

Consolidation, Merger, Conveyance, Transfer or Lease

SECTION 801. *Company May Consolidate, Etc., Only on Certain Terms.*

The Company shall not consolidate with or merge into any other Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, and the Company shall not permit any Person to consolidate with or merge into the Company, unless:

(1) in case the Company shall consolidate with or merge into another Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety shall be a corporation, partnership or trust, shall be organized and validly existing under the laws of any domestic or foreign jurisdiction and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of and any premium and interest on all the Securities and the performance or observance of every covenant of this Indenture on the part of the Company to be performed or observed and, for each Security that by its terms provides for conversion, shall have provided for the right to convert such Security in accordance with its terms;

(2) immediately after giving effect to such transaction and treating any indebtedness which becomes an obligation of the Company or any Subsidiary as a result of such transaction as having been incurred by the Company or such Subsidiary at the time of such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing;

(3) if, as a result of any such consolidation or merger or such conveyance, transfer or lease, properties or assets of the Company would become subject to a pledge, lien or other similar encumbrance which would not be permitted by this Indenture, the Company or such successor Person, as the case may be, shall take such steps as shall be necessary effectively to secure the Securities equally and ratably with (or prior to) all indebtedness secured thereby; and

(4) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

SECTION 802. *Successor Substituted.*

Upon any consolidation of the Company with, or merger of the Company into, any other Person or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 801, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under this Indenture and the Securities.

ARTICLE IX

Supplemental Indentures

SECTION 901. *Supplemental Indentures Without Consent of Holders.*

Without the consent of any Holders, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(1) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities; or

(2) to add to the covenants of the Company for the benefit of the Holders of all or any series of Securities (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power herein conferred upon the Company; or

(3) to add any additional Events of Default for the benefit of the Holders of all or any series of Securities (and if such additional Events of Default are to be for the benefit of less than all series of Securities, stating that such additional Events of Default are expressly being included solely for the benefit of such series); or

(4) to add to or change any of the provisions of this Indenture to such extent as shall be necessary to permit or facilitate the issuance of Securities in bearer form, registrable or not registrable as to principal, and with or without interest coupons, or to permit or facilitate the issuance of Securities in uncertificated form; or

(5) to add to, change or eliminate any of the provisions of this Indenture in respect of one or more series of Securities, *provided* that any such addition, change or elimination (A) shall neither (i) apply to any Security of any series created prior to the execution of such supplemental indenture and entitled to the benefit of such provision nor (ii) modify the rights of the Holder of any such Security with respect to such provision or (B) shall become effective only when there is no such Security Outstanding; or

(6) to secure the Securities pursuant to the requirements of Section 801(3) or otherwise; or

(7) to establish the form or terms of Securities of any series as permitted by Sections 201 and 301; or

(8) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Section 611; or

(9) to add to or change any of the provisions of this Indenture with respect to any Securities that by their terms may be converted into securities or other property other than Securities of the same series and of like tenor, in order to permit or facilitate the issuance, payment or conversion of such Securities; or

(10) to cure any ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture, *provided* that such action pursuant to this Clause (10) shall not adversely affect the interests of the Holders of Securities of any series in any material respect.

SECTION 902. *Supplemental Indentures With Consent of Holders.*

With the consent of the Holders of a majority in principal amount of the Outstanding Securities of all series affected by such supplemental indenture, considered together as one class for this purpose (plus, if and as the terms applicable to any such affected series pursuant to Section 301 so provide, the consent of the Holders of a majority in principal amount of the Outstanding Securities of such affected series or of any other Persons acting on behalf of such Holders), by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders of Securities of such series under this Indenture; *provided*, *however*, that no such

supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby,

(1) change the Stated Maturity of the principal of, or any instalment of principal of or interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or reduce the amount of the principal of an Original Issue Discount Security or any other Security which would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502, or permit the Company to redeem any Security if, absent such supplemental indenture, the Company would not be permitted to do so, or change any Place of Payment where, or the coin or currency in which, any Security or any premium or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date), or

(2) if any Security provides that the Holder may require the Company to repurchase or convert such Security, impair such Holder's right to require repurchase or conversion of such Security on the terms provided therein, or

(3) reduce the percentage in principal amount of the Outstanding Securities of any one or more series (considered separately or together as one class, as applicable), the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or

(4) modify any of the provisions of this Section, Section 513 or Section 1005, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby; *provided*, *however*, that this clause shall not be deemed to require the consent of any Holder with respect to changes in the references to "the Trustee" and concomitant changes in this Section and Section 1006, or the deletion of this proviso, in accordance with the requirements of Sections 611 and 901(8).

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series.

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

SECTION 903. *Execution of Supplemental Indentures.*

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

SECTION 904. *Effect of Supplemental Indentures.*

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

SECTION 905. *Conformity with Trust Indenture Act.*

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act.

SECTION 906. *Reference in Securities to Supplemental Indentures.*

Securities of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

SECTION 907. *Subordination Unimpaired.*

This Indenture may not be amended at any time to alter the subordination, as provided herein, of any of the Securities then Outstanding without the written consent of each holder of Senior Debt then outstanding that would be adversely affected thereby.

ARTICLE X

Covenants

SECTION 1001. *Payment of Principal, Premium and Interest.*

The Company covenants and agrees for the benefit of each series of Securities that it will duly and punctually pay the principal of and any premium and interest on the Securities of that series in accordance with the terms of the Securities and this Indenture.

SECTION 1002. *Maintenance of Office or Agency.*

The Company will maintain in each Place of Payment for any series of Securities an office or agency where Securities of that series may be presented or surrendered for payment, where Securities of that series may be surrendered for registration of transfer or exchange, where Securities may be surrendered for conversion and where notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies where the Securities of one or more series may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; *provided*, *however*, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in each Place of Payment for Securities of any series for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

With respect to any Global Security, and except as otherwise may be specified for such Global Security as contemplated by Section 301, the Corporate Trust Office of the Trustee shall be the Place of Payment where such Global Security may be presented or surrendered for payment or for registration of transfer or exchange, or where successor Securities may be delivered in exchange therefor, *provided*, *however*, that any such payment, presentation, surrender or delivery effected pursuant to the Applicable Procedures of the Depositary for such Global Security shall be deemed to have been effected at the Place of Payment for such Global Security in accordance with the provisions of this Indenture.

SECTION 1003. *Money for Securities Payments to Be Held in Trust.*

If the Company shall at any time act as its own Paying Agent with respect to any series of Securities, it will, on or before each due date of the principal of or any premium or interest on any of the Securities of that series, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal and any premium and interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for any series of Securities, it will, prior to each due date of the principal of or any premium or interest on any Securities of that series, deposit (or, if the Company has deposited any trust funds with a trustee pursuant to Section 1304(1), cause such trustee to deposit) with a Paying Agent a sum sufficient to pay such amount, such sum to be held as provided by the Trust Indenture Act, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company will cause each Paying Agent for any series of Securities other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will (1) comply with the provisions of the Trust Indenture Act applicable to it as a Paying Agent and (2) during the continuance of any default by the Company (or any other obligor upon the Securities of that series) in the making of any payment in respect of the Securities of that series, upon the written request of the Trustee, forthwith pay to the Trustee all sums held in trust by such Paying Agent for payment in respect of the Securities of that series.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of or any premium or interest on any Security of any series and remaining unclaimed for two years after such principal, premium or interest has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; *provided*, *however*, that the Trustee or such Paying Agent,

before being required to make any such repayment, may, at the expense of the Company, cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in The City of New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

SECTION 1004. *Statement by Officers as to Default.*

The Company will deliver to the Trustee, within 120 days after the end of each fiscal year of the Company ending after the date hereof, an Officers' Certificate, stating whether or not to the best knowledge of the signers thereof the Company is in default in the performance and observance of any of the terms, provisions and conditions of this Indenture (without regard to any period of grace or requirement of notice provided hereunder) and, if the Company shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

SECTION 1005. *Waiver of Certain Covenants.*

Except as otherwise specified as contemplated by Section 301 for Securities of a specific series, the Company may, with respect to the Securities of any one or more series, omit in any particular instance to comply with any term, provision or condition set forth in any covenant provided pursuant to Section 301(18), 901(2) or 901(7) for the benefit of the Holders of such series or in Article Eight if, before the time for such compliance, the Holders of a majority in principal amount of the Outstanding Securities of all series affected by such waiver, considered together as one class for this purpose (plus, if and as the terms applicable to any such affected series pursuant to Section 301 so provide, the consent of the Holders of a majority in principal amount of the Outstanding Securities of such affected series or of any other Persons acting on behalf of such Holders) shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition, but no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

ARTICLE XI

Redemption of Securities

SECTION 1101. *Applicability of Article.*

Securities of any series which are redeemable before their Stated Maturity shall be redeemable in accordance with their terms and (except as otherwise specified as contemplated by Section 301 for such Securities) in accordance with this Article.

SECTION 1102. *Election to Redeem; Notice to Trustee.*

The election of the Company to redeem any Securities shall be established in or pursuant to a Board Resolution or in another manner specified as contemplated by Section 301 for such Securities. In case of any redemption at the election of the Company of less than all the Securities of any series (including any such redemption affecting only a single Security), the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date, of the principal amount of Securities of such series to be redeemed and, if applicable, of the tenor of the Securities to be redeemed. In the case of any redemption of Securities prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with such restriction.

SECTION 1103. *Selection by Trustee of Securities to Be Redeemed.*

If less than all the Securities of any series are to be redeemed (unless all the Securities of such series and of a specified tenor are to be redeemed or unless such redemption affects only a single Security), the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series not previously called for redemption, by such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of a portion of the principal amount of any Security of such series, provided that the unredeemed portion of the principal amount of any Security shall be in an authorized denomination (which shall not be less than the minimum authorized denomination) for such Security. If less than all the Securities of such series and of a specified tenor are to be redeemed (unless such redemption affects only a single Security), the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series and specified tenor not previously called for redemption in accordance with the preceding sentence.

If any Security selected for partial redemption is converted in part before termination of the conversion right with respect to the portion of the Security so selected, the converted portion of such Security shall be deemed (so far as may be) to be the

portion selected for redemption. Securities which have been converted during a selection of Securities to be redeemed shall be treated by the Trustee as Outstanding for the purpose of such selection.

The Trustee shall promptly notify the Company and each Security Registrar in writing of the Securities selected for redemption as aforesaid and, in case of any Securities selected for partial redemption as aforesaid, the principal amount thereof to be redeemed.

The provisions of the two preceding paragraphs shall not apply with respect to any redemption affecting only a single Security, whether such Security is to be redeemed in whole or in part. In the case of any such redemption in part, the unredeemed portion of the principal amount of the Security shall be in an authorized denomination (which shall not be less than the minimum authorized denomination) for such Security.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Securities which has been or is to be redeemed.

SECTION 1104. *Notice of Redemption.*

Notice of redemption shall be given by first-class mail, postage prepaid, mailed not less than 30 days nor more than 60 days prior to the Redemption Date, to each Holder of Securities to be redeemed, at his address appearing in the Security Register.

All notices of redemption shall identify the Securities to be redeemed (including CUSIP numbers, if any) and shall state:

(1) the Redemption Date,

(2) the Redemption Price,

(3) if less than all the Outstanding Securities of any series consisting of more than a single Security are to be redeemed, the identification (and, in the case of partial redemption of any such Securities, the principal amounts) of the particular Securities to be redeemed and, if less than all the Outstanding Securities of any series consisting of a single Security are to be redeemed, the principal amount of the particular Security to be redeemed,

(4) that on the Redemption Date the Redemption Price will become due and payable upon each such Security to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date,

(5) the place or places where each such Security is to be surrendered for payment of the Redemption Price,

(6) for any Securities that by their terms may be converted, the terms of conversion, the date on which the right to convert the Security to be redeemed will terminate and the place or places where such Securities may be surrendered for conversion, and

(7) that the redemption is for a sinking fund, if such is the case.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company and shall be irrevocable.

SECTION 1105. *Deposit of Redemption Price.*

Prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on, all the Securities which are to be redeemed on that date, other than any Securities called for redemption on that date which have been converted prior to the date of such deposit.

If any Security called for redemption is converted, any money deposited with the Trustee or with any Paying Agent or so segregated and held in trust for the redemption of such Security shall (subject to any right of the Holder of such Security or any Predecessor Security to receive interest as provided in the last paragraph of Section 307 or in the terms of such Security) be paid to the Company upon Company Request or, if then held by the Company, shall be discharged from such trust.

SECTION 1106. *Securities Payable on Redemption Date.*

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Securities shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice, such Security shall be paid by the Company at the Redemption Price, together with accrued interest to the Redemption Date; *provided*, *however*, that, unless otherwise specified as contemplated by Section 301, instalments of interest whose Stated Maturity is on or prior to the Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 307.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal and any premium shall, until paid, bear interest from the Redemption Date at the rate prescribed therefor in the Security.

SECTION 1107. *Securities Redeemed in Part.*

Any Security which is to be redeemed only in part shall be surrendered at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities of the same series and of like tenor, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

ARTICLE XII

Sinking Funds

SECTION 1201. *Applicability of Article.*

The provisions of this Article shall be applicable to any sinking fund for the retirement of Securities of any series except as otherwise specified as contemplated by Section 301 for such Securities.

The minimum amount of any sinking fund payment provided for by the terms of any Securities is herein referred to as a "mandatory sinking fund payment", and any payment in excess of such minimum amount provided for by the terms of such Securities is herein referred to as an "optional sinking fund payment". If provided for by the terms of any Securities, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 1202. Each sinking fund payment shall be applied to the redemption of Securities as provided for by the terms of such Securities.

SECTION 1202. *Satisfaction of Sinking Fund Payments with Securities.*

The Company (1) may deliver Outstanding Securities of a series (other than any previously called for redemption) and (2) may apply as a credit Securities of a series which have been converted in accordance with their terms or which have been redeemed either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, in each case in satisfaction of all or any part of any sinking fund payment with respect to any Securities of such series required to be made pursuant to the terms of such Securities as and to the extent provided for by the terms of such Securities; *provided* that the Securities to be so credited have not been previously so credited. The Securities to be so credited shall be received and credited for such purpose by the Trustee at the Redemption Price, as specified in the Securities so to be redeemed (or at such other prices as may be specified for such Securities as contemplated in Section 301), for redemption

through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly.

SECTION 1203. *Redemption of Securities for Sinking Fund.*

Not less than 90 days (or such shorter period as shall be satisfactory to the Trustee) prior to each sinking fund payment date for any Securities, the Company will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing sinking fund payment for such Securities pursuant to the terms of such Securities, the portion thereof, if any, which is to be satisfied by payment of cash and the portion thereof, if any, which is to be satisfied by delivering and crediting Securities pursuant to Section 1202 and will also deliver to the Trustee any Securities to be so delivered. Not less than 60 days prior to each such sinking fund payment date, the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 1103 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 1104. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 1106 and 1107.

ARTICLE XIII

Defeasance and Covenant Defeasance

SECTION 1301. *Company's Option to Effect Defeasance or Covenant Defeasance.*

The Company may elect, at its option at any time, to have Section 1302 or Section 1303 applied to any Securities or any series of Securities, as the case may be, designated pursuant to Section 301 as being defeasible pursuant to such Section 1302 or 1303, in accordance with any applicable requirements provided pursuant to Section 301 and upon compliance with the conditions set forth below in this Article. Any such election shall be evidenced by a Board Resolution or in another manner specified as contemplated by Section 301 for such Securities.

SECTION 1302. *Defeasance and Discharge.*

Upon the Company's exercise of its option (if any) to have this Section applied to any Securities or any series of Securities, as the case may be, the Company shall be deemed to have been discharged from its obligations, and the provisions of Article Fourteen shall cease to be effective, with respect to such Securities as provided in this Section on and after the date the conditions set forth in Section 1304(1) are satisfied (hereinafter called "*Defeasance*"). For this purpose, such Defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by such Securities and to have satisfied all its other obligations under such

Securities and this Indenture insofar as such Securities are concerned (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), subject to the following which shall survive until otherwise terminated or discharged hereunder: (1) the rights of Holders of such Securities to receive, solely from the trust fund described in Section 1304 and as more fully set forth in such Section, payments in respect of the principal of and any premium and interest on such Securities when payments are due, (2) the Company's obligations with respect to such Securities under Sections 304, 305, 306, 1002 and 1003, (3) the rights, powers, trusts, duties and immunities of the Trustee hereunder and (4) this Article. Subject to compliance with this Article, the Company may exercise its option (if any) to have this Section applied to any Securities notwithstanding the prior exercise of its option (if any) to have Section 1303 applied to such Securities.

SECTION 1303. *Covenant Defeasance.*

Upon the Company's exercise of its option (if any) to have this Section applied to any Securities or any series of Securities, as the case may be, (1) the Company shall be released from its obligations under Section 801(3) and any covenants provided pursuant to Section 301(18), 901 (2) or 901(7) for the benefit of the Holders of such Securities, (2) the occurrence of any event specified in Sections 501(4) (with respect to Section 801(3), and any such covenants provided pursuant to Section 301(18), 901(2) or 901(7)) and 501(7) shall be deemed not to be or result in an Event of Default and (3) the provisions of Article Fourteen shall cease to be effective, in each case with respect to such Securities as provided in this Section on and after the date the conditions set forth in Section 1304 are satisfied (hereinafter called "*Covenant Defeasance*"). For this purpose, such Covenant Defeasance means that, with respect to such Securities, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such specified Section (to the extent so specified in the case of Section 501(4)) or Article Fourteen, whether directly or indirectly by reason of any reference elsewhere herein to any such Section or Article or by reason of any reference in any such Section or Article to any other provision herein or in any other document, but the remainder of this Indenture and such Securities shall be unaffected thereby.

SECTION 1304. *Conditions to Defeasance or Covenant Defeasance.*

The following shall be the conditions to the application of Section 1302 or Section 1303 to any Securities or any series of Securities, as the case may be:

(1) The Company shall irrevocably have deposited or caused to be deposited with the Trustee (or another trustee which satisfies the requirements contemplated by Section 609 and agrees to comply with the provisions of this Article applicable to it) as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefits of the Holders of such Securities, (A) money in an amount, or (B) U.S. Government Obligations which through the scheduled payment of

principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (C) such other obligations or arrangements as may be specified as contemplated by Section 301 with respect to such Securities, or (D) a combination thereof, in each case sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge, and which shall be applied by the Trustee (or any such other qualifying trustee) to pay and discharge, the principal of and any premium and interest on such Securities on the respective Stated Maturities, in accordance with the terms of this Indenture and such Securities. As used herein, "U.S. Government Obligation" means (x) any security which is (i) a direct obligation of the United States of America for the payment of which the full faith and credit of the United States of America is pledged or (ii) an obligation of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case (i) or (ii), is not callable or redeemable at the option of the issuer thereof, and (y) any depositary receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act) as custodian with respect to any U.S. Government Obligation which is specified in Clause (x) above and held by such bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal of or interest on any U.S. Government Obligation which is so specified and held, *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of principal or interest evidenced by such depositary receipt.

(2) In the event of an election to have Section 1302 apply to any Securities or any series of Securities, as the case may be, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the date of this instrument, there has been a change in the applicable Federal income tax law, in either case (A) or (B) to the effect that, and based thereon such opinion shall confirm that, the Holders of such Securities will not recognize gain or loss for Federal income tax purposes as a result of the deposit, Defeasance and discharge to be effected with respect to such Securities and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit, Defeasance and discharge were not to occur.

(3) In the event of an election to have Section 1303 apply to any Securities or any series of Securities, as the case may be, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders of such Securities will not recognize gain or loss for Federal income tax purposes as a

result of the deposit and Covenant Defeasance to be effected with respect to such Securities and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit and Covenant Defeasance were not to occur.

(4) The Company shall have delivered to the Trustee an Officers' Certificate to the effect that neither such Securities nor any other Securities of the same series, if then listed on any securities exchange, will be delisted as a result of such deposit.

(5) No event which is, or after notice or lapse of time or both would become, an Event of Default with respect to such Securities or any other Securities shall have occurred and be continuing at the time of such deposit or, with regard to any such event specified in Sections 501(5) and (6), at any time on or prior to the 90th day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until after such 90th day).

(6) Such Defeasance or Covenant Defeasance shall not cause the Trustee to have a conflicting interest within the meaning of the Trust Indenture Act (assuming all Securities are in default within the meaning of such Act).

(7) Such Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company is a party or by which it is bound.

(8) Such Defeasance or Covenant Defeasance shall not result in the trust arising from such deposit constituting an investment company within the meaning of the Investment Company Act unless such trust shall be registered under the Investment Company Act or exempt from registration thereunder.

(9) No event or condition shall exist that, pursuant to the provisions of Article Fourteen, would prevent the Company from making payments of the principal of (and any premium) or interest on the Securities of such series on the date of such deposit or at any time on or prior to the 90th day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until after such 90th day).

(10) The Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent with respect to such Defeasance or Covenant Defeasance have been complied with.

(11) The Company shall have delivered to the Trustee an Opinion of Counsel substantially to the effect that (x) the trust funds deposited pursuant to this Section will not be subject to any rights of holders of Senior Debt, including those arising under Article Fourteen, and (y) after the 90th day following the

deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally, except that if a court were to rule under any such law in any case or proceeding that the trust funds remained property of the Company, no opinion is given as to the effect of such laws on the trust funds except the following: (A) assuming such trust funds remained in the possession of the trustee with whom such funds were deposited prior to such court ruling to the extent not paid to Holders of such Securities, such trustee would hold, for the benefit of such Holders, a valid and perfected security interest in such trust funds that is not avoidable in bankruptcy or otherwise, (B) such Holders would be entitled to receive adequate protection of their interests in such trust funds if such trust funds were used and (C) no property, rights in property or other interests granted to such trustee for the Trustee or such Holders in exchange for or with respect to any such funds would be subject to any prior rights of holders of Senior Debt, including those arising under Article Fourteen.

SECTION 1305. *Deposited Money and U.S. Government Obligations to Be Held in Trust; Miscellaneous Provisions.*

Subject to the provisions of the last paragraph of Section 1003, all money and U.S. Government Obligations (including the proceeds thereof) deposited with the Trustee or other qualifying trustee (solely for purposes of this Section and Section 1306, the Trustee and any such other trustee are referred to collectively as the "Trustee") pursuant to Section 1304 in respect of any Securities shall be held in trust and applied by the Trustee, in accordance with the provisions of such Securities and this Indenture, to the payment, either directly or through any such Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Holders of such Securities, of all sums due and to become due thereon in respect of principal and any premium and interest, but money so held in trust need not be segregated from other funds except to the extent required by law. Money and U.S. Government Obligations (including the proceeds thereof) so held in trust shall not be subject to the provisions of Article Fourteen, *provided* that the applicable conditions of the Section 1304 have been satisfied.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Government Obligations deposited pursuant to Section 1304 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of Outstanding Securities.

Anything in this Article to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon Company Request any money or U.S. Government Obligations held by it as provided in Section 1304 with respect to any Securities which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, are in

excess of the amount thereof which would then be required to be deposited to effect the Defeasance or Covenant Defeasance, as the case may be, with respect to such Securities.

SECTION 1306. *Reinstatement.*

If the Trustee or the Paying Agent is unable to apply any money in accordance with this Article with respect to any Securities by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the obligations under this Indenture and such Securities from which the Company has been discharged or released pursuant to Section 1302 or 1303 shall be revived and reinstated as though no deposit had occurred pursuant to this Article with respect to such Securities, until such time as the Trustee or Paying Agent is permitted to apply all money held in trust pursuant to Section 1305 with respect to such Securities in accordance with this Article; *provided*, *however*, that if the Company makes any payment of principal of or any premium or interest on any such Security following such reinstatement of its obligations, the Company shall be subrogated to the rights (if any) of the Holders of such Securities to receive such payment from the money so held in trust.

ARTICLE XIV

Subordination of Securities

SECTION 1401. *Securities Subordinate to Senior Debt.*

The Company covenants and agrees, and each Holder of a Security, by his acceptance thereof, likewise covenants and agrees, that, to the extent and in the manner hereinafter set forth in this Article, the indebtedness represented by the Securities and the payment of the principal of (and premium, if any) and interest on each and all of the Securities are hereby expressly made subordinate and subject in right of payment to the prior payment in full of all Senior Debt.

Notwithstanding the foregoing, if a deposit referred to in Section 1304(1) is made pursuant to Section 1302 or Section 1303 with respect to any Securities (and *provided* all other conditions set out in Section 1302 or 1303, as applicable, shall have been satisfied with respect to such Securities), then, following the 90th day after such deposit, no money or U.S. Government Obligations so deposited, and no proceeds thereon, will be subject to any rights of holders of Senior Debt, including any such rights arising under this Article Fourteen.

SECTION 1402. *Payment Over of Proceeds Upon Dissolution, Etc.*

In the event of (a) any insolvency or bankruptcy case or proceeding, or any receivership, liquidation, reorganization or other similar case or proceeding in connection therewith, relative to the Company or to its creditors, as such, or to its assets, or (b) any

liquidation, dissolution or other winding up of the Company, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy, or (c) any assignment for the benefit of creditors or any other marshalling of assets and liabilities of the Company, then and in any such event the holders of Senior Debt shall be entitled to receive payment in full of all amounts due or to become due on or in respect of all Senior Debt (including any interest accruing thereon after the commencement of any such case or proceeding), or provision shall be made for such payment in cash or cash equivalents or otherwise in a manner satisfactory to the holders of Senior Debt, before the Holders of the Securities are entitled to receive any payment on account of principal of (or premium, if any) or interest on the Securities, and to that end the holders of Senior Debt shall be entitled to receive, for application to the payment thereof, any payment or distribution of any kind or character, whether in cash, property or securities, including any such payment or distribution which may be payable or deliverable by reason of the payment of any other indebtedness of the Company being subordinated to the payment of the Securities, which may be payable or deliverable in respect of the Securities in any such case, proceeding, dissolution, liquidation or other winding up event.

In the event that, notwithstanding the foregoing provisions of this Section, the Trustee or the Holder of any Security shall have received any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, including any such payment or distribution which may be payable or deliverable by reason of the payment of any other indebtedness of the Company being subordinated to the payment of the Securities, before all Senior Debt is paid in full or payment thereof provided for, and if such fact shall, at or prior to the time of such payment or distribution, have been made known to the Trustee or, as the case may be, such Holder, then and in such event such payment or distribution shall be paid over or delivered forthwith to the trustee in bankruptcy, receiver, liquidating trustee, custodian, assignee, agent or other Person making payment or distribution of assets of the Company for application to the payment of all Senior Debt remaining unpaid, to the extent necessary to pay all Senior Debt in full, after giving effect to any concurrent payment or distribution to or for the holders of Senior Debt. Any taxes that have been withheld or deducted from any payment or distribution in respect of the Securities, or any taxes that ought to have been withheld or deducted from any such payment or distribution that have been remitted to the relevant taxing authority, shall not be considered to be an amount that the Trustee or the Holder of any Security receives for purposes of this Section.

For purposes of this Article only, the words “cash, property or securities” shall not be deemed to include shares of stock of the Company as reorganized or readjusted, or securities of the Company or any other corporation or other entity, provided for by a plan of reorganization or readjustment which are subordinated in right of payment to all Senior Debt which may at the time be outstanding to substantially the same extent as, or to a greater extent than, the Securities are so subordinated as provided in this Article. The consolidation of the Company with, or the merger of the Company into, or the conveyance, transfer or lease by the Company of its properties and assets substantially as an entirety, to another Person upon the terms and conditions set forth in Article Eight, or

the liquidation or dissolution of the Company following any such conveyance or transfer, shall not be deemed a dissolution, winding up, liquidation, reorganization, assignment for the benefit of creditors or marshalling of assets and liabilities of the Company for the purposes of this Section if the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance, transfer or lease of such properties and assets substantially as an entirety, as the case may be, shall, as a part of such consolidation, merger, conveyance, transfer or lease, comply with the conditions set forth in Article Eight.

SECTION 1403. *Prior Payment to Senior Debt Upon Acceleration of Securities.*

In the event that any Securities are declared due and payable before their Stated Maturity, then and in such event the holders of Senior Debt shall be entitled to receive payment in full of all amounts due or to become due on or in respect of all Senior Debt or provision shall be made for such payment in cash, before the Holders of the Securities are entitled to receive any payment (including any payment which may be payable by reason of the payment of any other indebtedness of the Company being subordinated to the payment of the Securities) by the Company on account of the principal of (or premium, if any) or interest on the Securities or on account of the purchase or other acquisition of Securities; *provided*, *however*, that nothing in this Section shall prevent the satisfaction of any sinking fund payment in accordance with Article Twelve by delivering and crediting pursuant to Section 1202 Securities which have been acquired (upon redemption or otherwise) prior to such declaration of acceleration.

In the event that, notwithstanding the foregoing, the Company shall make any payment to the Trustee or the Holder of any Security prohibited by the foregoing provisions of this Section, and if such fact shall, at or prior to the time of such payment, have been made known to the Trustee or, as the case may be, such Holder, then and in such event such payment shall be paid over and delivered forthwith to the Company.

SECTION 1404. *No Payment When Senior Debt in Default.*

Subject to the last paragraph of this Section, (a) (i) in the event and during the continuation of any default in the payment of principal of (or premium, if any) or interest on any Senior Debt beyond any applicable grace period with respect thereto, or (ii) in the event that any event of default with respect to any Senior Debt shall have occurred and be continuing permitting the holders of such Senior Debt (or a trustee on behalf of the holders thereof) to declare such Senior Debt due and payable prior to the date on which it would otherwise have become due and payable, whether or not such Senior Debt has been so accelerated (*provided* that, in the case of Clause (i) or Clause (ii), if such default in payment or event of default shall have been cured or waived or shall have ceased to exist and any such declaration of acceleration shall have been rescinded or annulled, then such default in payment or event of default, as the case may be, shall be deemed not to have occurred for the purposes of this Section), or (b) in the event that any judicial proceeding shall be pending with respect to any such default in payment or event of

default that shall be deemed to have occurred for the purpose of this Section, then no payment (including any payment which may be payable by reason of the payment of any other indebtedness of the Company being subordinated to the payment of the Securities) shall be made by the Company on account of principal of (or premium, if any) or interest on the Securities or on account of the purchase or other acquisition of Securities; *provided*, *however*, that nothing in this Section shall prevent the satisfaction of any sinking fund payment in accordance with Article Twelve by delivering and crediting pursuant to Section 1202 Securities which have been acquired (upon redemption or otherwise) prior to such default in payment.

In the event that, notwithstanding the foregoing, the Company shall make any payment to the Trustee or the Holder of any Security prohibited by the provisions of this Section, and if such fact shall, at or prior to the time of such payment, have been made known to the Trustee or, as the case may be, such Holder, then and in such event such payment shall be paid over and delivered forthwith to the Company.

No default in payment or event of default with respect to any Senior Debt shall be deemed to be a default in payment or event of default of the kind specified in Clause (a)(i) or (a)(ii) of this Section, and no judicial proceeding with respect to any such default in payment or event of default shall be deemed to be a judicial proceeding of the kind specified in Clause (b) of this Section, if (x) the Company shall be disputing the occurrence or continuation of such default in payment or event of default, or any obligation purportedly giving rise to such default in payment or event of default, and (y) no final judgment holding that such default in payment or event of default has occurred and is continuing shall have been issued. For this purpose, a "final judgment" means a judgment that is issued by a court having jurisdiction over the Company or its property, is binding on the Company or its property, is in full force and effect and is not subject to judicial appeal or review (including because the time within which a party may seek appeal or review has expired), *provided* that, if any such judgment has been issued but is subject to judicial appeal or review, it shall nevertheless be deemed to be a final judgment unless the Company shall in good faith be prosecuting such appeal or a proceeding for such review and shall have obtained a stay of execution pending such appeal or review. Notwithstanding the foregoing, this paragraph shall not apply to any default in payment or event of default with respect to any Senior Debt as to which the Company has waived the application of this paragraph in the instrument evidencing such Senior Debt or by which such Senior Debt is created, incurred, assumed or guaranteed by the Company.

SECTION 1405. *Payment Permitted in Certain Situations.*

Nothing contained in this Article or elsewhere in this Indenture or in any of the Securities shall prevent (a) the Company, at any time except during the pendency of any case, proceeding, dissolution, liquidation or other winding up, assignment for the benefit of creditors or other marshalling of assets and liabilities of the Company referred to in Section 1402 or under the conditions described in Section 1403 or 1404, from making

payments at any time of or on account of the principal of (and premium, if any) or interest on the Securities, or on account of the purchase or other acquisition of Securities, or (b) the application by the Trustee of any money deposited with it hereunder to the payment of or on account of the principal of (and premium, if any) or interest on the Securities or the retention of such payment by the Holders, if, at the time of such application by the Trustee, it did not have knowledge that such payment would have been prohibited by the provisions of this Article.

SECTION 1406. *Subrogation to Rights of Holders of Senior Debt.*

Subject to the payment in full of all Senior Debt or the provision for such payment in cash or cash equivalents or otherwise in a manner satisfactory to the holders of Senior Debt, the Holders of the Securities shall be subrogated to the extent of the payments or distributions made to the holders of such Senior Debt pursuant to the provisions of this Article (equally and ratably with the holders of indebtedness of the Company which by its express terms is subordinated to indebtedness of the Company to substantially the same extent as the Securities are subordinated to the Senior Debt and is entitled to like rights of subrogation) to the rights of the holders of such Senior Debt to receive payments and distributions of cash, property and securities applicable to the Senior Debt until the principal of (and premium, if any) and interest on the Securities shall be paid in full. For purposes of such subrogation, no payments or distributions to the holders of the Senior Debt of any cash, property or securities to which the Holders of the Securities or the Trustee would be entitled except for the provisions of this Article, and no payments over pursuant to the provisions of this Article to the holders of Senior Debt by Holders of the Securities or the Trustee, shall, as among the Company, its creditors other than holders of Senior Debt and the Holders of the Securities, be deemed to be a payment or distribution by the Company to or on account of the Senior Debt.

SECTION 1407. *Provisions Solely to Define Relative Rights.*

The provisions of this Article are and are intended solely for the purpose of defining the relative rights of the Holders of the Securities on the one hand and the holders of Senior Debt on the other hand. Nothing contained in this Article or elsewhere in this Indenture or in the Securities is intended to or shall (a) impair, as among the Company, its creditors other than holders of Senior Debt and the Holders of the Securities, the obligation of the Company, which is absolute and unconditional (and which, subject to the rights under this Article of the holders of Senior Debt, is intended to rank equally with all other general obligations of the Company), to pay to the Holders of the Securities the principal of (and premium, if any) and interest on the Securities as and when the same shall become due and payable in accordance with their terms; or (b) affect the relative rights against the Company of the Holders of the Securities and creditors of the Company other than the holders of Senior Debt; or (c) prevent the Trustee or the Holder of any Security from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article of

the holders of Senior Debt to receive cash, property and securities otherwise payable or deliverable to the Trustee or such Holder.

SECTION 1408. *Trustee to Effectuate Subordination.*

Each Holder of a Security by his acceptance thereof authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article and appoints the Trustee his attorney-in-fact for any and all such purposes.

SECTION 1409. *No Waiver of Subordination Provisions.*

No right of any present or future holder of any Senior Debt to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by any such holder, or by any non-compliance by the Company with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof any such holder may have or be otherwise charged with.

Without in any way limiting the generality of the foregoing paragraph, the holders of Senior Debt may, at any time and from time to time, without the consent of or notice to the Trustee or the Holders of the Securities, without incurring responsibility to the Holders of the Securities and without impairing or releasing the subordination provided in this Article or the obligations hereunder of the Holders of the Securities to the holders of Senior Debt do any one or more of the following: (i) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, Senior Debt or otherwise amend or supplement in any manner Senior Debt or any instrument evidencing the same or any agreement under which Senior Debt is outstanding; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing Senior Debt; (iii) release any Person liable in any manner for the collection of Senior Debt; and (iv) exercise or refrain from exercising any rights against the Company and any other Person.

SECTION 1410. *Notice to Trustee.*

The Company shall give prompt written notice to the Trustee of any fact known to the Company which would prohibit the making of any payment to or by the Trustee in respect of the Securities. Notwithstanding the provisions of this Article or any other provision of this Indenture, the Trustee shall not be charged with knowledge of the existence of any facts which would prohibit the making of any payment to or by the Trustee in respect of the Securities, unless and until the Trustee shall have received written notice thereof from the Company or a holder of Senior Debt or from any trustee therefor; and, prior to the receipt of any such written notice, the Trustee, subject to the provisions of Section 601, shall be entitled in all respects to assume that no such facts exist.

Subject to the provisions of Section 601, the Trustee shall be entitled to rely on the delivery to it of a written notice by a Person representing himself to be a holder of Senior Debt (or a trustee therefor) to establish that such notice has been given by a holder of Senior Debt (or a trustee therefor). In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any Person as a holder of Senior Debt to participate in any payment or distribution pursuant to this Article, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Debt held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such Person under this Article, and if such evidence is not furnished, the Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment.

SECTION 1411. *Reliance on Judicial Order or Certificate of Liquidating Agent.*

Upon any payment or distribution of assets of the Company referred to in this Article, the Trustee, subject to the provisions of Section 601, and the Holders of the Securities shall be entitled to rely upon any order or decree entered by any court of competent jurisdiction in which such insolvency, bankruptcy, receivership, liquidation, reorganization, dissolution, winding up or similar case or proceeding is pending, or a certificate of the trustee in bankruptcy, receiver, liquidating trustee, custodian, assignee for the benefit of creditors, agent or other Person making such payment or distribution, delivered to the Trustee or to the Holders of Securities, for the purpose of ascertaining the Persons entitled to participate in such payment or distribution, the holders of Senior Debt and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article.

SECTION 1412. *Trustee Not Fiduciary for Holders of Senior Debt.*

The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Debt and shall not be liable to any such holders or creditors if it shall in good faith pay over or distribute to Holders of Securities or to the Company or to any other Person cash, property or securities to which any holders of Senior Debt shall be entitled by virtue of this Article or otherwise. With respect to the holders of Senior Debt, the Trustee undertakes to perform or to observe only such of its covenants or obligations as are specifically set forth in this Article and no implied covenants or obligations with respect to holders of Senior Debt shall be read into this Indenture against the Trustee.

SECTION 1413. *Rights of Trustee as Holder of Senior Debt; Preservation of Trustee's Rights.*

The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article with respect to any Senior Debt which may at any time be held by it, to the same extent as any other holder of Senior Debt and nothing in this Indenture shall deprive the Trustee of any of its rights as such holder.

Nothing in this Article shall apply to claims of, or payments to, the Trustee under or pursuant to Section 607.

SECTION 1414. *Article Applicable to Paying Agents.*

In case at any time any Paying Agent other than the Trustee shall have been appointed by the Company and be then acting hereunder, the term "Trustee" as used in this Article shall in such case (unless the context otherwise requires) be construed as extending to and including such Paying Agent within its meaning as fully for all intents and purposes as if such Paying Agent were named in this Article in addition to or in place of the Trustee.

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

In Witness Whereof, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

The Goldman Sachs Group, Inc.

By: /s/ Veronica Foo

Assistant Treasurer

Attest: /s/ Matthew E. Tropp

Assistant Secretary

The Bank of New York

By: /s/ Thomas E. Tabor

Vice President

Attest: /s/ Vanessa Mack

Assistant Vice President

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On the 20th day of February, 2004, before me personally came Veronica Foo, to me known, who, being by me duly sworn, did depose and say that he is Assistant Treasurer of The Goldman Sachs Group, Inc., one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation; and that he signed his name thereto by like authority.

/s/ Christine S. Thomas

Notary Public

[Notarial Seal]

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On the 20th day of February, 2004, before me personally came Thomas E. Tabor, to me known, who, being by me duly sworn, did depose and say that he is a Vice President of The Bank of New York, one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation; and that he signed his name thereto by like authority.

/s/ Marion Papadogonas

Notary Public

[Notarial Seal]

EXHIBIT 10.9

THE GOLDMAN SACHS AMENDED AND RESTATED
STOCK INCENTIVE PLAN
2003 YEAR-END OPTION AWARD

This Award Agreement sets forth the terms and conditions of the 2003 year-end award (this "Award") of Nonqualified Stock Options ("2003 Year-End Options") granted to you under The Goldman Sachs Amended and Restated Stock Incentive Plan (the "Plan").

1. The Plan. This Award is made pursuant to the Plan, the terms of which are incorporated in this Award Agreement. Capitalized terms used in this Award Agreement that are not defined in this Award Agreement have the meanings as used or defined in the Plan. References in this Award Agreement to any specific Plan provision shall not be construed as limiting the applicability of any other Plan provision.

2. Award. The Award Statement delivered to you sets forth (i) the Date of Grant of the 2003 Year-End Options, (ii) the number of 2003 Year-End Options and (iii) the Exercise Price of each 2003 Year-End Option. Until shares of Common Stock ("Shares") are delivered to you pursuant to Paragraph 7 after you exercise your 2003 Year-End Options, you have no rights as a shareholder of GS Inc. **THIS AWARD IS CONDITIONED ON YOUR SIGNING THE RELATED SIGNATURE CARD AND RETURNING IT TO GS INC. BY THE DATE SPECIFIED ON THE SIGNATURE CARD, AND IS SUBJECT TO ALL TERMS, CONDITIONS AND PROVISIONS OF THE PLAN AND THIS AWARD AGREEMENT, INCLUDING, WITHOUT LIMITATION, THE ARBITRATION AND CHOICE OF FORUM PROVISIONS SET FORTH IN PARAGRAPH 13. BY SIGNING AND RETURNING THE RELATED SIGNATURE CARD (WHICH, AMONG OTHER THINGS, OPENS THE CUSTODY ACCOUNT REFERRED TO IN PARAGRAPH 7 IF YOU HAVE NOT DONE SO ALREADY), YOU WILL HAVE CONFIRMED YOUR ACCEPTANCE OF ALL OF THE TERMS AND CONDITIONS OF THIS AWARD AGREEMENT.**

3. Expiration Date. The Expiration Date for your 2003 Year-End Options is November 29, 2013 (in New York). Notwithstanding anything to the contrary in this Award Agreement, but subject to earlier termination as provided in this Award Agreement or otherwise in accordance with the Plan, on the Expiration Date all of your then Outstanding 2003 Year-End Options shall terminate.

4. Vesting.

(a) In General. Except as provided below in Paragraphs 4(b), 4(c) and 4(d), on each Vesting Date you shall become Vested in the number or percentage of your then Outstanding 2003 Year-End Options as specified next to such Vesting Date on the Award Statement (subject to rounding to avoid becoming vested in fractional 2003 Year-End Options). While continued active Employment is not required in order for your Outstanding Vested 2003 Year-End Options to become exercisable, all other conditions of this Award Agreement shall continue to apply to such Vested 2003 Year-End Options, and failure to meet such terms and conditions may result in the termination of this Award.

(b) Death. Notwithstanding any other provision of this Award Agreement, if you die prior to an applicable Vesting Date, as soon as practicable after the date of death and after such documentation as may be requested by the Committee is provided to the Committee, any such 2003 Year-End Options that were Outstanding but that had not yet become Vested immediately prior to your death shall become Vested, but all other conditions of this Award Agreement thereafter shall apply to the representative of your estate.

(c) Extended Absence, Retirement and Downsizing.

(i) Notwithstanding any other provision of this Award Agreement, but subject to Paragraph 5(c), in the event of the termination of your Employment by reason of Extended Absence or Retirement (determined as

described in Section 1.2.19 of the Plan), the condition set forth in Paragraph 5(a) shall be waived with respect to any 2003 Year-End Options that were Outstanding but that had not yet become Vested immediately prior to such termination of Employment (as a result of which such 2003 Year-End Options shall become Vested), but all other conditions of this Award Agreement shall continue to apply.

(ii) Notwithstanding any other provision of this Award Agreement and subject to your executing such general waiver and release of claims and an agreement to pay any associated tax liability, both as may be prescribed by the Firm or its designee, if your Employment is terminated without Cause solely by reason of a "downsizing," the condition set forth in Paragraph 5(a) shall be waived with respect to your 2003 Year-End Options that were Outstanding but that had not yet become Vested immediately prior to such termination of Employment (as a result of which such 2003 Year-End Options shall become Vested), but all other conditions of this Award Agreement shall continue to apply. Whether or not your Employment is terminated solely by reason of a "downsizing" shall be determined by the Firm in its sole discretion. No termination of Employment initiated by you, including any termination claimed to be a "constructive termination" or the like or a termination for good reason, will be solely by reason of a "downsizing."

(d) Change in Control. Notwithstanding any other provision of this Award Agreement, if there is a Change in Control and your Employment terminates as described in Paragraph 6(d), the condition set forth in Paragraph 5(a) shall be waived with respect to any 2003 Year-End Options that were Outstanding but that had not yet become Vested immediately prior to such termination of Employment (as a result of which such 2003 Year-End Options shall become Vested), but all other terms and conditions of this Award Agreement shall continue to apply.

5. Termination of 2003 Year-End Options Upon Certain Events.

(a) Unless the Committee determines otherwise, and except as provided in Paragraphs 4(b), 4(c) and 4(d), if your Employment terminates for any reason or you otherwise are no longer actively employed with the Firm, your 2003 Year-End Options that were Outstanding but had not yet become Vested immediately prior to your termination of Employment immediately shall terminate.

(b) Unless the Committee determines otherwise, all of your Outstanding 2003 Year-End Options (whether or not Vested) immediately shall terminate if at any time prior to the date you exercise such 2003 Year-End Options:

(i) you attempt to have any dispute under the Plan or this Award Agreement resolved in any manner that is not provided for by Paragraph 13 or Section 3.17 of the Plan;

(ii) any event that constitutes Cause has occurred;

(iii) you in any manner, directly or indirectly, (A) Solicit any Client to transact business with a Competitive Enterprise or to reduce or refrain from doing any business with the Firm, (B) interfere with or damage (or attempt to interfere with or damage) any relationship between the Firm and any such Client or (C) Solicit any person who is an employee of the Firm to resign from the Firm or to apply for or accept employment with any Competitive Enterprise; or

(iv) you fail to certify to GS Inc., in accordance with procedures established by the Committee, that you have complied, or the Committee determines that you in fact have failed to comply, with all the terms and conditions of the Plan and this Award Agreement. By exercising any 2003 Year-End Option under this Award Agreement, or by accepting the delivery of Shares under this Award Agreement, you shall be deemed to have represented and certified at such time that you have complied with all of the terms and conditions of the Plan and this Award Agreement.

(c) Without limiting the application of Paragraph 5(b), your Outstanding 2003 Year-End Options that become Vested in accordance with Paragraph 4(c)(i) immediately shall terminate if, prior to the original Vesting Date with respect to such 2003 Year-End Options, you (i) form, or acquire a 5% or greater equity ownership, voting or profit participation interest in, any Competitive Enterprise, or (ii) associate in any capacity (including, but not limited to, association as an officer, employee, partner, director, consultant, agent or advisor) with any Competitive Enterprise. Notwithstanding the foregoing, unless otherwise determined by the Committee in its discretion, this Paragraph 5(c) will not apply if your termination of Employment by reason of Extended Absence or Retirement is characterized by the Firm as "involuntary" or by "mutual agreement" other than for Cause and if you execute such a general waiver and release of claims and an agreement to pay any associated tax liability, both as may be prescribed by the Firm or its designee. No termination of Employment initiated by you, including any termination claimed to be a "constructive termination" or the like or a termination for good reason, will constitute an "involuntary" termination of Employment or a termination of Employment by "mutual agreement."

6. Exercisability of Vested 2003 Year-End Options.

(a) In General. Only 2003 Year-End Options that are Outstanding and Vested can be exercised. Outstanding Vested 2003 Year-End Options must be exercised in accordance with procedures established by the Committee from time to time but, subject to Paragraph 6(d), not earlier than the Initial Exercise Date. The Initial Exercise Date for your 2003 Year-End Options shall be a date specified by the Committee that is not more than thirty (30) Business Days after the date listed on the Award Statement as the Initial Exercise Date, if the date listed as the Initial Exercise Date on the Award Statement is during a Window Period or, if the date listed on the Award Statement is not during a Window Period, on a date specified by the Committee that is not more than 30 Business Days after the first Trading Day of the first Window Period that begins thereafter. For this purpose, a "Trading Day" is a day on which Shares trade regular way on the New York Stock Exchange. The Committee may from time to time prescribe periods during which the Vested 2003 Year-End Options shall not be exercisable. In addition, the exercise procedures established by the Committee may require you to take specific steps in order to exercise your 2003 Year-End Options within a minimum time prior to the effective date of exercise.

(b) Death. Notwithstanding any other provision of this Award Agreement, if you die and, at the time of your death, you have any Outstanding 2003 Year-End Options, such Outstanding 2003 Year-End Options (i) shall be exercisable by the representative of your estate in accordance with Paragraph 6(a) beginning on the later of (x) the Initial Exercise Date and (y) a date that is as soon as practicable after the date of death and after such documentation as may be requested by the Committee is provided to the Committee and (ii) unless earlier terminated in accordance with the terms of this Award Agreement, shall remain exercisable until the Expiration Date.

(c) Other Terminations of Employment. Subject to Paragraphs 5(b) and 5(c), upon the termination of your Employment for any reason (other than death or Cause), your then Outstanding Vested 2003 Year-End Options shall be exercisable in accordance with Paragraph 6(a) beginning on the Initial Exercise Date and, unless earlier terminated in accordance with the terms of this Award Agreement, shall remain exercisable until the Expiration Date.

(d) Change in Control. Notwithstanding anything to the contrary in this Award Agreement, if a Change in Control shall occur, and within 18 months thereafter the Firm terminates your Employment without Cause or you terminate your Employment for Good Reason, as provided in Paragraph 4(d), all of your 2003 Year-End Options that were Outstanding but that had not yet become Vested immediately prior to your termination of Employment, shall become Vested, and all of your Outstanding Vested 2003 Year-End Options shall become exercisable and, unless earlier terminated in accordance with the terms of this Award Agreement, shall remain exercisable until the Expiration Date.

7. Delivery. Unless otherwise determined by the Committee, or as otherwise provided in this Award Agreement, including, without limitation, Paragraphs 10 and 11, after receipt of payment of the Exercise Price in respect of a 2003 Year-End Option, a Share shall be delivered by book-entry credit to the Custody Account maintained by you. Notwithstanding the foregoing, if you are or become considered by GS Inc. to be one of its "covered employees"

within the meaning of Section 162(m) of the Code, then you shall be subject to the provisions of Section 3.21.1 of the Plan, as a result of which delivery of your Shares may be delayed. In accordance with Section 1.3.2(h) of the Plan, in the discretion of the Committee, in lieu of all or any portion of the Shares otherwise deliverable upon the exercise of all or any portion of your 2003 Year-End Options, the Firm may deliver cash, other securities, other Awards or other property, and all references in this Award Agreement to deliveries of Shares shall include such deliveries of cash, other securities, other Awards or other property.

8. Repayment. The provisions of Section 2.3.5 of the Plan (which requires Award recipients to repay to the Firm amounts delivered to them if the Committee determines that all terms and conditions of this Award Agreement in respect of such exercise were not satisfied) shall apply to this Award.

9. Non-transferability. Except as may otherwise be provided by the Committee, the limitations on transferability set forth in Section 3.5 of the Plan shall apply to this Award. Any purported transfer or assignment in violation of the provisions of this Paragraph 9 or Section 3.5 of the Plan shall be void.

10. Withholding, Consents, Transactions Involving Common Stock and Legends.

(a) The delivery of Shares upon exercise of your 2003 Year-End Options is conditioned on your satisfaction of any applicable withholding taxes in accordance with Section 3.2 of the Plan.

(b) If you are or become a Managing Director, your rights in respect of your 2003 Year-End Options are conditioned on your becoming a party to any shareholders' agreement to which other similarly situated employees of the Firm are a party.

(c) Your rights in respect of your 2003 Year-End Options are conditioned on the receipt to the full satisfaction of the Committee of any required consents (as described in Section 3.3 of the Plan) that the Committee may determine to be necessary or advisable.

(d) You understand and agree, in accordance with Section 3.3 of the Plan, by accepting this Award, you have expressly consented to all of the items listed in Section 3.3.3(d) of the Plan, which are incorporated herein by reference.

(e) You understand and agree, in accordance with Section 3.22 of the Plan, by accepting this Award you have agreed to be subject to the Firm's policies in effect from time to time concerning trading in Shares, hedging or pledging Shares and equity-based compensation or other awards, and confidential or proprietary information, and to effect sales of Shares delivered to you in respect of your 2003 Year-End Options in accordance with such rules and procedures as may be adopted from time to time with respect to sales of such Shares (which may include, without limitation, restrictions relating to the timing of sale requests, the manner in which sales are executed, pricing method, consolidation or aggregation of orders and volume limits determined by the Firm). In addition, you understand and agree that you shall be responsible for all brokerage costs and other fees or expenses associated with your Award, including without limitation, such brokerage costs or other fees or expenses in connection with the exercise of your 2003 Year-End Options or the sale of Shares delivered to you hereunder.

(f) GS Inc. may affix to Certificates representing Shares issued upon exercise of your 2003 Year-End Options any legend that the Committee determines to be necessary or advisable (including to reflect any restrictions to which you may be subject under a separate agreement with GS Inc.). GS Inc. may advise the transfer agent to place a stop order against any legended Shares.

11. Right of Offset. The obligation to deliver Shares upon exercise of your 2003 Year-End Options is subject to Section 3.4 of the Plan, which provides for the Firm's right to offset against such obligation any outstanding amounts you owe to the Firm and any amounts the Committee deems appropriate pursuant to any tax equalization policy or agreement.

12. Amendment. The Committee reserves the right at any time to amend the terms and conditions set forth in this Award Agreement, and the Board may amend the Plan in any respect; provided that, notwithstanding the foregoing and Sections 1.3.2(f), 1.3.2(g) and 3.1 of the Plan, no such amendment shall materially adversely affect your rights and obligations under this Award Agreement without your consent; and provided further that the Committee expressly reserves its rights to amend the Award Agreement and the Plan as described in Sections 1.3.2(h)(1), (2) and (4) of the Plan. Any amendment of this Award Agreement shall be in writing signed by an authorized member of the Committee or a person or persons designated by the Committee.

13. Arbitration; Choice of Forum. **BY ACCEPTING THIS AWARD, YOU UNDERSTAND AND AGREE THAT THE ARBITRATION AND CHOICE OF FORUM PROVISIONS SET FORTH IN SECTION 3.17 OF THE PLAN, WHICH ARE EXPRESSLY INCORPORATED HEREIN BY REFERENCE AND WHICH, AMONG OTHER THINGS, PROVIDE THAT ANY DISPUTE, CONTROVERSY OR CLAIM BETWEEN THE FIRM AND YOU ARISING OUT OF OR RELATING TO OR CONCERNING THE PLAN OR THIS AWARD AGREEMENT SHALL BE FINALLY SETTLED BY ARBITRATION IN NEW YORK CITY, PURSUANT TO THE TERMS MORE FULLY SET FORTH IN SECTION 3.17 OF THE PLAN, SHALL APPLY.**

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

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

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

THE GOLDMAN SACHS GROUP, INC.

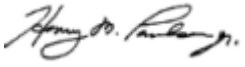
By: 
Name: Henry M. Paulson, Jr.
Title: Chairman and Chief Executive Officer

EXHIBIT 10.10

THE GOLDMAN SACHS AMENDED AND RESTATED
STOCK INCENTIVE PLAN
2003 YEAR-END RSU AWARD

This Award Agreement sets forth the terms and conditions of the 2003 Year-End award (this "Award") of RSUs ("2003 Year-End RSUs") granted to you under The Goldman Sachs Amended and Restated Stock Incentive Plan (the "Plan").

1. The Plan. This Award is made pursuant to the Plan, the terms of which are incorporated in this Award Agreement. Capitalized terms used in this Award Agreement that are not defined in this Award Agreement have the meanings as used or defined in the Plan. References in this Award Agreement to any specific Plan provision shall not be construed as limiting the applicability of any other Plan provision.

2. Award. The number of 2003 Year-End RSUs subject to this Award is set forth in the Award Statement delivered to you. An RSU constitutes an unfunded and unsecured promise to deliver (or cause to be delivered) to you, subject to the terms and conditions of this Award Agreement, a share of Common Stock (a "Share") on the Delivery Date or as otherwise provided herein. Until such delivery, you have only the rights of a general unsecured creditor, and no rights as a shareholder, of GS Inc. **THIS AWARD IS CONDITIONED ON YOUR SIGNING THE RELATED SIGNATURE CARD AND RETURNING IT TO GS INC. BY THE DATE SPECIFIED ON THE SIGNATURE CARD, AND IS SUBJECT TO ALL TERMS, CONDITIONS AND PROVISIONS OF THE PLAN AND THIS AWARD AGREEMENT, INCLUDING, WITHOUT LIMITATION, THE ARBITRATION AND CHOICE OF FORUM PROVISIONS SET FORTH IN PARAGRAPH 12. BY SIGNING AND RETURNING THE RELATED SIGNATURE CARD (WHICH, AMONG OTHER THINGS, OPENS THE CUSTODY ACCOUNT REFERRED TO IN PARAGRAPH 3(b) IF YOU HAVE NOT DONE SO ALREADY), YOU WILL HAVE CONFIRMED YOUR ACCEPTANCE OF ALL OF THE TERMS AND CONDITIONS OF THIS AWARD AGREEMENT.**

3. Vesting and Delivery.

(a) Vesting. Except as provided in this Paragraph 3 and in Paragraphs 4, 6, 7, 9 and 10, on each Vesting Date you shall become Vested in the number or percentage of 2003 Year-End RSUs specified next to such Vesting Date on the Award Statement (subject to rounding to avoid becoming Vested in fractional 2003 Year-End RSUs). While continued active Employment is not required in order to receive delivery of the Shares underlying your Outstanding 2003 Year-End RSUs that are or become Vested, all other conditions of this Award Agreement shall continue to apply to such Vested 2003 Year-End RSUs, and failure to meet such terms and conditions may result in the termination of this Award (as a result of which no Shares underlying such Vested 2003 Year-End RSUs would be delivered).

(b) Delivery.

(i) The Delivery Date with respect to this Award shall be the date specified as such on your Award Statement, if that date is during a Window Period or, if that date is not during a Window Period, the first Trading Day of the first Window Period beginning after such date. For this purpose, a "Trading Day" is a day on which Shares trade regular way on the New York Stock Exchange.

(ii) Except as provided in this Paragraph 3 and in Paragraphs 4, 6, 7, 9 and 10, in accordance with Section 3.23 of the Plan, reasonably promptly (but in no case more than thirty (30) Business Days) after the date specified as the Delivery Date (or any other date delivery of Shares is called for hereunder), Shares underlying the number or percentage of your then Outstanding 2003 Year-End RSUs with respect to which the Delivery Date (or other date) has occurred (which number of Shares may be rounded to avoid fractional Shares) shall be delivered by book entry credit to your Custody Account. Notwithstanding the foregoing, if you are or

become considered by GS Inc. to be one of its "covered employees" within the meaning of Section 162(m) of the Code, then you shall be subject to Section 3.21.3 of the Plan, as a result of which delivery of your Shares may be delayed.

(iii) In accordance with Section 1.3.2(i) of the Plan, in the discretion of the Committee, in lieu of all or any portion of the Shares otherwise deliverable in respect of all or any portion of your 2003 Year-End RSUs, the Firm may deliver cash, other securities, other Awards or other property, and all references in this Award Agreement to deliveries of Shares shall include such deliveries of cash, other securities, other Awards or other property.

(c) Death. Notwithstanding any other provision of this Award Agreement, if you die prior to the Delivery Date, the Shares underlying your then Outstanding 2003 Year-End RSUs shall be delivered to the representative of your estate as soon as practicable after the date of death and after such documentation as may be requested by the Committee is provided to the Committee.

4. Termination of 2003 Year-End RSUs and Non-Delivery of Shares.

(a) Unless the Committee determines otherwise, and except as provided in Paragraphs 3(c), 6 and 7, if your Employment terminates for any reason or you otherwise are no longer actively employed with the Firm, your rights in respect of your 2003 Year-End RSUs that were Outstanding but that had not yet become Vested immediately prior to your termination of Employment immediately shall terminate, such 2003 Year-End RSUs shall cease to be Outstanding and no Shares shall be delivered in respect thereof.

(b) Unless the Committee determines otherwise, and except as provided in Paragraphs 6 and 7, your rights in respect of all of your Outstanding 2003 Year-End RSUs (whether or not Vested) shall immediately terminate, such 2003 Year-End RSUs shall cease to be Outstanding and no Shares shall be delivered in respect thereof if:

(i) you attempt to have any dispute under the Plan or this Award Agreement resolved in any manner that is not provided for by Paragraph 12 or Section 3.17 of the Plan;

(ii) any event that constitutes Cause has occurred;

(iii) you in any manner, directly or indirectly, (A) Solicit any Client to transact business with a Competitive Enterprise or to reduce or refrain from doing any business with the Firm, (B) interfere with or damage (or attempt to interfere with or damage) any relationship between the Firm and any Client or (C) Solicit any person who is an employee of the Firm to resign from the Firm or to apply for or accept employment with any Competitive Enterprise; or

(iv) you fail to certify to GS Inc., in accordance with procedures established by the Committee, that you have complied, or the Committee determines that you in fact have failed to comply, with all the terms and conditions of the Plan and this Award Agreement. By accepting the delivery of Shares under this Award Agreement, you shall be deemed to have represented and certified at such time that you have complied with all the terms and conditions of the Plan and this Award Agreement.

5. Repayment. The provisions of Section 2.6.3 of the Plan (which requires Award recipients to repay to the Firm amounts delivered to them if the Committee determines that all terms and conditions of this Award Agreement in respect of such delivery were not satisfied) shall apply to this Award.

6. Extended Absence, Retirement and Downsizing.

(a) Notwithstanding any other provision of this Award Agreement, but subject to Paragraph 6(b), in the event of the termination of your Employment by reason of Extended Absence or Retirement (determined as described in Section 1.2.19 of the Plan), the condition set forth in Paragraph 4(a) shall be waived with respect to any 2003 Year-End RSUs that were Outstanding but that had not yet become Vested immediately prior to such termination of Employment (as a result of which such 2003 Year-End RSUs shall become Vested), but all other conditions of this Award Agreement shall continue to apply.

(b) Without limiting the application of Paragraph 4(b), your rights in respect of your Outstanding 2003 Year-End RSUs that become Vested in accordance with Paragraph 6(a) immediately shall terminate, such Outstanding 2003 Year-End RSUs shall cease to be Outstanding, and no Shares shall be delivered in respect thereof if, prior to the original Vesting Date with respect to such 2003 Year-End RSUs, you (i) form, or acquire a 5% or greater equity ownership, voting or profit participation interest in, any Competitive Enterprise, or (ii) associate in any capacity (including, but not limited to, association as an officer, employee, partner, director, consultant, agent or advisor) with any Competitive Enterprise. Notwithstanding the foregoing, unless otherwise determined by the Committee in its discretion, this Paragraph 6(b) will not apply if your termination of Employment by reason of Extended Absence or Retirement is characterized by the Firm as "involuntary" or by "mutual agreement" other than for Cause and if you execute such a general waiver and release of claims and an agreement to pay any associated tax liability, both as may be prescribed by the Firm or its designee. No termination of Employment initiated by you, including any termination claimed to be a "constructive termination" or the like or a termination for good reason, will constitute an "involuntary" termination of Employment or a termination of Employment by "mutual agreement."

(c) Notwithstanding any other provision of this Award Agreement and subject to your executing such general waiver and release of claims and an agreement to pay any associated tax liability, both as may be prescribed by the Firm or its designee, if your Employment is terminated without Cause solely by reason of a "downsizing," the condition set forth in Paragraph 4(a) shall be waived with respect to your 2003 Year-End RSUs that were Outstanding but that had not yet become Vested immediately prior to such termination of Employment (as a result of which such 2003 Year-End RSUs shall become Vested), but all other conditions of this Award Agreement shall continue to apply. Whether or not your Employment is terminated solely by reason of a "downsizing" shall be determined by the Firm in its sole discretion. No termination of Employment initiated by you, including any termination claimed to be a "constructive termination" or the like or a termination for good reason, will be solely by reason of a "downsizing."

7. Change in Control. Notwithstanding anything to the contrary in this Award Agreement, in the event a Change in Control shall occur and within 18 months thereafter the Firm terminates your Employment without Cause or you terminate your Employment for Good Reason, all Shares underlying your then Outstanding 2003 Year-End RSUs, whether or not Vested, shall be delivered.

8. Dividend Equivalent Rights. Each 2003 Year-End RSU shall include a Dividend Equivalent Right. Accordingly, with respect to each of your Outstanding 2003 Year-End RSUs, at or after the time of distribution of any regular cash dividend paid by GS Inc. in respect of a Share the record date for which occurs on or after the Date of Grant, you shall be entitled to receive an amount (less applicable withholding) equal to such regular dividend payment as would have been made in respect of the Share underlying such Outstanding 2003 Year-End RSU. Payment in respect of a Dividend Equivalent Right shall be made only with respect to 2003 Year-End RSUs that are Outstanding on the payment date. Each Dividend Equivalent Right shall be subject to the provisions of Section 2.8.2 of the Plan.

9. Withholding, Consents, Transactions involving Common Stock and Legends.

(a) The delivery of Shares is conditioned on your satisfaction of any applicable withholding taxes in accordance with Section 3.2 of the Plan.

(b) If you are or become a Managing Director, your rights in respect of the 2003 Year-End RSUs are conditioned on your becoming a party to any shareholders' agreement to which other similarly situated employees of the Firm are a party.

(c) Your rights in respect of your 2003 Year-End RSUs are conditioned on the receipt to the full satisfaction of the Committee of any required consents (as described in Section 3.3 of the Plan) that the Committee may determine to be necessary or advisable.

(d) You understand and agree, in accordance with Section 3.3 of the Plan, by accepting this Award, you have expressly consented to all of the items listed in Section 3.3.3(d) of the Plan, which are incorporated herein by reference.

(e) You understand and agree, in accordance with Section 3.22 of the Plan, by accepting this Award you have agreed to be subject to the Firm's policies in effect from time to time concerning trading in Shares, hedging or pledging Shares and equity-based compensation or other awards, and confidential or proprietary information, and to effect sales of Shares delivered to you in respect of your 2003 Year-End RSUs in accordance with such rules and procedures as may be adopted from time to time with respect to sales of such Shares (which may include, without limitation, restrictions relating to the timing of sale requests, the manner in which sales are executed, pricing method, consolidation or aggregation of orders and volume limits determined by the Firm). In addition, you understand and agree that you shall be responsible for all brokerage costs and other fees or expenses associated with your 2003 Year-End RSU Award, including without limitation, such brokerage costs or other fees or expenses in connection with the sale of Shares delivered to you hereunder.

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

10. Right of Offset. The obligation to deliver Shares under this Award Agreement is subject to Section 3.4 of the Plan, which provides for the Firm's right to offset against such obligation any outstanding amounts you owe to the Firm and any amounts the Committee deems appropriate pursuant to any tax equalization policy or agreement.

11. Amendment. The Committee reserves the right at any time to amend the terms and conditions set forth in this Award Agreement, and the Board may amend the Plan in any respect; provided that, notwithstanding the foregoing and Sections 1.3.2(f), 1.3.2(g) and 3.1 of the Plan, no such amendment shall materially adversely affect your rights and obligations under this Award Agreement without your consent; and provided further that the Committee expressly reserves its rights to amend the Award Agreement and the Plan as described in Sections 1.3.2(h)(1), (2) and (4) of the Plan. Any amendment of this Award Agreement shall be in writing signed by an authorized member of the Committee or a person or persons designated by the Committee.

12. Arbitration; Choice of Forum. **BY ACCEPTING THIS AWARD, YOU UNDERSTAND AND AGREE THAT THE ARBITRATION AND CHOICE OF FORUM PROVISIONS SET FORTH IN SECTION 3.17 OF THE PLAN, WHICH ARE EXPRESSLY INCORPORATED HEREIN BY REFERENCE AND WHICH, AMONG OTHER THINGS, PROVIDE THAT ANY DISPUTE, CONTROVERSY OR CLAIM BETWEEN THE FIRM AND YOU ARISING OUT OF OR RELATING TO OR CONCERNING THE PLAN OR THIS AWARD AGREEMENT SHALL BE FINALLY SETTLED BY ARBITRATION IN NEW YORK CITY, PURSUANT TO THE TERMS MORE FULLY SET FORTH IN SECTION 3.17 OF THE PLAN, SHALL APPLY.**

13. Non-transferability. Except as otherwise may be provided by the Committee, the limitations on transferability set forth in Section 3.5 of the Plan shall apply to this Award. Any purported transfer or assignment in violation of the provisions of this Paragraph 13 or Section 3.5 of the Plan shall be void.

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

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

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

THE GOLDMAN SACHS GROUP, INC.

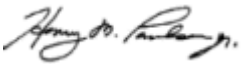
By: 
Name: Henry M. Paulson, Jr.
Title: Chairman and Chief Executive Officer

EXHIBIT 12.1

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
($ in millions)

	Year Ended November				
	2003	**2002**	**2001**	**2000**	**1999**
Net earnings	**$ 3,005**	$ 2,114	$ 2,310	$ 3,067	$ 2,708
Add:					
Provision for taxes	**1,440**	1,139	1,386	1,953	(716)
Portion of rents representative of an interest factor	**120**	120	111	80	51
Interest expense on all indebtedness	**7,600**	8,868	15,327	16,410	12,018
Earnings, as adjusted	**$12,165**	$12,241	$19,134	$21,510	$14,061
Fixed charges [1]:					
Portion of rents representative of an interest factor	**$ 120**	$ 122	$ 111	$ 80	$ 51
Interest expense on all indebtedness	**7,613**	8,874	15,327	16,410	12,018
Fixed charges	**$ 7,733**	$ 8,996	$15,438	$16,490	$12,069
Ratio of earnings to fixed charges	**1.57**x	1.36x	1.24x	1.30x	1.16x

[1] Fixed charges includes capitalized interest and the interest factor of capitalized rent.

EXHIBIT 13.1

Management's Discussion and Analysis

Goldman Sachs is a leading global investment banking, securities and investment management firm that provides a wide range of services worldwide to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals.

Our activities are divided into three segments:

- INVESTMENT BANKING – We provide a broad range of investment banking services to a diverse group of corporations, financial institutions, governments and individuals.
- TRADING AND PRINCIPAL INVESTMENTS – We facilitate customer transactions with a diverse group of corporations, financial institutions, governments and individuals and take proprietary positions through market making in, and trading of, fixed income and equity products, currencies, commodities and derivatives on such products. In addition, we engage in floor-based and electronic market making as a specialist on U.S. equities and options exchanges and we clear customer transactions on major stock, options and futures exchanges worldwide. In connection with our merchant banking and other investment activities, we make principal investments directly and through funds that we raise and manage.
- ASSET MANAGEMENT AND SECURITIES SERVICES – We offer a broad array of investment strategies, advice and planning across all major asset classes to a diverse client base of institutions and individuals, and provide prime brokerage, financing services and securities lending services to mutual funds, pension funds, hedge funds, foundations, endowments and high-net-worth individuals.

Unless specifically stated otherwise, all references to 2003, 2002 and 2001 refer to our fiscal years ended, or the dates, as the context requires, November 28, 2003, November 29, 2002 and November 30, 2001, respectively.

When we use the terms "Goldman Sachs," "we," "us" and "our," we mean The Goldman Sachs Group, Inc., a Delaware corporation, and its consolidated subsidiaries.

In this discussion, we have included statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. These forward-looking statements are not historical facts but instead represent only our beliefs 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 under "—Certain Factors That May Affect Our Business."

EXECUTIVE OVERVIEW

Our diluted earnings per share were $5.87 for 2003, a 46% increase compared with 2002. Return on average tangible shareholders' equity was 19.9%[(1)] and return on average shareholders' equity was 15.0%. Our results in 2003 reflected strong growth in Trading and Principal Investments, particularly in our Fixed Income, Currency and Commodities (FICC) business, which continued to operate in a favorable environment, generally characterized by low interest rates and narrow credit spreads. Results in our Principal Investments business improved in 2003, aided by an unrealized gain on our investment in the convertible preferred stock of Sumitomo Mitsui Financial Group, Inc. (SMFG). Our Equities business generated higher revenues in 2003, though results in Equities remained well below peak levels. Asset Management and Securities Services produced strong revenue growth, primarily reflecting higher assets under management and higher customer balances in securities and margin lending. In Investment Banking, despite a significant improvement in debt underwriting, we reported a third straight year of decreased revenues and earnings, reflecting declines in industry-wide mergers and acquisitions and equity underwriting activity.

Our operating results in 2003 also reflected a number of trends that have emerged in recent years and may continue in the future. Competitive pressures continued in our Investment Banking business and, in our Equities business, commission rates and spreads continued to

(1) Return on average tangible shareholders' equity is computed by dividing net earnings by average monthly tangible shareholders' equity. See "–Results of Operations" for further information regarding our return on average tangible shareholders' equity calculation.

decline, demand for capital increased and transaction volumes remained at low levels. We did, however, see increased trading and investing opportunities for our clients and ourselves in 2003, in part due to some of the same economic shocks and trends that have created challenging conditions for some of our other businesses in recent years. We increased our market risk in 2003 to take advantage of these perceived opportunities. Finally, in the current regulatory environment, corporations generally and financial services firms in particular have been subject to wide criticism and intense scrutiny and, consequently, the volume and amount of claims against financial intermediaries are increasing. Given the range of litigation and investigations presently under way, our litigation expenses may remain high. For a further discussion of these trends and other factors affecting our businesses, see "—Certain Factors That May Affect Our Business" included herein as well as in our Annual Report on Form 10-K for our 2003 fiscal year.

BUSINESS ENVIRONMENT

As an investment banking, securities and investment management 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. A favorable business environment is generally characterized by low inflation, low and declining interest rates, and strong equity markets. Over the business cycle, these factors provide a positive climate for our investment banking activities, for many of our trading businesses and for wealth creation, which contributes to growth in our asset management businesses. In recent years, we have been operating in a challenging environment for many of our businesses, characterized by equity market declines from record highs, lower levels of corporate activity, and a decline in investor confidence resulting from, among other factors, several highly publicized financial scandals and geopolitical uncertainty. However, in the second half of 2003, the business and economic environment improved somewhat around the world. For a further discussion of how market conditions can affect our businesses, see "—Certain Factors That May Affect Our Business." A further discussion of the business environment in 2003 is set forth below.

GLOBAL – The pace of growth in the global economy improved in the second half of 2003, after a period of subdued growth earlier in the year. Geopolitical factors, particularly relating to the conflict in Iraq, and ongoing concerns about the sustainability of the economic recovery restrained capital spending in the early part of the year. Diminishing concerns and easing global monetary policy led to a stabilization of global activity around midyear, followed by an increase in activity in the second half of 2003. In particular, the U.S. economy showed a sharp increase in economic growth in the second half, helped by fiscal and monetary stimulus. Global equity markets remained generally weak in the early part of the year, but rallied strongly from March, reflecting expectations of an improvement in the economic environment and corporate profitability. The fixed income markets, which generally performed well for a third straight year, were characterized by tightening corporate credit spreads, low interest rates, a steep yield curve and strong customer demand. In the currency markets, the U.S. dollar continued to weaken through the year, falling significantly against most major currencies. Corporate activity, as measured by industry-wide completed mergers and acquisitions and equity underwriting volumes, remained low. However, industry-wide debt origination levels increased significantly from 2002.

UNITED STATES – The U.S. economy grew at a modest pace in the first half of the year, but improved in the second half. Real gross domestic product in the 2003 calendar year rose by approximately 3.1%, with quarterly growth rising from 1.4% (annualized) in the first quarter to over 8% in the third quarter. The U.S. Federal Reserve reduced the federal funds rate target by 25 basis points in June in response to continued economic weakness and the risk of deflation. The easing in monetary conditions, combined with a large fiscal stimulus package and moderating geopolitical uncertainty, contributed to a sharp improvement in economic growth around midyear, as both consumer and investment spending picked up strongly. In addition, high productivity growth restrained labor costs and underpinned a sharp increase in corporate profitability through 2003. Indications from the Federal Reserve that it was prepared to act aggressively to prevent the risk of deflation, contributed to the 10-year U.S. Treasury note yield falling to 45-year lows in June. However, long-term yields subsequently rose significantly as the economic environment improved.

EUROPE – Economic conditions in Europe generally remained weak through most of 2003. Real gross domestic product growth in Europe, which was approximately 1.0% for the 2003 calendar year, was among the weakest in a decade, as firms continued to cut back on investment through much of the year. The Eurozone economies recorded negative growth in the first half of the 2003 calendar year, although a recovery in global activity led to modest economic growth in the second half of the year. The European Central Bank lowered interest rates by 125 basis points in the aggregate between December 2002 and June 2003 in response to continuing economic weakness. The U.K. economy continued to grow at a modest pace, but was stronger than continental Europe, primarily due to increased consumer spending. Improving economic activity in the latter part of the year led the Bank of

England to raise interest rates by 25 basis points in November 2003, after having lowered them by 50 basis points earlier in the year.

ASIA – Japan's economy improved during 2003. Economic growth was supported by improved domestic spending and continued strong export growth to China and other Asian trading partners. Corporate profitability improved and investment spending rose strongly through the year. The Bank of Japan continued to provide substantial liquidity to the market and continued to hold short-term interest rates at zero percent through the year. The Ministry of Finance engaged in substantial intervention in currency markets during the year to limit the strengthening of the yen against other major currencies. Strengthening global and local activity pushed bond yields significantly higher in the second half of the year.

Growth in other Asian economies improved from midyear, after slowing in the second quarter when a number of the region's economies were adversely affected by the spread of the SARS virus. As those adverse effects dissipated and as the pace of the U.S. economic recovery increased, growth in the region improved. China's growth remained very strong through 2003. While the adverse effects of the SARS virus led to a temporary slowdown in the Chinese economy in the second quarter, the pace of growth accelerated sharply in the second half of 2003, driven in part by very rapid growth in investment spending. Strong demand growth in China provided substantial support to other economies in the region and to several global commodities markets.

CERTAIN FACTORS THAT MAY AFFECT OUR BUSINESS

We face a variety of risks that are substantial and inherent in our businesses, including market, liquidity, credit, operational, legal and regulatory risks. For a discussion of how management seeks to manage some of these risks, see "—Risk Management." A summary of some of the important factors that could affect our business follows below. For a further discussion of these and other important factors that could affect our business, see "Business—Certain Factors That May Affect Our Business" in our Annual Report on Form 10-K for our 2003 fiscal year.

MARKET CONDITIONS AND MARKET RISK – Our businesses are materially affected by conditions in the global financial markets and economic conditions generally. Although business conditions improved somewhat in the second half of 2003, in recent years we have been operating in a very challenging environment: the number and size of equity underwritings and mergers and acquisitions transactions have declined significantly; the equities markets in the United States and elsewhere have been volatile and at levels below their record highs; investors have exhibited concerns over the integrity of the U.S. financial markets as a result of highly publicized financial and mutual fund scandals; and the attention of management of many clients has been diverted from capital-raising transactions and acquisitions and dispositions in part as a result of corporate governance regulations, such as the Sarbanes-Oxley Act of 2002, and related uncertainty in capital markets.

Adverse or uncertain economic and market conditions have in the past adversely affected, and may in the future adversely affect, our business and profitability in many ways, including the following:

- Industry-wide declines in the size and number of equity underwritings and mergers and acquisitions and increased price competition may continue to have an adverse effect on our revenues and, because we may be unable to reduce expenses correspondingly, our profit margins.

- We have been committing increasing amounts of capital in many of our businesses and generally maintain large trading, specialist and investment positions. Market fluctuations and volatility may adversely affect the value of those positions or may reduce our willingness to enter into some new transactions.

- We have been operating in a low or declining interest rate market for the past several years. Increasing or high interest rates and/or widening credit spreads, especially if such changes are rapid, may create a less favorable environment for certain of our businesses.

- 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.

- 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. In our specialist businesses, we are obligated by stock exchange rules to maintain an orderly market, including by purchasing shares in a declining market. This may result in trading losses and an increased need for liquidity. Further weakness in global equities markets, the trading of securities in multiple markets and on multiple exchanges, and the ongoing New York Stock Exchange (NYSE) and Securities and

Exchange Commission (SEC) investigations into the stock specialist business could adversely impact our trading businesses and impair the value of our goodwill and identifiable intangible assets. For a further discussion of our goodwill and identifiable intangible assets, see "—Critical Accounting Policies—Goodwill and Identifiable Intangible Assets."

- Reductions in the level of the equities markets also tend to reduce the value of our clients' portfolios, which in turn may reduce the fees we earn for managing assets. 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 incentive and management fees we receive.

CREDIT RISK – 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, as has the breadth of the entities to which we have credit exposure. As a clearing member firm, we finance our customer positions and we could be held responsible for the defaults or misconduct of our customers. In addition, we have experienced, due to competitive factors, pressure to extend credit and price more aggressively the credit risks we take. In particular, corporate clients sometimes seek to require credit commitments from us in connection with investment banking and other assignments. 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.

LIQUIDITY RISK – Liquidity (i.e., ready access to funds) is essential to our businesses. Our liquidity could be impaired by an inability to access secured and/or unsecured debt markets, an inability to access funds from our subsidiaries 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 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, limit our access to the capital markets 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 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 find other sources of financing or to make significant cash payments or securities movements. For a discussion of the potential impact on Goldman Sachs of a reduction in our credit ratings, see "—Capital and Funding—Credit Ratings."

OPERATIONAL AND INFRASTRUCTURE RISK – 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. Shortcomings or failures in our internal processes, people or systems could lead to, among other consequences, financial loss and reputational damage. In addition, despite the contingency plans we have in place, 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.

LEGAL AND REGULATORY RISK – Substantial legal liability or a significant regulatory action against Goldman Sachs could have material adverse financial effects 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 of claims and amount of damages claimed in litigation and regulatory proceedings against financial intermediaries have been increasing. For a discussion of how we account for our legal and regulatory exposures, see "—Use of Estimates."

CRITICAL ACCOUNTING POLICIES

Fair Value

"Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value" in 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 use of fair value to measure these financial instruments, with related unrealized gains and losses recognized immediately in our results of operations, is fundamental to our financial statements and is our most critical accounting policy. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

In determining fair value, we separate our financial instruments into three categories – cash (i.e., nonderivative) trading instruments, derivative contracts and principal investments, as set forth in the following table:

FINANCIAL INSTRUMENTS BY CATEGORY

	AS OF NOVEMBER			
	2003		2002	
(IN MILLIONS)	FINANCIAL INSTRUMENTS OWNED, AT FAIR VALUE	FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED, AT FAIR VALUE	FINANCIAL INSTRUMENTS OWNED, AT FAIR VALUE	FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED, AT FAIR VALUE
Cash trading instruments	**$110,157**	**$ 60,813**	$ 85,791	$44,552
Derivative contracts	**45,733**	**41,886**	42,205	38,921
Principal investments	**3,755**[1]	**—**	1,779	—
Total	**$159,645**	**$102,699**	$129,775	$83,473

[1] Excludes assets of $1.07 billion in employee-owned merchant banking funds that were consolidated in 2003.

CASH TRADING INSTRUMENTS – The fair values of cash trading instruments are generally obtained from quoted market prices in active markets, broker or dealer price quotations, or alternative pricing sources with a reasonable level of price transparency. The types of instruments valued in this manner include U.S. government and agency securities, other sovereign government obligations, liquid mortgage products, investment-grade corporate bonds, listed equities, money market securities, state, municipal and provincial obligations, and physical commodities.

Certain cash trading instruments trade infrequently and, therefore, have little or no price transparency. Such instruments may include certain high-yield debt, corporate bank loans, mortgage whole loans and distressed debt. We value these instruments using methodologies such as the present value of known or estimated cash flows and generally do not adjust underlying valuation assumptions unless there is substantive evidence supporting a change in the value of the underlying instrument or valuation assumptions (such as similar market transactions, changes in financial ratios and changes in the credit ratings of the underlying companies).

The following table sets forth the valuation of our cash trading instruments by level of price transparency:

CASH TRADING INSTRUMENTS BY PRICE TRANSPARENCY

	AS OF NOVEMBER			
	2003		2002	
(IN MILLIONS)	FINANCIAL INSTRUMENTS OWNED, AT FAIR VALUE	FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED, AT FAIR VALUE	FINANCIAL INSTRUMENTS OWNED, AT FAIR VALUE	FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED, AT FAIR VALUE
Quoted prices or alternative pricing sources with reasonable price transparency	**$102,306**	**$60,673**	$81,125	$44,357

Little or no price transparency	**7,851**	**140**	4,666	195
Total	**$110,157**	**$60,813**	$85,791	$44,552

Cash trading instruments we own (long positions) are marked to bid prices and instruments we have sold but not yet purchased (short positions) are marked to offer prices. If liquidating a position is reasonably expected to affect its prevailing market price, our valuation is adjusted generally based on market evidence or predetermined policies. In certain circumstances, such as for highly illiquid positions, management's estimates are used to determine this adjustment.

DERIVATIVE CONTRACTS – Derivative contracts consist of exchange-traded and over-the-counter (OTC) derivatives. The following table sets forth the fair value of our exchange-traded and OTC derivative assets and liabilities:

DERIVATIVE ASSETS AND LIABILITIES

	AS OF NOVEMBER			
	2003		2002	
(IN MILLIONS)	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Exchange-traded derivatives	**$ 5,182**	**$ 6,339**	$ 8,911	$ 8,630
OTC derivatives	**40,551**	**35,547**	33,294	30,291
Total[(1)]	**$45,733**	**$41,886**	$42,205	$38,921

(1) The fair values of our derivative assets and liabilities include cash we have paid and received (for example, option premiums or cash paid or received pursuant to credit support agreements) and may change significantly from period to period based on, among other factors, changes in our trading positions and market movements.

The fair values of our exchange-traded derivatives are generally determined from quoted market prices. OTC derivatives are valued using valuation models. We use a variety of valuation models including the present value of known or estimated cash flows, option-pricing models and option-adjusted spread models. The valuation models that we use to derive the fair values of our OTC derivatives require inputs including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs.

At the inception of an OTC derivative contract (day one), we value the contract at the model value if we can verify all of the significant model inputs to observable market data and verify the model value to market transactions. When appropriate, valuations are adjusted to take account of various factors such as liquidity, bid/offer and credit considerations. These adjustments are generally based on market evidence or predetermined policies. In certain circumstances, such as for highly illiquid positions, management's estimates are used to determine these adjustments.

Where we cannot verify all of the significant model inputs to observable market data and verify the model value to market transactions, we value the contract at the transaction price at inception and, consequently, record no day one gain or loss in accordance with Emerging Issues Task Force (EITF) Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities." For a further discussion of EITF Issue No. 02-3, see Note 2 to the consolidated financial statements.

Following day one, we adjust the inputs to our valuation models only to the extent that changes in such inputs can be verified by similar market transactions, third-party pricing services and/or broker quotes or can be derived from other substantive evidence such as empirical market data. In circumstances where we cannot verify the model value to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

The following tables set forth the fair values of our OTC derivative assets and liabilities by product and by remaining contractual maturity:

OTC DERIVATIVES

(IN MILLIONS)

	AS OF NOVEMBER 2003					
ASSETS	**0–6 MONTHS**	**6–12 MONTHS**	**1–5 YEARS**	**5–10 YEARS**	**10 YEARS OR GREATER**	**TOTAL**
Contract type						
Interest rates	**$ 1,470**	**$ 160**	**$ 4,017**	**$4,332**	**$ 9,541**	**$19,520**
Currencies	**5,486**	**1,230**	**4,069**	**1,842**	**897**	**13,524**
Commodities	**1,538**	**645**	**1,648**	**473**	**159**	**4,463**
Equities	**1,276**	**637**	**675**	**329**	**127**	**3,044**
Total	**$ 9,770**	**$2,672**	**$10,409**	**$6,976**	**$10,724**	**$40,551**
LIABILITIES	**0–6 MONTHS**	**6–12 MONTHS**	**1–5 YEARS**	**5–10 YEARS**	**10 YEARS OR GREATER**	**TOTAL**
Contract type						
Interest rates	**$ 2,026**	**$ 381**	**$ 3,896**	**$2,894**	**$ 2,475**	**$11,672**
Currencies	**5,993**	**1,121**	**2,951**	**2,949**	**828**	**13,842**
Commodities	**2,059**	**921**	**1,461**	**232**	**183**	**4,856**
Equities	**3,267**	**669**	**1,027**	**182**	**32**	**5,177**
Total	**$13,345**	**$3,092**	**$ 9,335**	**$6,257**	**$ 3,518**	**$35,547**

	AS OF NOVEMBER 2002					
ASSETS	0–6 MONTHS	6–12 MONTHS	1–5 YEARS	5–10 YEARS	10 YEARS OR GREATER	TOTAL
Contract type						
Interest rates	$ 864	$ 536	$ 6,266	$4,983	$ 9,281	$21,930
Currencies	2,955	917	1,007	486	211	5,576
Commodities	1,200	632	1,145	185	11	3,173
Equities	1,386	492	673	63	1	2,615
Total	$ 6,405	$2,577	$ 9,091	$5,717	$ 9,504	$33,294
LIABILITIES	0–6 MONTHS	6–12 MONTHS	1–5 YEARS	5–10 YEARS	10 YEARS OR GREATER	TOTAL
Contract type						
Interest rates	$ 1,084	$ 393	$ 6,870	$5,556	$ 2,291	$16,194
Currencies	3,134	751	1,478	935	603	6,901
Commodities	1,432	836	977	62	2	3,309
Equities	1,958	938	844	147	—	3,887
Total	$ 7,608	$2,918	$10,169	$6,700	$ 2,896	$30,291

Price transparency for OTC derivative model inputs varies depending on, among other factors, product type, maturity and the complexity of the contract. Price transparency for interest rate and currency contracts varies by the underlying currencies, with the currencies of the leading industrialized nations having the most price transparency. Price transparency for commodity contracts varies by type of underlying commodity. Price transparency for equity contracts varies by market, with the equity markets of the leading industrialized nations having the most price transparency. For more complex structures, price transparency is inherently more limited because they often combine one or more product

types, requiring additional inputs such as correlations and volatilities.

PRINCIPAL INVESTMENTS – In valuing our corporate and real estate principal investments, we separate our portfolio into investments in private companies and investments in public companies, including our investment in the convertible preferred stock of SMFG. The following table sets forth the carrying value of our principal investments portfolio:

PRINCIPAL INVESTMENTS

	AS OF NOVEMBER					
	2003			2002		
(IN MILLIONS)	CORPORATE	REAL ESTATE	TOTAL	CORPORATE	REAL ESTATE	TOTAL
Private	**$1,054**	**$ 757**	**$1,811**	$ 881	$ 736	$1,617
Public	**219**	**42**	**261**	154	8	162
SMFG convertible preferred stock[1]	**1,683**	**—**	**1,683**	—	—	—
Total	**$2,956**	**$ 799**	**$3,755**[2]	$1,035	$ 744	$1,779

(1) The fair value of our Japanese yen-denominated investment in SMFG convertible preferred stock includes the effect of foreign exchange revaluation. We hedge our economic exposure to exchange rate movements on our investment in SMFG by borrowing Japanese yen. Foreign exchange revaluation on the investment and the related borrowing are generally equal and offsetting. For example, if the Japanese yen appreciates against the U.S. dollar, the U.S. dollar carrying value of our SMFG investment will increase and the U.S. dollar value of the related borrowing will also increase by an equal and offsetting amount.

(2) Excludes assets of $1.07 billion in employee-owned merchant banking funds that were consolidated in 2003.

Our private principal investments, by their nature, have little to no price transparency. Such investments are initially carried at cost as an approximation of fair value. Adjustments to carrying value are made if there are third-party transactions evidencing a change in value. Downward adjustments are also made, in the absence of third-party transactions, if we determine that the expected realizable value of the investment is less than the carrying value. In reaching that determination, we consider many factors including, but not limited to, the operating cash flows and financial performance of the companies or properties relative to budgets or projections, trends within sectors and/or regions, underlying business models, expected exit timing and strategy, and any specific rights or terms associated with the investment, such as conversion features and liquidation preferences.

Our public principal investments, which tend to be large, concentrated holdings that resulted from initial public offerings or other corporate transactions, are valued using quoted market prices discounted for restrictions on sale. If liquidating a position is reasonably expected to affect market prices, valuations are adjusted accordingly based on predetermined written policies.

Our investment in the convertible preferred stock of SMFG is carried at fair value, which is derived from a model that incorporates SMFG's common stock price and credit spreads, the impact of transfer restrictions on our investment and the downside protection on the conversion strike price. The fair value of our investment is particularly sensitive to movements in the SMFG common stock price. Since February 7, 2003, the date of our investment in the convertible preferred stock of SMFG, the fair value of our investment increased 23% (expressed in Japanese yen), primarily due to a 66% increase in the SMFG common stock price. As a result of transfer restrictions and the downside protection on the conversion strike price, the relationship between changes in the fair value of our investment and changes in SMFG's common stock price is nonlinear.

CONTROLS OVER VALUATION OF FINANCIAL INSTRUMENTS – Proper controls, independent of the trading and principal investing functions, are fundamental to ensuring that our financial instruments are appropriately and consistently valued and that fair value measurements are reliable. This is particularly important in valuing instruments with lower levels of price transparency.

We employ an oversight structure that includes appropriate segregation of duties. Senior management, independent of the trading functions, is responsible for the oversight of control and valuation policies and procedures and reporting the results of such work to the Audit Committee. We seek to maintain the necessary resources, with the appropriate experience and training, to ensure that control and independent price verification functions are performed to the highest standards. In addition, we employ procedures for the approval of new transaction types and markets, independent price verification, review of daily profit and loss, and review of valuation models by personnel with appropriate technical knowledge of relevant markets and products. For a further discussion of how we manage the risks inherent in our trading and principal investing businesses, see "—Risk Management."

Goodwill and Identifiable Intangible Assets

As a result of our business combinations, principally with SLK LLC (SLK) in fiscal 2000, we have acquired goodwill and identifiable intangible assets. Goodwill is the cost of acquired companies in excess of the fair value of net assets, including identifiable intangible assets, at the acquisition date.

GOODWILL – We test the goodwill in each of our operating segments for impairment at least annually in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," by comparing the estimated fair value of each operating segment with its estimated net book value. We derive the fair value of each of our operating segments primarily based on earnings multiples. We derive the net book value of our operating segments by estimating the amount of shareholders' equity required to support the assets of each operating segment. Our last annual impairment test was performed during our fiscal 2003 fourth quarter and no impairment was identified.

The following table sets forth the carrying value of our goodwill by operating segment:

GOODWILL BY OPERATING SEGMENT

	AS OF NOVEMBER	
(IN MILLIONS)	**2003**	**2002**
Investment Banking		
Financial Advisory	**$ —**	$ —
Underwriting	**125**	123
Trading and Principal Investments		
FICC	**117**	117
Equities[1]	**2,384**	2,374
Principal Investments	**—**	—
Asset Management and Securities Services		
Asset Management	**419**[2]	128
Securities Services	**117**	117
Total	**$3,162**	$2,859

(1) Primarily related to our combinations with SLK and The Hull Group.

(2) Primarily related to our combination with The Ayco Company, L.P. (Ayco).

IDENTIFIABLE INTANGIBLE ASSETS – We amortize our identifiable intangible assets over their estimated useful lives in accordance with SFAS No. 142, and test for potential impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the expected undiscounted cash flows relating to the asset or asset group are less than the corresponding carrying value.

During our fiscal fourth quarter, the American Stock Exchange, the Chicago Board Options Exchange and the Philadelphia Stock Exchange all announced proposed restructuring plans and continued to experience loss of market share to the International Securities Exchange, which became the leading U.S. options exchange during 2003. Consequently, we tested our related option specialist rights for impairment during the fourth quarter, and recognized an impairment charge of $133 million. The estimated fair value of the option specialist rights was derived from expected discounted cash flows. We also surrendered certain option specialist rights in earlier quarters, recognizing total charges of $20 million.

The following table sets forth the carrying value and range of remaining useful lives of our identifiable intangible assets by major asset class:

IDENTIFIABLE INTANGIBLE ASSETS BY ASSET CLASS

	AS OF NOVEMBER		
	2003		2002
($ IN MILLIONS)	CARRYING VALUE	RANGE OF REMAINING USEFUL LIVES (IN YEARS)	CARRYING VALUE
Customer lists	**$ 880**[1]	**8 – 21**	$ 765
NYSE specialist rights	**636**	**24 – 26**	666
Option and exchange-traded fund (ETF) specialist rights	**130**	**2 – 24**	291
Other	**174**[2]	**4 – 9**	258
Total	**$1,820**		$1,980

(1) Includes primarily our clearance and execution and Nasdaq customer lists acquired in our combination with SLK and financial counseling customer lists acquired in our combination with Ayco.

(2) Includes primarily technology-related assets acquired in our combination with SLK.

A prolonged period of weakness in global equity markets, the trading of securities in multiple markets and on multiple exchanges, and the ongoing NYSE and SEC investigations into the stock specialist business could adversely impact our businesses and impair the value of our goodwill and/or identifiable intangible assets. In addition, an announced restructuring by the NYSE or any other exchange on which we hold specialist rights or an adverse action or assessment by a regulator could indicate a potential impairment of the associated identifiable intangible assets.

USE OF ESTIMATES

The use of generally accepted accounting principles requires management to make certain estimates. In addition to the estimates we use in connection with fair value measurements and the accounting for goodwill and identifiable intangible assets, the use of estimates is also important in determining provisions for potential losses that may arise from litigation and regulatory proceedings.

We provide for potential losses that may arise out of litigation and regulatory proceedings to the extent that such losses are probable and can be estimated, in accordance with SFAS No. 5, "Accounting for Contingencies." Our total liability in respect of litigation and regulatory proceedings, which is determined on a case-by-case basis, represents our best estimate of probable losses after considering, among other factors, the progress of each case, our experience and the experience of others in similar cases, and the opinions and views of legal counsel. However, significant judgment is required in making this estimate and our final liability may turn out to be materially different. During 2003, we recorded provisions of $159 million in respect of a number of litigation and regulatory proceedings. See "Legal Proceedings" in our Annual Report on Form 10-K for our 2003 fiscal year for information on our judicial, regulatory and arbitration proceedings.

RESULTS OF OPERATIONS

The composition of our net revenues has varied over time as financial markets and the scope of our operations have changed. The composition of net revenues can also vary over the shorter term due to fluctuations in U.S. and global economic and market conditions. For a further discussion of the impact of economic and market conditions on our results of operations, see "—Business Environment" and "—Certain Factors That May Affect Our Business."

Financial Overview

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

FINANCIAL OVERVIEW

($ IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	YEAR ENDED NOVEMBER 2003	2002	2001
Net revenues	**$16,012**	$13,986	$15,811
Pre-tax earnings	**4,445**	3,253	3,696
Net earnings	**3,005**	2,114	2,310
Diluted earnings per share	**5.87**	4.03	4.26
Return on average shareholders' equity[1]	**15.0%**	11.3%	13.0%
Return on average tangible shareholders' equity[2]	**19.9%**	15.3%	17.8%

(1) Return on average shareholders' equity is computed by dividing net earnings by average monthly shareholders' equity.

(2) Tangible shareholders' equity equals total shareholders' equity less goodwill and identifiable intangible assets. We believe that return on average tangible shareholders' equity is a meaningful measure of our financial performance because it reflects the return on equity deployed in our businesses. Return on average tangible shareholders' equity is computed by dividing net earnings by average monthly tangible shareholders' equity. The following table sets forth the reconciliation of average shareholders' equity to average tangible shareholders' equity:

(IN MILLIONS)	YEAR ENDED NOVEMBER 2003	2002	2001
Average shareholders' equity	**$20,031**	$18,659	$17,704
Deduct: Average goodwill and identifiable intangible assets	**(4,932)**	(4,837)	(4,727)
Average tangible shareholders' equity	**$15,099**	$13,822	$12,977

NET REVENUES

2003 VERSUS 2002 – Our net revenues were $16.01 billion in 2003, an increase of 14% compared with 2002, primarily reflecting higher net revenues in Trading and Principal Investments. The increase in Trading and Principal Investments net revenues was primarily driven by FICC, which operated in a generally favorable environment throughout the year, and by Principal Investments, which included an unrealized gain on our investment in the convertible preferred stock of SMFG. Net revenues in Asset Management and Securities Services increased 14% compared with 2002, primarily reflecting higher assets under management and higher customer balances in Securities Services. Net revenues in Investment Banking declined 4% compared with 2002, due to generally lower levels of corporate activity. For a further discussion of our net revenues, see "—Operating Results by Segment."

2002 VERSUS 2001 – Our net revenues were $13.99 billion in 2002, a decrease of 12% compared with 2001, primarily reflecting lower net revenues in Investment Banking and Trading and Principal Investments. Net revenues in Investment Banking and Trading and Principal Investments decreased 26% and 10%, respectively, compared with 2001, primarily reflecting a difficult economic and business environment, characterized by continued weakness in equity markets and generally lower levels of corporate activity. Net revenues in Asset Management and Securities Services increased 4% compared with 2001, primarily reflecting higher assets under management, partially offset by lower net revenues in Securities Services. For a further discussion of our net revenues, see "—Operating Results by Segment."

OPERATING EXPENSES

Our operating expenses are primarily influenced by compensation, headcount and levels of business activity. A substantial portion of our compensation expense represents discretionary bonuses, with our overall compensation and benefits expenses generally targeted at 50% (plus or minus a few percentage points) of consolidated net revenues. In addition to the level of net revenues, our compensation expense in any given year is also influenced by, among other factors, prevailing labor markets, business mix and the structure of our equity-based compensation programs.

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

OPERATING EXPENSES AND EMPLOYEES

($ IN MILLIONS)	YEAR ENDED NOVEMBER 2003	2002	2001
Compensation and benefits	**$ 7,393**	$ 6,744	$ 7,700
Amortization of employee initial public offering and acquisition awards	**122**	293	464
Non-compensation expenses	**4,052**	3,696	3,951
Total operating expenses	**$11,567**	$10,733	$12,115
Employees at year end[1]	**19,476**[2]	19,739	22,677

(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 and loan services.

(2) Includes 1,037 employees associated with our combination with Ayco, a provider of fee-based financial counseling in the United States, in July 2003.

2003 VERSUS 2002 – Operating expenses were $11.57 billion for 2003, 8% above 2002. Compensation and benefits expenses of $7.39 billion increased 10% compared with the prior year, with higher discretionary compensation more than offsetting lower levels of employment. The ratio of compensation and benefits to net revenues for 2003 was 46%, down from 48% for 2002, in part reflecting lower employment levels in 2003, which decreased 1% compared with November 2002. Excluding 1,037 employees associated with our combination with Ayco, employment levels were down 7% from November 2002. Effective for fiscal 2003, we began to account for stock-based compensation in accordance with the fair-value method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," using the prospective adoption method. The adoption of the recognition provisions of SFAS No. 123 did not have a material effect on our results of operations, principally because substantially all of the employee equity-based compensation granted for 2003 was in the form of restricted stock units. See Note 2 and Note 12 to the consolidated financial statements for further information regarding our stock-based compensation.

Non-compensation-related expenses of $4.05 billion for 2003 increased 10% compared with 2002. This increase was primarily due to (i) higher professional services and other expenses, which included provisions of $159 million for a number of litigation and regulatory proceedings; (ii) increased amortization of identifiable intangible assets, reflecting impairment charges of $188 million, primarily in respect of option specialist rights; and (iii) exit costs of $153 million associated with reductions in our global office space. These exit costs were primarily reflected in occupancy expenses, with the balance in depreciation and amortization expenses. Excluding the aggregate charges of $500 million described above, our non-compensation expenses declined slightly compared with 2002, reflecting lower depreciation and amortization, communications and technology, and market development expenses, and brokerage, clearing and exchange fees. These expense declines were primarily due to the impact of reduced employment levels, lower levels of business activity and continued cost-containment discipline. See "—Critical Accounting Policies—Goodwill and Identifiable Intangible Assets" for a discussion of our impairment charges in respect of option specialist rights and "—Capital and Funding—Contractual Obligations and Contingent Commitments" for a discussion of our excess office space.

Throughout 2003, we maintained our focus on cost containment in light of the continued challenging environment for certain of our businesses. We reduced employment levels and continued to closely manage our non-compensation expenses through expense-reduction initiatives first implemented in 2001. These initiatives were largely focused on reducing expenses in areas such as travel and entertainment, advertising, consulting, telecommunications and occupancy-related services. In addition, we continued to defer or scale back some of our noncritical capital reinvestment plans in order to limit growth in our depreciation and amortization expenses.

2002 VERSUS 2001 – Operating expenses of $10.73 billion for 2002 decreased 11% compared with 2001. Compensation and benefits expenses of $6.74 billion decreased 12% compared with 2001, primarily due to lower discretionary compensation, reduced employment levels, and lower consultants and temporary staff expense. The ratio of compensation and benefits to net revenues for 2002 was 48% compared with 49% for 2001. Employment levels decreased 13% from November 2001. Employee equity-based compensation granted for 2002 included roughly equal amounts of restricted stock units and stock options. See Note 2 and Note 12 to the consolidated financial statements for further information regarding our stock-based compensation.

Non-compensation-related expenses of $3.70 billion for 2002 decreased 6% compared with 2001. Excluding amortization of goodwill and identifiable intangible assets, these expenses decreased 3% compared with 2001, primarily reflecting lower market development and communications and technology expenses due to the continued impact of expense-reduction initiatives first implemented in 2001, reduced employment levels and lower levels of business activity. These reductions were partially offset by higher occupancy expenses primarily related to new leases and one-time costs related to the postponement of construction plans for a smaller facility adjacent to our office building in Jersey City, New Jersey. Amortization of goodwill and identifiable intangible assets was lower than in 2001, reflecting the adoption of the goodwill non-amortization provisions of SFAS No. 142.

PROVISION FOR TAXES

The effective income tax rate for 2003 was 32.4%, down from 35.0% for 2002. The lower effective income tax rate reflected an increase in tax credits and a decrease in state and local taxes. The effective income tax rate for 2002 was 35.0%, down from 37.5% in 2001. The decline in the effective income tax rate for 2002 compared with 2001 was primarily due to a change in our geographic earnings mix combined with ongoing efforts to convert major operating subsidiaries around the world to corporate form and an increase in tax-exempt income and tax credits.

Our effective income tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings and the level of our tax credits. These same and other factors, including our history of pre-tax earnings, are taken into account in assessing our ability to realize our net deferred tax assets. See Note 13 to the consolidated financial statements for further information regarding our provision for taxes.

Operating Results by Segment

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

OPERATING RESULTS BY SEGMENT

		YEAR ENDED NOVEMBER		
(IN MILLIONS)		**2003**	**2002**	**2001**
Investment Banking	Net revenues	**$ 2,711**	$ 2,830	$ 3,836
	Operating expenses	**2,504**	2,454	3,117
	Pre-tax earnings	**$ 207**	$ 376	$ 719
Trading and Principal Investments	Net revenues	**$10,443**	$ 8,647	$ 9,570
	Operating expenses	**6,938**	6,505	7,310
	Pre-tax earnings	**$ 3,505**	$ 2,142	$ 2,260
Asset Management and Securities Services	Net revenues	**$ 2,858**	$ 2,509	$ 2,405
	Operating expenses	**1,890**	1,562	1,325
	Pre-tax earnings	**$ 968**	$ 947	$ 1,080
Total	Net revenues	**$16,012**	$13,986	$15,811
	Operating expenses[(1)]	**11,567**	10,733	12,115
	Pre-tax earnings	**$ 4,445**	$ 3,253	$ 3,696

(1) Includes the following expenses that have not been allocated to our segments: (i) the amortization of employee initial public offering awards of $80 million, $212 million and $363 million for the years ended November 2003, November 2002 and November 2001, respectively, and (ii) provisions for a number of litigation and regulatory proceedings of $155 million for the year ended November 2003.

We made certain changes to our segment reporting structure in 2003. These changes included:

- reclassifying equity commissions and clearing and execution fees from the Commissions component of the Asset Management and

Securities Services segment to the Equities component of the Trading and Principal Investments segment;

- reclassifying merchant banking overrides from the Commissions component of the Asset Management and Securities Services segment to the Principal Investments component of the Trading and Principal Investments segment; and

- reclassifying the matched book businesses from the Securities Services component of the Asset Management and Securities Services segment to the FICC component of the Trading and Principal Investments segment.

These reclassifications did not affect our previously reported consolidated results of operations. Prior period segment operating results have been changed to conform to the new segment reporting structure.

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, such underlying positions. See Note 15 to the consolidated financial statements for further information regarding our segments.

The cost drivers of Goldman Sachs taken as a whole—compensation, headcount and levels of business activity—are broadly similar in each of our business segments. Compensation expenses within our segments reflect, among other factors, the performance of individual business units as well as the overall performance of Goldman Sachs. Consequently, pre-tax margins in one segment of our business may be significantly affected by the performance of our other business segments. For example, despite the decline in net revenues in our Investment Banking segment in 2003, compensation expenses increased, reflecting in part our strong overall performance. A discussion of segment operating results follows below.

INVESTMENT BANKING

Our Investment Banking segment is divided into two components:

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

The following table sets forth the operating results of our Investment Banking segment:

INVESTMENT BANKING OPERATING RESULTS

	YEAR ENDED NOVEMBER		
(IN MILLIONS)	**2003**	**2002**	**2001**
Financial Advisory	**$1,202**	$1,499	$2,070
Equity Underwriting	**678**	734	983
Debt Underwriting	**831**	597	783
Total Underwriting	**1,509**	1,331	1,766
Total net revenues	**2,711**	2,830	3,836
Operating expenses	**2,504**	2,454	3,117
Pre-tax earnings	**$ 207**	$ 376	$ 719

2003 VERSUS 2002 – Net revenues in Investment Banking of $2.71 billion for 2003 decreased 4% compared with 2002. Net revenues in Financial Advisory of $1.20 billion decreased 20% from the prior year, primarily reflecting a decline in industry-wide completed mergers and acquisitions. Net revenues in our Underwriting business of $1.51 billion increased 13%, reflecting an increase in industry-wide debt new issuance activity. Equity Underwriting net revenues decreased compared with 2002, primarily reflecting a decline in industry-wide total equity underwriting volume, including initial public offerings, partially offset by higher net revenues from convertible issuances. The reduction in Investment Banking net revenues reflects lower levels of activity in the industrial and financial institutions sectors, partially offset by increased activity in the healthcare and natural resources sectors. Our investment banking backlog at the end of 2003 was slightly higher than at the end of 2002.[(1)]

Operating expenses were $2.50 billion in 2003, 2% higher than 2002, primarily due to increased compensation and benefits expenses, with higher discretionary compensation more than offsetting the impact of lower levels of employment. The increase in discretionary compensation in Investment Banking reflects, among other factors, the overall performance of Goldman Sachs, continued strong relative performance in the business (as evidenced by our high rankings and market share), as well as the somewhat improved business environment at the end of 2003. Operating expenses also increased due to intangible asset impairment charges in respect of certain distribution rights and higher occupancy expenses,

(1) Our investment banking backlog represents an estimate of our future net revenues from investment banking transactions where we believe that future revenue realization is more likely than not.

primarily related to exit costs associated with reductions in our global office space. These expense increases were partially offset by lower market development and communications and technology expenses, reflecting the impact of reduced employment levels, lower levels of business activity and continued cost-containment discipline. Pre-tax earnings of $207 million in 2003 decreased 45% compared with 2002.

2002 VERSUS 2001 – Net revenues in Investment Banking of $2.83 billion for 2002 decreased 26% compared with 2001. Net revenues in Financial Advisory of $1.50 billion decreased 28% from 2001, reflecting a decline in industry-wide completed mergers and acquisitions. Net revenues in our Underwriting business of $1.33 billion decreased 25%, primarily reflecting a decline in industry-wide total equity underwriting volume, including initial public offerings, as well as a decline in Goldman Sachs' market share in global debt underwriting. The reduction in Investment Banking net revenues was primarily due to lower levels of activity across all sectors, particularly technology, media and telecommunications, natural resources and healthcare. Our investment banking backlog at the end of 2002 was significantly lower than at the end of 2001.[(1)]

Operating expenses were $2.45 billion in 2002, 21% lower than 2001, primarily due to decreased compensation and benefits expenses, reflecting lower discretionary compensation and lower employment levels. Market development and communications and technology expenses also decreased, reflecting the continued impact of expense-reduction initiatives first implemented in 2001, reduced employment levels and lower levels of business activity. Pre-tax earnings of $376 million in 2002 decreased 48% compared with 2001.

TRADING AND PRINCIPAL INVESTMENTS

Our Trading and Principal Investments segment is divided into three components:

- FICC – We make markets in and trade interest rate and credit products, mortgage-backed securities and loans, currencies and commodities, structure and enter into a wide variety of derivative transactions, and engage in proprietary trading.
- 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. We also execute and clear customer transactions on major stock, options and futures exchanges worldwide.
- PRINCIPAL INVESTMENTS – Principal Investment primarily represents net revenues from our merchant banking investments, including the increased share of the income and gains derived from our merchant banking funds when the return on a fund's investments exceeds certain threshold returns (merchant banking overrides), as well as unrealized gains or losses on our investment in the convertible preferred stock of SMFG.

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. We also regularly enter into large transactions as part of our trading businesses. The number and size of such transactions may affect our results of operations in a given period.

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 is reported in Equities Commissions. Both market-making revenues and explicit fees from our Nasdaq business are reported in "Trading and principal investments" in the consolidated statements of earnings.

Net revenues from Principal Investments do not include management fees generated from our merchant banking funds. These management fees are included in the net revenues of the Asset Management and Securities Services segment.

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(1) Our investment banking backlog represents an estimate of our future net revenues from investment banking transactions where we believe that future revenue realization is more likely than not.

The following table sets forth the operating results of our Trading and Principal Investments segment:

TRADING AND PRINCIPAL INVESTMENTS OPERATING RESULTS

	YEAR ENDED NOVEMBER		
(IN MILLIONS)	**2003**	**2002**	**2001**
FICC	**$ 5,596**	$4,680	$4,272
Equities Trading	**1,738**	1,008	2,923
Equities Commissions	**2,543**	2,994	2,603
Total Equities	**4,281**	4,002	5,526
Principal Investments	**566**	(35)	(228)
Total net revenues	**10,443**	8,647	9,570
Operating expenses	**6,938**	6,505	7,310
Pre-tax earnings	**$ 3,505**	$2,142	$2,260

2003 VERSUS 2002 – Net revenues in Trading and Principal Investments of $10.44 billion for 2003 increased 21% compared with 2002. FICC net revenues of $5.60 billion increased 20% compared with 2002, primarily due to higher net revenues in credit products, as well as improved performances in interest rate products, commodities and mortgages, partially offset by lower net revenues in currencies, which performed particularly well in 2002. During 2003, FICC operated in a generally favorable environment characterized by tightening corporate credit spreads, low interest rates, a steep yield curve and strong customer demand. Equities net revenues of $4.28 billion increased 7% compared with 2002, primarily due to higher net revenues in principal strategies.[1] This increase was partially offset by lower net revenues in our global equities product groups[2], primarily reflecting lower commission volumes and clearance and execution fees in our U.S. shares business. Principal Investments recorded net revenues of $566 million, which included an unrealized gain related to our convertible preferred stock investment in SMFG of $293 million (net of unrealized foreign exchange losses on the Japanese yen-denominated borrowing funding this investment), gains from real estate and other corporate principal investments, as well as the recognition of merchant banking overrides.

Operating expenses were $6.94 billion in 2003, 7% higher than 2002, primarily due to increased compensation and benefits expenses, with higher discretionary compensation, reflecting increased net revenues, more than offsetting the impact of lower levels of employment. Operating expenses also increased due to intangible asset impairment charges in respect of option specialist rights, higher professional services and other expenses, and higher occupancy expenses, primarily related to exit costs associated with reductions in our global office space. These expense increases were partially offset by lower communications and technology expenses, depreciation and amortization expenses, brokerage, clearing and exchange fees, and market development expenses, reflecting the impact of reduced employment levels, lower levels of business activity and continued cost-containment discipline. Pre-tax earnings of $3.51 billion in 2003 increased 64% compared with 2002.

2002 VERSUS 2001 – Net revenues in Trading and Principal Investments of $8.65 billion for 2002 decreased 10% compared with 2001. FICC net revenues of $4.68 billion increased 10% compared with 2001, reflecting strong performances in currencies, interest rate products and mortgages, partially offset by decreased net revenues in commodities. Net revenues in Equities of $4.00 billion decreased 28% compared with 2001, primarily reflecting lower net revenues in our global equities product groups[2], particularly in our shares businesses, which were affected by continued weakness in the equities markets and the negative effect of a single block trade in the first quarter of 2002. In addition, equity derivatives net revenues and clearance fees within our global equities product groups were lower. Net revenues in principal strategies[1] also declined from 2001. Principal Investments recorded negative net revenues of $35 million, primarily due to declines in the value of certain investments in the high technology and telecommunications sectors, partially offset by the recognition of merchant bank overrides and real estate and energy sector disposition gains.

Operating expenses were $6.51 billion in 2002, 11% lower than 2001, primarily due to decreased compensation and benefits expenses and the elimination of goodwill amortization. Market development, communications and technology, and professional services and other expenses also decreased in 2002, reflecting the continued impact of expense-reduction initiatives first implemented

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[1] The equities principal strategies business includes equity arbitrage, as well as other proprietary trading in convertible bonds and derivatives.

[2] The equities product groups include primarily customer-driven activities in our shares, convertible bonds and derivatives businesses.

in 2001, reduced employment levels and lower levels of business activity. Pre-tax earnings of $2.14 billion in 2002 decreased 5% compared with 2001.

ASSET MANAGEMENT AND SECURITIES SERVICES

Our Asset Management and Securities Services segment is divided into two components:

- ASSET MANAGEMENT – Asset Management provides investment advisory and financial planning services to a diverse client base of institutions and individuals and generates revenues in the form of management and incentive fees.
- SECURITIES SERVICES – Securities Services includes prime brokerage, financing services and securities lending, all of which generate revenues primarily in the form of interest rate spreads or fees.

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

ASSET MANAGEMENT AND SECURITIES SERVICES OPERATING RESULTS

	YEAR ENDED NOVEMBER		
(IN MILLIONS)	**2003**	**2002**	**2001**
Asset Management	**$1,853**	$1,653	$1,473
Securities Services	**1,005**	856	932
Total net revenues	**2,858**	2,509	2,405
Operating expenses	**1,890**	1,562	1,325
Pre-tax earnings	**$ 968**	$ 947	$1,080

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

The following table sets forth our assets under management by asset class:

ASSETS UNDER MANAGEMENT BY ASSET CLASS

	AS OF NOVEMBER 30		
(IN BILLIONS)	**2003**	**2002**	**2001**
Money markets	**$ 89**	$108	$122
Fixed income and currency	**115**	96	71
Equity	**98**	86	96
Alternative investments[(1)]	**71**	58	62
Total	**$373**	$348	$351

(1) Includes merchant banking funds, quantitatively driven investment funds and other funds with nontraditional investment strategies that we manage, as well as funds where we recommend one or more subadvisors for our clients.

The following table sets forth a summary of the changes in our assets under management:

ASSETS UNDER MANAGEMENT

	YEAR ENDED NOVEMBER 30

(IN BILLIONS)	2003	2002	2001
Balance, beginning of year	**$348**	$351	$294
Net asset (outflows)/inflows	**(4)**	9	67
Net market appreciation/(depreciation)	**29**	(12)	(10)
Balance, end of year	**$373**	$348	$351

The following table sets forth our net asset (outflows)/inflows by asset class:

NET ASSET (OUTFLOWS)/INFLOWS BY ASSET CLASS

	YEAR ENDED NOVEMBER 30		
(IN BILLIONS)	**2003[1][2]**	**2002**	**2001**
Money markets	**$(19)**	$(13)	$52
Fixed income and currency	**10**	18	7
Equity	**(1)**	6	3
Alternative investments	**6**	(2)	5
Total non-money markets	**15**	22	15
Total net asset (outflows)/inflows	**$ (4)**	$ 9	$67

[1] Includes $4 billion in non-money market assets acquired in our combination with Ayco.

[2] Includes $16 billion in non-money market net asset outflows resulting from British Coal Pension Schemes' planned program of diversification among its asset managers.

2003 VERSUS 2002 – Net revenues in Asset Management and Securities Services of $2.86 billion for 2003 increased 14% compared with 2002. Asset Management net revenues of $1.85 billion increased 12% compared with last year, primarily reflecting an increase in average assets under management, the contribution from Ayco and increased incentive income. During 2003, assets under management increased 7% to $373 billion, reflecting market appreciation of $29 billion in equity, fixed income and alternative investment assets. Net asset outflows for the year were $4 billion, primarily reflecting net outflows in money market assets, partially offset by net inflows in fixed income assets and alternative investments. Net asset outflows for the year included $16 billion in net outflows related to British Coal Pension Schemes' planned program of diversification among its asset managers and $4 billion in inflows acquired from Ayco. Securities Services net revenues of $1.01 billion for 2003 increased 17% compared with 2002, primarily reflecting higher customer balances in our securities lending and margin lending businesses.

Operating expenses were $1.89 billion in 2003, 21% higher than 2002, primarily due to increased compensation and benefits expenses resulting from higher discretionary compensation. Operating expenses also increased due to our combination with Ayco, higher professional services and other expenses, and increased occupancy expenses, primarily related to exit costs associated with reductions in our global office space. Pre-tax earnings of $968 million in 2003 increased 2% compared with 2002.

2002 VERSUS 2001 – Net revenues in Asset Management and Securities Services of $2.51 billion for 2002 increased 4% compared with 2001. Asset Management net revenues of $1.65 billion increased 12% compared with 2001, primarily reflecting an 8% increase in average assets under management and increased incentive income. Assets under management were $348 billion at the end of 2002, essentially flat compared with the end of 2001. Market depreciation of $12 billion, primarily in equity assets, was partially offset by net asset inflows of $9 billion, primarily in fixed income and equity assets. The decline in net asset inflows compared with 2001 was primarily due to a reduction in money market net inflows, which were particularly strong in 2001. Securities Services net revenues of $856 million for 2002 decreased 8% compared with 2001, primarily reflecting lower net revenues in our margin lending business.

Operating expenses were $1.56 billion in 2002, 18% higher than 2001, primarily due to increased compensation and benefits expenses, higher professional services and other, occupancy and depreciation and amortization expenses, partially offset by the elimination of goodwill amortization. Pre-tax earnings of $947 million in 2002 decreased 12% compared with 2001.

Geographic Data

For a summary of the net revenues, pre-tax earnings and identifiable assets of Goldman Sachs by geographic region, see Note 15 to the consolidated financial statements.

OFF-BALANCE-SHEET ARRANGEMENTS

We have various types of off-balance-sheet arrangements that we enter into in the ordinary course of business. We enter into nonderivative guarantees, hold retained or contingent interests in assets transferred by us to nonconsolidated entities, and incur obligations arising out of variable interests we have in nonconsolidated entities, for a variety of business purposes, including securitizing commercial and residential mortgages and home equity loans, government and corporate bonds, and other types of financial assets. Variable interest entities (VIEs) and, to a greater extent, qualifying special-purpose entities (QSPEs) are utilized in the securitization process. VIEs and QSPEs are critical to the functioning of several significant investor markets, including the mortgage-backed and asset-backed securities markets, since they provide market liquidity to financial assets by offering investors access to specific cash flows and risks created through the securitization process.

Other reasons for entering into these arrangements include underwriting client securitization transactions; providing secondary market liquidity; making principal investments in performing and nonperforming debt, real estate and other assets; providing investors with credit-linked and asset-repackaged notes; receiving or posting collateral under derivative and other margin agreements; and facilitating the clearance and settlement process.

Our involvement in these arrangements can take many different forms, including purchasing and retaining residual and other interests in mortgage-backed and asset-backed securitization vehicles; holding senior and subordinated debt, limited and general partnership interests, and preferred and common stock; entering into interest rate, foreign currency, equity, commodity and credit derivatives; and providing guarantees, indemnifications, letters of credit, representations and warranties.

Our financial interests in, and derivative transactions with, nonconsolidated entities are accounted for at fair value, in the same manner as our other financial instruments, except in cases where we exert significant influence over an entity and apply the equity method of accounting.

Our other types of off-balance-sheet arrangements include derivative transactions, leases, letters of credit, and loan and other commitments. The following table sets forth where a discussion of these and other off-balance-sheet arrangements may be found in this Annual Report:

Type of Off-Balance-Sheet Arrangement	Disclosure in Annual Report
Nonderivative guarantees	See Note 6 to the consolidated financial statements.
Retained interests or contingent interests in assets transferred by us to nonconsolidated entities	See Note 3 to the consolidated financial statements.
Other obligations, including contingent obligations, arising out of variable interests we have in nonconsolidated entities	See Note 3 to the consolidated financial statements.
Derivative contracts	See "—Critical Accounting Policies" and "—Risk Management" and Note 3 to the consolidated financial statements.
Leases, letters of credit, and loans and other commitments	See "—Capital and Funding" and Note 6 to the consolidated financial statements.

In addition, see Note 2 to the consolidated financial statements for a discussion of our consolidation policies.

CAPITAL AND FUNDING

Capital

The amount of capital we hold is principally determined by subsidiary capital requirements, rating agency guidelines, and the size and composition of our balance sheet. Goldman Sachs' total capital increased 37% to $79.11 billion as of November 2003 compared with $57.71 billion as of November 2002. See "—Risk Management—Liquidity Risk—Cash Flows" for a discussion of how we deployed capital raised as part of our financing activities.

The increase in total capital resulted primarily from an increase in long-term borrowings to $57.48 billion as of November 2003 from $38.71 billion as of November 2002. The weighted average maturity of our long-term borrowings as of November 2003 was approximately 6 years. We swap a substantial portion of our long-term borrowings into U.S. dollar obligations with short-term floating interest rates in order to minimize our exposure to interest rates and foreign exchange movements.

Shareholders' equity increased by 14% to $21.63 billion as of November 2003 from $19.00 billion as of November 2002. During 2003, we repurchased 12.2 million shares of our common stock. The principal purpose of our stock repurchase program is to substantially offset increases in share count over time resulting from employee equity-based compensation. The repurchase program has been effected through regular open-market purchases, the sizes of which have been and will continue to be influenced by, among other factors, prevailing prices and market conditions. As of November 2003, we were authorized to repurchase up to 8.6 million additional shares of common stock pursuant to our common stock repurchase program. The average price paid per share for repurchased shares was $76.83, $76.49 and $88.22 for the years ended November 2003, November 2002 and November 2001, respectively. For additional information on our share repurchase program, see "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" in our Annual Report on Form 10-K for our 2003 fiscal year.

The following table sets forth information on our assets, shareholders' equity, leverage ratios and book value per share:

	AS OF NOVEMBER	
($ IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	**2003**	**2002**
Total assets	**$403,799**	$355,574
Adjusted assets[1]	**273,941**	215,547
Shareholders' equity	**21,632**	19,003
Tangible shareholders' equity[2]	**16,650**	14,164
Leverage ratio[3]	**18.7x**	18.7x
Adjusted leverage ratio[4]	**16.5x**	15.2x
Book value per share[5]	**$ 43.60**	$ 38.69
Tangible book value per share[6]	**33.56**	28.84

(1) Adjusted assets excludes (i) low-risk collateralized assets generally associated with our matched book and securities lending businesses (which we calculate by adding our securities purchased under agreements to resell and securities borrowed, and then subtracting our nonderivative short positions), (ii) cash and securities we segregate in compliance with regulations and (iii) goodwill and identifiable intangible assets. The following table sets forth a reconciliation of total assets to adjusted assets:

	AS OF NOVEMBER	
(IN MILLIONS)	**2003**	**2002**
Total assets	**$ 403,799**	$ 355,574
Deduct: Securities purchased under agreements to resell	**(26,856)**	(45,772)
Securities borrowed	**(129,118)**	(113,579)
Add: Financial instruments sold, but not yet purchased, at fair value (excluding derivatives)	**60,813**	44,552
Deduct: Cash and securities segregated in compliance with U.S. federal and other regulations	**(29,715)**	(20,389)
Goodwill and identifiable intangible assets	**(4,982)**	(4,839)
Adjusted assets	**$ 273,941**	$ 215,547

(2) Tangible shareholders' equity equals total shareholders' equity less goodwill and identifiable intangible assets. The following table sets forth a reconciliation of shareholders' equity to tangible shareholders' equity:

(IN MILLIONS)	AS OF NOVEMBER 2003	2002
Shareholders' equity	**$21,632**	$19,003
Deduct: Goodwill and identifiable intangible assets	**(4,982)**	(4,839)
Tangible shareholders' equity	**$16,650**	$14,164

(3) Leverage ratio equals total assets divided by shareholders' equity.

(4) Adjusted leverage ratio equals adjusted assets divided by tangible shareholders' equity. We believe that the adjusted leverage ratio is a more meaningful measure of our capital adequacy because it excludes certain low-risk collateralized assets that are generally supported with little or no capital and reflects the tangible equity deployed in our businesses.

(5) Book value per share is based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 496.1 million as of November 2003 and 491.2 million as of November 2002.

(6) Tangible book value per share is computed by dividing tangible shareholders' equity by the number of common shares outstanding, including restricted stock units granted to employees with no future service requirements.

Short-Term Borrowings

Goldman Sachs obtains unsecured short-term borrowings through issuance of promissory notes, commercial paper and bank loans. Short-term borrowings also include the portion of long-term borrowings maturing within one year and certain long-term borrowings that may be payable within one year at the option of the holder.

The following table sets forth our short-term borrowings:

SHORT-TERM BORROWINGS

	AS OF NOVEMBER	
(IN MILLIONS)	**2003**	**2002**
Promissory notes	**$24,119**	$20,433
Commercial paper	**4,767**	9,463
Bank loans and other	**8,183**	4,948
Current portion of long-term borrowings	**7,133**	5,794
Total	**$44,202**	$40,638

Our liquidity depends to an important degree on our ability to refinance these borrowings on a continuous basis. Investors who hold our outstanding promissory notes (short-term unsecured debt that is nontransferable and in which Goldman Sachs does not make a market) and commercial paper have no obligation to purchase new instruments when the outstanding instruments mature. See "—Risk Management—Liquidity Risk" for a discussion of the liquidity policies we have in place to manage the liquidity risk associated with our short-term borrowings. For a discussion of factors that could impair our ability to access these and other markets, see "—Certain Factors That May Affect Our Business." See Note 4 to the consolidated financial statements for further information regarding our short-term borrowings.

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 important when we are competing in certain markets and when we seek to engage in longer term transactions, including 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, our franchise, reputation and management, and our capital base. See "—Certain Factors That May Affect Our Business" for a discussion of the risks associated with a reduction in our credit ratings.

The following table sets forth our credit ratings as of November 2003:

	SHORT-TERM DEBT	LONG-TERM DEBT
Dominion Bond Rating Service Limited	R-1 (middle)	A (high)
Fitch	F1+	AA-
Moody's Investors Service	P-1	Aa3
Standard & Poor's	A-1	A+

As of November 2003, collateral of $220 million 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. In evaluating our liquidity requirements, we consider additional collateral that could be called in the event of further reductions in our long-term credit ratings, as well as collateral that has not been called by counterparties, but is available to them. For a further discussion of our excess liquidity policies, see "—Risk Management—Liquidity Risk — Excess Liquidity Policies—Maintenance of a Pool of Highly Liquid Securities."

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. See Note 6 to the consolidated financial statements for further information regarding our commitments, contingencies and guarantees.

The following table sets forth our contractual obligations as of November 2003:

CONTRACTUAL OBLIGATIONS

(IN MILLIONS)	2004	2005-2006	2007-2008	2009-THEREAFTER	TOTAL
Long-term borrowings by contract maturity[1][2]	$ —	$20,161	$7,489	$29,832	$57,482
Minimum rental payments	422	688	592	2,220	3,922

[1] Long-term borrowings maturing within one year and certain long-term borrowings that may be redeemable within one year at the option of the holder are included as short-term borrowings in the consolidated statements of financial condition.

[2] Long-term borrowings redeemable at the option of Goldman Sachs are reflected at their contractual maturity dates. Certain long-term borrowings redeemable prior to maturity at the option of the holder are reflected at the date such options first become exercisable.

As of November 2003, our long-term borrowings were $57.48 billion. Substantially all of our long-term borrowings were unsecured and consisted principally of senior borrowings with maturities extending to 2033. As of November 2003, long-term borrowings included non-recourse debt of $5.4 billion, consisting of $3.2 billion issued during the year by William Street Funding Corporation (Funding Corp) (a wholly owned subsidiary of The Goldman Sachs Group, Inc. (Group Inc.) formed to raise funding to support loan commitments made by another wholly owned William Street entity to investment-grade clients), $1.6 billion issued by consolidated VIEs and $0.6 billion issued by other consolidated entities, primarily associated with our ownership of East Coast Power L.L.C. Nonrecourse debt is debt that Group Inc. is not directly or indirectly obligated to repay through a guarantee, general partnership interest or contractual arrangement. See Note 3 and Note 5, respectively, to the consolidated financial statements for further information regarding financial instruments, including VIEs, and our long-term borrowings.

As of November 2003, our future minimum rental payments, net of minimum sublease rentals, under noncancelable leases were $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.

Our occupancy expenses include costs associated with office space held in excess of our current requirements. This excess space, the cost of which is charged to earnings as incurred, is being held for potential growth or to replace currently occupied space that we may exit in the future. We continually evaluate our current and future space capacity in relation to current and projected future staffing levels. In 2003, we reduced our global office space and incurred exit costs of $153 million. We may incur additional exit costs in 2004 and thereafter to the extent we (i) further reduce our capacity or (ii) commit to new properties in the locations in which we operate and, consequently, dispose of existing space that had been held for potential growth. Such exit costs may be material to our results of operations in a given period.

The following table sets forth our contingent commitments as of November 2003:

CONTINGENT COMMITMENTS

	COMMITMENT AMOUNT BY PERIOD OF EXPIRATION				
(IN MILLIONS)	2004	2005-2006	2007-2008	2009-THEREAFTER	TOTAL
Commitments to extend credit	$ 8,276	$1,814	$2,087	$3,653	$15,830
Commitments under letters of credit issued by banks to counterparties	12,451	14	2	132	12,599
Other commercial commitments[1]	249	645	408	420	1,722
Total	$20,976	$2,473	$2,497	$4,205	$30,151

(1) Includes our corporate and real estate investment fund commitments, construction-related obligations and other purchase commitments.

Our commitments to extend credit are agreements to lend to counterparties that 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. As of November 2003, $4.32 billion of our outstanding commitments have been issued through the William Street credit extension program. Substantially all of the credit risk associated with these commitments has been hedged through credit loss protection provided by SMFG. We have also hedged the credit risk of certain non-William Street commitments using a variety of other financial instruments. See Note 6 to the consolidated financial statements for further information regarding our commitments, contingencies and guarantees.

As of November 2003, we had commitments to enter into forward secured financing transactions, including certain repurchase and resale agreements and secured borrowing and lending arrangements, of $35.25 billion.

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 their primary regulators include the SEC, the Commodity Futures Trading Commission, the Chicago Board of Trade, the NYSE, the National Association of Securities Dealers, Inc. and the National Futures Association. 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 Osaka Securities 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 Federal Securities Trading Supervisory Authority (BaFin) and the Bundesbank in Germany, the Autorité des Marchés Financiers and Banque de France in France, the Commissione Nazionale per le Società e la Borsa (CONSOB) in Italy and the Swiss Federal Banking Commission, the Securities and Futures Commission in Hong Kong and the Monetary Authority of Singapore. See Note 14 to the consolidated financial statements for further information regarding our regulated subsidiaries. For a discussion of our potential inability to access funds from our regulated entities, see "—Risk Management—Liquidity Risk—Asset-Liability Management Policies—Subsidiary Funding and Foreign Exchange Policies."

RISK MANAGEMENT

Management believes that effective risk management is of primary importance to the success of Goldman Sachs. Accordingly, we have a comprehensive risk management process to monitor, evaluate and manage the principal risks we assume in conducting our 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. In addition, a number of committees are responsible for monitoring risk exposures and for general oversight of our risk management process. These committees, whose responsibilities as of 2004 are described below, meet regularly and consist of senior members of both our revenue-producing units and departments that are independent of our revenue-producing units.

MANAGEMENT COMMITTEE – All risk control functions ultimately report to our Management Committee. Through both direct and delegated authority, the Management Committee approves all of our 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 firmwide and divisional market risk limits, reviews business unit market risk limits, approves market risk limits for selected emerging markets 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 Divisional Risk Committee sets market risk limits, subject to overall firmwide risk limits, for both FICC and Equities based on a number of measures, including Value-at-Risk (VaR), scenario analyses and inventory levels. In our asset management business, the Control Oversight Committee, the Investment Policy Group and the Valuation Committee oversee various operational, credit, pricing and business practice issues.

CAPITAL COMMITTEE – The Capital Committee reviews and approves transactions involving commitments of our capital. Such capital commitments include extensions of credit, alternative liquidity commitments, certain bond underwritings, certain distressed debt and principal finance activities, and certain equity block trades. The Capital Committee is also responsible for ensuring that business and reputational standards for capital commitments are maintained on a global basis.

COMMITMENTS COMMITTEE – The Commitments Committee reviews and approves underwriting and distribution activities and sets and maintains policies and procedures designed to ensure that legal, reputational, regulatory and business standards are maintained in conjunction with these activities. In addition to reviewing specific transactions, the Commitments Committee periodically conducts strategic reviews of industry sectors and products and establishes policies in connection with transaction practices.

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

BUSINESS PRACTICES COMMITTEE – The Business Practices Committee assists management in its oversight of our compliance and operational risk and related reputational issues, and ensures that policies and practices are implemented in accordance with our business principles.

STRUCTURED PRODUCTS REVIEW COMMITTEE – The Structured Products Committee reviews and approves structured transactions that raise legal, regulatory, tax or accounting issues, or present other reputational risks.

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 establishes and assures compliance with our liquidity policies, sets certain inventory position limits and has oversight responsibility for liquidity risk, the size and composition of our balance sheet, our capital base and our credit ratings. The committee regularly reviews our funding position and capitalization and makes adjustments in light of current events, risks and exposures.

Segregation of duties and management oversight are fundamental elements of our risk management process. In addition to the committees described above, divisions that are independent of the revenue-producing units, such as Compliance, Finance, Legal, Management Controls (Internal Audit) and Operations, in part perform risk management functions, which include monitoring, analyzing and evaluating risk.

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. 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.

Market risk limits are monitored on a daily basis by the Finance Division, and are reviewed regularly by the appropriate risk committee. Limit violations are reported to the appropriate risk committee and the appropriate business unit managers. Selected business unit inventory position limits are also monitored by the Finance Division 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 and investing positions is referred to as "market risk." Such positions result from underwriting, market-making, specialist and proprietary trading and investing activities.

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

- 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.
- 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.

We seek to manage these risks 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;
- scenario analyses, stress tests and other analytical tools that measure the potential effects on our trading net revenues of various market events, including, but not limited to, a large widening of credit spreads, a substantial decline in equities markets and significant moves in selected emerging markets; and
- inventory position limits for selected business units.

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 1 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, equity, currency and commodity products, as well as for our overall trading positions. These VaR numbers include the underlying product positions and related hedges that 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. Changes in VaR between reporting periods are generally due to changes in levels of exposure, volatilities and/or correlations among asset classes.

The following tables set forth the daily VaR for substantially all of our trading positions:

AVERAGE DAILY VaR[1]

(IN MILLIONS)

	YEAR ENDED NOVEMBER		
RISK CATEGORIES	2003	2002	2001
Interest rates	**$ 38**	$ 34	$ 20
Equity prices	**27**	22	20
Currency rates	**18**	16	15
Commodity prices	**18**	12	9
Diversification effect[2]	**(43)**	(38)	(25)
Firmwide	**$ 58**	$ 46	$ 39

Our average daily VaR increased to $58 million in 2003 from $46 million in 2002. The increase was due to higher levels of exposure in all product categories, partially offset by reduced measured volatilities, particularly in equity assets. The increase in average daily VaR to $46 million in 2002 from $39 million in 2001 was primarily attributable to an increase in interest rate risk in response to higher levels of customer activity and increased market opportunities.

DAILY VaR[1]

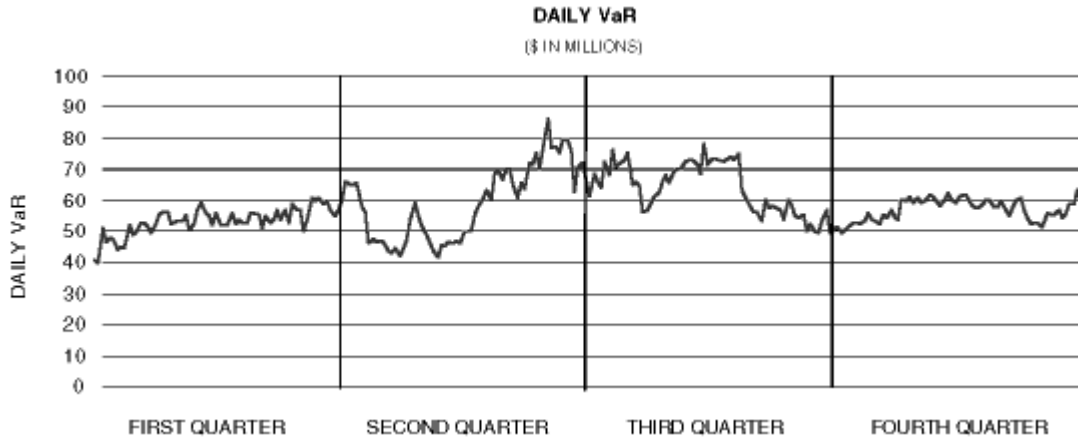
(IN MILLIONS)

	AS OF NOVEMBER		YEAR ENDED NOVEMBER 2003	
RISK CATEGORIES	2003	2002	HIGH	LOW
Interest rates	**$ 35**	$ 29	$64	$25
Equity prices	**33**	33	38	21
Currency rates	**24**	9	38	4
Commodity prices	**11**	14	27	11
Diversification effect[2]	**(40)**	(44)		
Firmwide	**$ 63**	$ 41	86	40

(1) During the fourth quarter of 2003, we made certain changes to our model for calculating VaR. The effect of these changes was not material and accordingly, prior periods have not been adjusted.

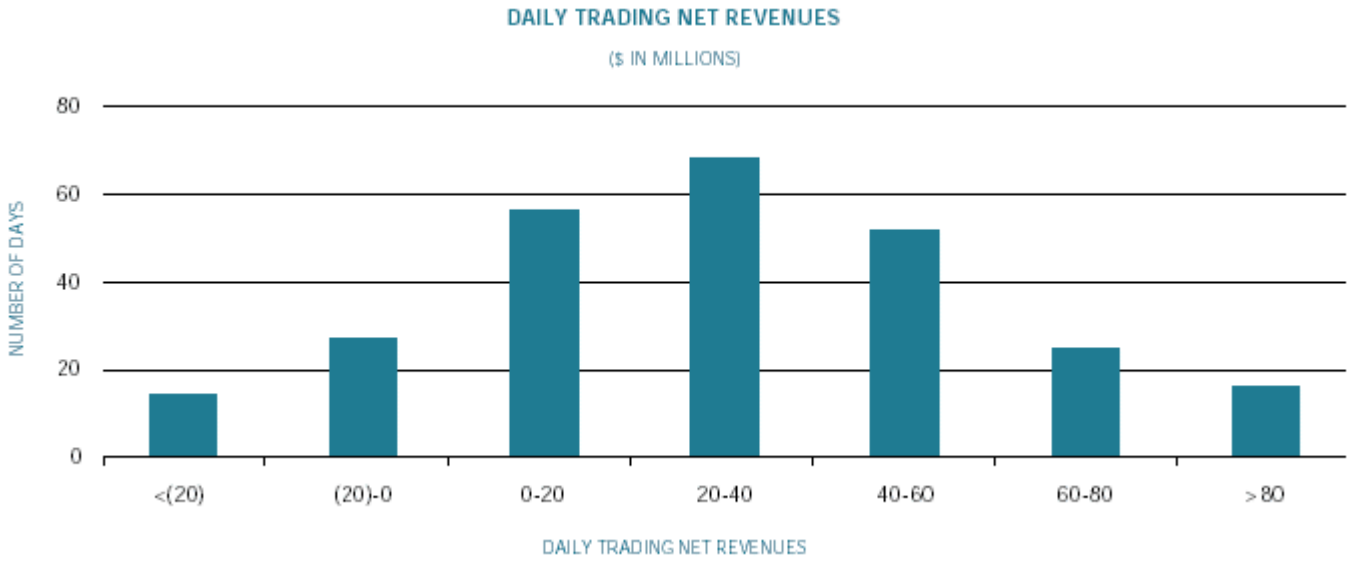
(2) Equals the difference between firmwide VaR and the sum of the VaRs for the four risk categories. This effect arises because the four market risk categories are not perfectly correlated.

The following chart presents the daily VaR for substantially all of our trading positions during 2003:



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 2003:



As part of our overall risk control process, daily trading net revenues are compared with VaR calculated as of the end of the prior business day. Trading losses incurred on a single day did not exceed our 95% one-day VaR during 2003.

NONTRADING RISK

The market risk for financial instruments in our non-trading portfolio, including our merchant banking investments but excluding our investment in the convertible preferred stock of SMFG, 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 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 2003, the sensitivity of our nontrading portfolio (excluding our investment in the convertible preferred stock of SMFG) to a 10% equity market decline was $104 million compared with $80 million as of November 2002, primarily reflecting an increase in the carrying value of the portfolio.

The market risk of our investment in the convertible preferred stock of SMFG is measured using a sensitivity analysis that estimates the potential reduction in our net revenues associated with a 10% decline in the SMFG common stock price. As of November 2003, the sensitivity of our investment to a 10% decline in the SMFG common stock price was $75 million. This sensitivity should not be extrapolated to other movements in the SMFG common stock price, as the relationship between the fair value of our investment and the SMFG common stock price is nonlinear.

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 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 Committee and the Credit Policy Committee. 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 collateral received. 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.

As of both November 2003 and November 2002, we held U.S. government and federal agency obligations that represented 6% of our total assets. In addition, most of our securities purchased under agreements to resell are collateralized by U.S. government, federal agency and other sovereign obligations. As of November 2003 and November 2002, we did not have credit exposure to any other counterparty that exceeded 5% of our total assets. However, over the past several years, the amount and duration of our credit exposures have been increasing, due to, among other factors, the growth of our lending and OTC derivatives activities. A further discussion of our derivative activities follows below.

Derivatives

Derivative contracts are 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, currency and equity-linked 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-counter-party basis in our consolidated statements of financial condition when 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 2003, after taking into consideration the effect of netting agreements. The categories shown reflect our internally determined public rating agency equivalents.

OVER-THE-COUNTER DERIVATIVE CREDIT EXPOSURE

($ IN MILLIONS)

CREDIT RATING EQUIVALENT	EXPOSURE	COLLATERAL HELD[2]	EXPOSURE NET OF COLLATERAL	PERCENTAGE OF EXPOSURE NET OF COLLATERAL
AAA/Aaa	$ 2,991	$ 144	$ 2,847	8%
AA/Aa2	8,980	803	8,177	23
A/A2	17,048	2,126	14,922	43
BBB/Baa2	6,421	1,033	5,388	15
BB/Ba2 or lower	4,251	822	3,429	10
Unrated[1]	860	479	381	1
Total	$40,551	$5,407	$35,144	100%

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 - 10 YEARS	10 YEARS OR GREATER	TOTAL[3]
AAA/Aaa	$ 315	$ 113	$1,229	$ 560	$ 630	$ 2,847
AA/Aa2	2,198	412	2,566	1,605	1,396	8,177
A/A2	3,105	1,032	2,585	1,167	7,033	14,922
BBB/Baa2	1,874	539	1,556	1,128	291	5,388
BB/Ba2 or lower	1,022	255	1,291	624	237	3,429
Unrated[1]	142	70	109	58	2	381
Total	$8,656	$2,421	$9,336	$5,142	$9,589	$35,144

CONTRACT TYPE	0 - 6 MONTHS	6 - 12 MONTHS	1 - 5 YEARS	5 - 10 YEARS	10 YEARS OR GREATER	TOTAL[3]
Interest rates	$1,323	$ 80	$3,250	$2,494	$8,411	$15,558
Currencies	4,948	1,148	3,934	1,829	898	12,757
Commodities	1,456	586	1,522	476	148	4,188
Equities	929	607	630	343	132	2,641
Total	$8,656	$2,421	$9,336	$5,142	$9,589	$35,144

(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 significant 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.

(3) 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.

Derivative transactions may also involve legal risks including, among other risks, 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.

Liquidity Risk

Liquidity (i.e., ready access to funds) is of critical importance to companies in the financial services sector. Most failures of financial institutions have occurred in large part due to insufficient liquidity. Accordingly, Goldman Sachs has in place a comprehensive set of liquidity and funding policies that are intended to maintain significant flexibility to address both firm-specific and broader industry or market liquidity events. Our principal objective is to be able to fund Goldman Sachs and to enable our core businesses to continue to grow and generate revenue by providing services to our clients, even under adverse circumstances.

Management has implemented a number of policies that are designed to manage liquidity risk. Our liquidity policies are intended to be conservative and, accordingly, reflect the following general assumptions and principles:

- During a liquidity crisis, credit-sensitive funding, including unsecured debt and some types of secured financing agreements, may be unavailable and the terms or availability of other types of secured financing may change.
- Focus must be maintained on all potential cash out-flows, not just disruptions to financing flows. Goldman Sachs' businesses are diverse, and its cash needs are driven by many factors, including market movements, collateral requirements, client commitments and market-making requirements, all of which can change dramatically in a difficult environment.
- The first days or weeks of a liquidity crisis are the most critical to a company's survival.
- Because legal and regulatory requirements can restrict the flow of funds between entities, unless legally provided for, we assume funds or securities are not freely available from a subsidiary to its parent company.

Our liquidity policies are focused on the maintenance of excess liquidity, conservative asset-liability management and crisis planning.

EXCESS LIQUIDITY POLICIES

MAINTENANCE OF A POOL OF HIGHLY LIQUID SECURITIES – Our most important liquidity policy is to pre-fund what we estimate will be our likely cash needs during a liquidity crisis and hold such excess liquidity in the form of unencumbered, highly liquid securities that may be sold or pledged to provide same-day liquidity. This "Global Core Excess" liquidity is intended to allow us to meet immediate obligations without needing to sell other assets or depend on additional funding from credit-sensitive markets. We believe that this pre-funded pool of excess liquidity provides us with a reliable source of funds and gives us significant flexibility in managing through a difficult funding environment.

The loan value (the estimated amount of cash that would be advanced by counterparties against securities we own) of our Global Core Excess liquidity averaged $38.46 billion[(1)] in 2003 and $36.29 billion in 2002. The loan value of the U.S. dollar-denominated component of our Global Core Excess liquidity averaged $32.22 billion in 2003 and $28.66 billion in 2002. The U.S. dollar-denominated component includes overnight cash deposits and Federal Reserve repo-eligible securities, including unencumbered U.S. government and agency securities and highly liquid mortgage securities, of which overnight cash deposits and U.S. Treasuries, on average, comprised 95%. Our Global Core Excess liquidity also includes unencumbered French, German, United Kingdom and Japanese government bonds and non-U.S. dollar overnight cash deposits. The aggregate loan value of our non-U.S. dollar-denominated Global Core Excess liquidity averaged $6.24 billion in 2003 and $7.63 billion in 2002.

The size of our Global Core Excess liquidity is determined by an internal liquidity model together with a qualitative assessment of the condition of the financial markets and of Goldman Sachs. Our liquidity model identifies and estimates cash and collateral outflows over a short-term horizon in a liquidity crisis, including, but not limited to:

- upcoming maturities of unsecured debt;
- potential buybacks of a portion of our outstanding negotiable unsecured debt;
- adverse changes in the terms or availability of secured funding;

- collateral outflows, assuming that collateral that has not been called by counterparties, but is available to them, will be called and all counterparties

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(1) The Global Core Excess liquidity excludes liquid assets that Funding Corp holds separately to support the William Street credit extension program.

that can call collateral through marking transactions to market will do so continually;

- additional collateral that could be called in the event of a downgrade in our debt ratings;
- draws on our unfunded commitments not supported by our William Street credit extension program[(1)]; and
- upcoming cash outflows, such as tax and bonus payments.

As a result of our policy to pre-fund liquidity that we estimate may be needed in a crisis, we hold more unencumbered securities and larger unsecured debt balances than our business would otherwise require.

OTHER UNENCUMBERED ASSETS – In addition to our Global Core Excess liquidity described above, we have a significant amount of other unencumbered securities as a result of our business activities. These assets, which are located in the United States, Europe and Asia, include other government bonds, high-grade money market securities, corporate bonds and marginable equities.

Our policy is to maintain Global Core Excess liquidity and other unencumbered assets in an amount that, if pledged or sold, would provide the funds necessary to replace at least 100% of our unsecured obligations that are scheduled to mature (or where holders have the option to redeem) within the next twelve months. This policy is intended to ensure that we could fund our positions on a secured basis for one year in the event we were unable to issue new unsecured debt or liquidate assets. To determine the amount of unencumbered assets required, we assume conservative loan values that are based on stress-scenario borrowing capacity. We review these assumptions asset-by-asset at least annually. The estimated aggregate loan value of our Global Core Excess liquidity and our other unencumbered assets averaged $76.42 billion in 2003 and $68.55 billion in 2002.

COMMITTED BANK FACILITIES – While we assume committed or advised bank facilities will be unavailable in the event of a liquidity crisis, Goldman Sachs maintains over $1 billion in committed undrawn bank facilities as an additional liquidity resource.

ASSET-LIABILITY MANAGEMENT POLICIES

MAINTENANCE OF A HIGHLY LIQUID BALANCE SHEET – Goldman Sachs seeks to maintain a highly liquid balance sheet and substantially all of our inventory is marked-to- market daily. Many of our assets are readily funded in the repurchase agreement and securities lending markets.

Our balance sheet fluctuates significantly between financial statement dates and is lower at fiscal period end than would be observed on an average basis. We require our businesses to reduce balance sheet usage on a quarterly basis to demonstrate compliance with limits set by management, thereby providing a disincentive to committing our capital over longer periods of time. These balance sheet reductions are generally achieved during the last several weeks of each fiscal quarter through ordinary-course, open-market transactions in the most liquid portions of our balance sheet, principally U.S. government and agency securities, securities of foreign sovereigns, and mortgage and money market instruments, as well as through the roll-off of repurchase agreements and certain collateralized financing arrangements. Accordingly, over the last six quarters, our total assets and adjusted assets at quarter end have been, on average, 18% lower and 14% lower, respectively, than amounts that would have been observed, based on a weekly average, over that period. These differences, however, have not resulted in material changes to our credit risk, market risk or excess liquidity position because they are generally in highly liquid assets that are typically financed on a secured basis.

FUNDING OF ASSETS WITH LONGER TERM LIABILITIES – We seek to maintain total capital (long-term borrowings plus shareholders' equity) substantially in excess of the aggregate of the following long-term financing requirements:

- the portion of financial instruments owned that we believe could not be funded on a secured basis in periods of market stress;
- goodwill and identifiable intangible assets, property, leasehold improvements and equipment, and other illiquid assets;
- derivatives margin requirements and collateral outflows; and
- anticipated draws on our unfunded commitments, including the William Street credit extension program.

Our total capital of $79.11 billion and $57.71 billion as of November 2003 and November 2002, respectively, substantially exceeded these requirements.

We assume conservative loan values when we estimate the portion of a financial instrument that we believe could not be funded on a secured

basis in a stress scenario. Certain financial instruments that may be difficult to fund on a secured basis during times of market stress, such as certain mortgage whole loans, mortgage-backed

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(1) The Global Core Excess liquidity excludes liquid assets that Funding Corp holds separately to support the William Street credit extension program.

securities, bank loans and high-yield securities, generally require higher levels of unsecured long-term financing than more liquid types of financial instruments, such as U.S. government and agency securities. See Note 3 to the consolidated financial statements for information on the financial instruments we hold and Note 10 to the consolidated financial statements for further information regarding other assets.

While Goldman Sachs generally does not rely on immediate sales of assets (other than from our Global Core Excess liquidity) to maintain liquidity in a distressed environment, we recognize that orderly asset sales may be prudent, and could be necessary, in a persistent liquidity crisis. As a result, we seek to manage the composition of our asset base and the maturity profile of our funding such that we should be able to liquidate our assets prior to our liabilities coming due, even in times of prolonged or severe liquidity stress.

DIVERSIFICATION OF FUNDING SOURCES – Goldman Sachs seeks to maintain broad and diversified funding sources globally. We have imposed various internal guidelines, including the amount of our commercial paper that can be owned and letters of credit that can be issued by any single investor or group of investors. We benefit from distributing our debt issuances through our own sales force to a large, diverse global creditor base, including insurance companies, mutual funds, banks, bank trust departments, corporations, individuals and other asset managers. We believe that our relationships with our creditors are critical to our liquidity.

We access funding in a variety of markets in the United States, Europe and Asia. We make extensive use of the repurchase agreement and securities lending markets, arrange for letters of credit to be issued on our behalf, and raise funding in the public and private markets. In particular, we issue debt through syndicated U.S. registered offerings, U.S. registered and 144A medium-term notes programs, offshore medium-term notes offerings and other bond offerings, U.S. and non-U.S. commercial paper and promissory note issuances, and other methods. We emphasize the use of promissory notes (short-term unsecured debt that is nontransferable and in which Goldman Sachs does not make a market) over commercial paper in order to improve the stability of our unsecured financing base.

AVOIDANCE OF DEBT MATURITY CONCENTRATIONS – We seek to structure our liabilities to avoid maturity concentrations. To that end, we have created internal guidelines on the principal amount of debt maturing on any one day or during any single week or year. We also have average maturity targets for our long-term and total unsecured debt programs.

SUBSIDIARY FUNDING AND FOREIGN EXCHANGE POLICIES – Substantially all of our unsecured funding is raised by our parent company, Group Inc. The parent company then lends the necessary funds to its subsidiaries, some of which are regulated, to meet their asset financing requirements. The benefits of this strategy include enhanced control and greater flexibility to meet the funding requirements of our subsidiaries.

We recognize that regulatory and other legal restrictions may limit the free flow of funds from subsidiaries where assets are held, to the parent company, or other subsidiaries. In particular, many of our subsidiaries are subject to laws that authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to Group Inc. Regulatory action of that kind could impede access to funds that Group Inc. needs to make payments on obligations, including debt obligations. Group Inc. has substantial amounts of equity and subordinated indebtedness invested, directly or indirectly, in its regulated subsidiaries; for example, as of November 2003, Group Inc. had $12.79 billion of such equity and subordinated indebtedness invested in Goldman, Sachs & Co., its principal U.S. regulated broker-dealer, $8.58 billion invested in Goldman Sachs International, a registered U.K. broker-dealer, $2.30 billion invested in Spear, Leeds & Kellogg, L.P., a U.S. regulated broker-dealer, and $1.91 billion invested in Goldman Sachs (Japan) Limited, a Tokyo-based broker-dealer. Group Inc. also had $39.98 billion of unsubordinated loans to these entities as of November 2003, as well as significant amounts of capital invested in and loans to its other regulated subsidiaries.

Because of these restrictions, we manage our intercompany exposure by generally requiring senior and subordinated 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 borrowings. In addition, many of our subsidiaries and affiliates pledge collateral at loan value to the parent company to cover their intercompany borrowings (other than subordinated debt) in order to mitigate parent company liquidity risk. Equity investments in subsidiaries are generally funded with parent company equity capital. As of November 2003, Group Inc.'s equity investment in subsidiaries was $20.62 billion compared with its shareholders' equity of $21.63 billion.

Our capital invested in non-U.S. subsidiaries is generally exposed to foreign exchange risk, substantially all of which is hedged. In addition, we generally hedge the non-trading exposure to foreign exchange risk that arises from transactions denominated in currencies other than the transacting entity's functional currency.

LIQUIDITY CRISIS PLAN

Goldman Sachs maintains a Liquidity Crisis Plan that identifies a structure for analyzing and responding to a liquidity-threatening event. The Liquidity Crisis Plan provides the framework to estimate the likely impact of a liquidity event on Goldman Sachs and outlines which and to what extent liquidity maintenance activities should be implemented based on the severity of the event. It also lists the crisis management team and internal and external parties to be contacted to ensure effective distribution of information.

CASH FLOWS

As a global financial institution, our cash flows are complex and interrelated and bear little relation to our net earnings and net assets and, consequently, we believe that traditional cash flow analysis is less meaningful in evaluating our liquidity position than the excess liquidity and asset-liability management policies described above. Cash flow analysis may, however, be helpful in highlighting certain macro trends and strategic initiatives in our business. A further discussion of our cash flows follows.

YEAR ENDED NOVEMBER 2003 – Our cash and cash equivalents increased by $2.27 billion to $7.09 billion at the end of 2003. We raised $20.58 billion in net cash from financing activities, primarily in long-term debt. We used net cash of $18.32 billion in our operating and investing activities primarily to capitalize on opportunities in our trading and principal investing businesses, including the purchase of investments that could be difficult to fund in periods of market stress. We also increased our Global Core Excess liquidity, provided funding support for our William Street loan commitments program, invested in the convertible preferred stock of SMFG and financed the acquisition of East Coast Power L.L.C.

YEAR ENDED NOVEMBER 2002 – Our cash and cash equivalents decreased by $2.09 billion to $4.82 billion at the end of 2002. We raised $9.09 billion in net cash from financing activities, primarily in net short-term debt and long-term debt (net of repayments of long-term debt). We used net cash of $11.18 billion in our operating and investing activities, primarily to capitalize on opportunities in our trading and principal investing businesses, including the purchase of investments that could be difficult to fund in periods of market stress. We also increased our Global Core Excess liquidity, made leasehold improvements, and purchased telecommunications and technology-related equipment.

YEAR ENDED NOVEMBER 2001 – Our cash and cash equivalents increased by $3.04 billion to $6.91 billion at the end of 2001. We raised net cash of $2.08 billion from financing activities, primarily from long-term debt issuances (net of repayments of long-term debt) and net short-term borrowings, partially offset by common stock repurchased. Net cash of $2.87 billion was provided from our operating activities. We used net cash of $1.91 billion in our investing activities, primarily to make leasehold improvements and to purchase technology-related equipment.

Operational Risks

Operational risk is a broad concept that relates to the risk of loss arising from shortcomings or failures in internal processes, people or systems. Operational risk can arise from many factors ranging from more or less "routine" processing errors to potentially costly incidents arising, for example, from major systems failures. Operational risk may also entail reputational harm. Thus, efforts to identify, manage and mitigate operational risk must be equally sensitive to the risk of reputational damage as well as the risk of financial loss.

We manage operational risk through the application of long standing, but continuously evolving, firmwide control standards; the training, supervision and development of our people; the active participation and commitment of senior management in a continuous process of identifying and mitigating key operational risks at both the business unit level and for the firm as a whole and a framework of strong and independent control departments that monitor quantitative and qualitative indicators of operational risk. Together, these elements comprise a strong firmwide control culture that is at the center of our efforts aimed at minimizing operational shortcomings and the damage they can cause.

The Operational Risk Management Department is responsible for the oversight and coordination of the design, implementation and maintenance of our overall operational risk management framework. This framework, which evolves with the changing needs of business complexities and regulatory guidance, takes into account internal and external operational risk events, business unit specific risk assessments, the ongoing analysis of business specific risk metrics and the use of scenario analyses. While the direct responsibility for the control and mitigation of operational risk lies with the individual business units, this framework provides a consistent methodology for identifying and monitoring operational risk factors for both individual business unit managers and senior management.

RECENT ACCOUNTING DEVELOPMENTS

In June 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The statement specifies the accounting for certain employee termination benefits, contract termination costs and costs to consolidate facilities or relocate employees and is effective for exit and disposal activities initiated after December 31, 2002. Adoption of this statement did not have a material effect on our financial condition, results of operations or cash flows.

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 specifies the disclosures to be made about obligations under certain issued guarantees and requires a liability to be recognized for the fair value of a guarantee obligation. The recognition and measurement provisions of the interpretation apply prospectively to guarantees issued after December 31, 2002. The disclosure provisions were effective beginning with our first fiscal quarter in 2003. Adoption of the recognition and measurement provisions did not have a material effect on our financial condition or results of operations.

In November 2002, the EITF reached a consensus on EITF Issue No. 02-3 which precludes mark-to-market accounting for energy-trading contracts that are not derivatives pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." We adopted the provisions of EITF Issue No. 02-3 related to energy-trading contracts as of the beginning of the first quarter of fiscal 2003, and the effect of adoption was not material to our financial condition, results of operations or cash flows. EITF Issue No. 02-3 also communicates the FASB staff's view that the transaction price for a derivative contract is the best information available to estimate fair value at the inception of a contract when the estimate is not based on other observable market data. The application of the FASB staff's view did not have a material effect on our financial condition, results of operations or cash flows.

In December 2002, the FASB issued SFAS No. 148, which amends the disclosure requirements of SFAS No. 123 and provides alternative methods of transition for the adoption of the fair-value method of SFAS No. 123. Effective for fiscal 2003, we began to account for stock-based employee compensation in accordance with the fair-value method prescribed by SFAS No. 123 using the prospective adoption method. Under this method of adoption, compensation expense is recognized over the relevant service period based on the fair value of stock options and restricted stock units granted for fiscal 2003 and future years. Compensation expense resulting from stock options and restricted stock units granted for the years ended November 2002, November 2001 and prior years was, and continues to be, accounted for under the intrinsic-value-based method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Therefore, no compensation expense was, or will be, recognized for those stock options that had no intrinsic value on the date of grant. Adoption of SFAS No. 123 did not have a material effect on our financial condition, results of operations or cash flows.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." In accordance with its original provisions, we adopted FIN No. 46 immediately for all VIEs created after January 31, 2003. For VIEs created before February 1, 2003 (pre-existing VIEs), Goldman Sachs was initially required to adopt FIN No. 46 no later than November 2003. In October 2003, the FASB deferred the effective date of FIN No. 46 for pre-existing VIEs to no later than February 2004 (our first quarter of fiscal 2004). In December 2003, the FASB issued a revision to FIN No. 46 (FIN No. 46-R), which incorporated the October 2003 deferral provisions and clarified and revised the accounting guidance for VIEs. Under its transition provisions, early application of FIN No. 46 or FIN No. 46-R to some or all VIEs was permitted. We applied either FIN No. 46 or FIN No. 46-R to substantially all pre-existing VIEs in which we held a variable interest as of November 2003. All VIEs, regardless of when created, are required to be evaluated under FIN No. 46-R no later than May 2004. The effect of our adoption of FIN No. 46 and the early application of FIN No. 46-R to certain structures was not material to our financial condition, results of operations or cash flows. Management is still evaluating the effect of full adoption of FIN No. 46-R for our second quarter of fiscal 2004, but does not currently expect full adoption to have a material effect on our financial condition, results of operations or cash flows.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In addition, the statement clarifies when a contract is a derivative and when a derivative contains a financing component that warrants special reporting in the statement of cash flows. As required, we adopted SFAS No. 149 prospectively for contracts entered into or modified, and hedging relationships designated, after June 30, 2003. Adoption did not have a material effect on our financial condition, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity and imposes certain additional disclosure requirements. The provisions of SFAS No. 150 are generally effective for financial instruments entered into or modified after May 31, 2003, except for those provisions relating to noncontrolling interests that have been deferred. As required, we adopted the applicable provisions of SFAS No. 150 to all financial instruments at the beginning of our fourth quarter of fiscal 2003. Adoption did not have a material effect on our financial condition, results of operations or cash flows. If the deferred provisions are finalized in their current form, management does not expect adoption to have a material effect on our financial condition, results of operations or cash flows.

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 132 revises employers' disclosures about pension plans and other postretirement benefits by requiring additional disclosures such as descriptions of the types of plan assets, investment strategies, measurement dates, plan obligations, cash flows and components of net periodic benefit costs recognized during interim periods. The statement does not change the measurement or recognition of the plans. Interim period disclosure is generally effective for our second quarter of 2004. Required annual disclosure is effective for our fiscal year ending 2004.

EXHIBIT 13.2

Report of Independent Auditors

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, 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) at November 28, 2003 and November 29, 2002, and the results of their operations and their cash flows for each of the three fiscal years in the period ended November 28, 2003, 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
New York, New York
January 26, 2004

Consolidated Statements of Earnings

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	YEAR ENDED NOVEMBER 2003	2002	2001
Revenues			
Investment banking	**$ 2,400**	$ 2,572	$ 3,677
Trading and principal investments	**8,555**	7,297	9,296
Asset management and securities services	**1,917**	1,716	1,545
Interest income	**10,751**	11,269	16,620
Total revenues	**23,623**	22,854	31,138
Interest expense	**7,600**	8,868	15,327
Cost of power generation	**11**	—	—
Revenues, net of interest expense and cost of power generation	**16,012**	13,986	15,811
Operating expenses			
Compensation and benefits	**7,393**	6,744	7,700
Amortization of employee initial public offering and acquisition awards	**122**	293	464
Brokerage, clearing and exchange fees	**829**	852	843
Market development	**264**	306	406
Communications and technology	**478**	528	604
Depreciation and amortization	**562**	617	613
Amortization of goodwill and identifiable intangible assets	**319**	127	260
Occupancy	**722**	637	591
Professional services and other	**878**	629	634
Total non-compensation expenses	**4,052**	3,696	3,951
Total operating expenses	**11,567**	10,733	12,115
Pre-tax earnings	**4,445**	3,253	3,696
Provision for taxes	**1,440**	1,139	1,386
Net earnings	**$ 3,005**	$ 2,114	$ 2,310
Earnings per share			
Basic	**$ 6.15**	$ 4.27	$ 4.53
Diluted	**5.87**	4.03	4.26
Average common shares outstanding			
Basic	**488.4**	495.6	509.7
Diluted	**511.9**	525.1	541.8

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

(IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS)	AS OF NOVEMBER 2003	2002
Assets		
Cash and cash equivalents	**$ 7,087**	$ 4,822
Cash and securities segregated in compliance with U.S. federal and other regulations	**29,715**	20,389
Receivables from brokers, dealers and clearing organizations	**9,197**	5,779
Receivables from customers and counterparties	**27,180**	23,159
Securities borrowed	**129,118**	113,579
Securities purchased under agreements to resell	**26,856**	45,772
Financial instruments owned, at fair value	**139,029**	123,318
Financial instruments owned and pledged as collateral, at fair value	**21,690**	6,457
Total financial instruments owned, at fair value	**160,719**	129,775
Other assets	**13,927**	12,299
Total assets	**$403,799**	$355,574
Liabilities and shareholders' equity		
Short-term borrowings, including the current portion of long-term borrowings	**$ 44,202**	$ 40,638
Payables to brokers, dealers and clearing organizations	**3,515**	1,893
Payables to customers and counterparties	**105,513**	93,697
Securities loaned	**17,528**	12,238
Securities sold under agreements to repurchase	**43,084**	59,919
Financial instruments sold, but not yet purchased, at fair value	**102,699**	83,473
Other liabilities and accrued expenses	**8,144**	6,002
Long-term borrowings	**57,482**	38,711
Total liabilities	**382,167**	336,571
Commitments, contingencies and guarantees		
Shareholders' equity		
Preferred stock, par value $0.01 per share; 150,000,000 shares authorized, no shares issued and outstanding	**—**	—
Common stock, par value $0.01 per share; 4,000,000,000 shares authorized, 527,371,946 and 515,084,810 shares issued as of November 2003 and November 2002, respectively, and 473,014,926 and 472,940,724 shares outstanding as of November 2003 and November 2002, respectively	**5**	5
Restricted stock units and employee stock options	**2,984**	3,517
Nonvoting common stock, par value $0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding	**—**	—
Additional paid-in capital	**13,562**	12,750
Retained earnings	**9,914**	7,259
Unearned compensation	**(339)**	(845)
Accumulated other comprehensive income/(loss)	**6**	(122)
Treasury stock, at cost, par value $0.01 per share; 54,357,020 and 42,144,086 shares as of November 2003 and November 2002, respectively	**(4,500)**	(3,561)
Total shareholders' equity	**21,632**	19,003
Total liabilities and shareholders' equity	**$403,799**	$355,574

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

Consolidated Statements of Changes in Shareholders' Equity

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	YEAR ENDED NOVEMBER 2003	2002	2001
Common stock, par value $0.01 per share			
Balance, beginning of year	**$ 5**	$ 5	$ 5
Issued	**—**	—	—
Balance, end of year	**5**	5	5
Restricted stock units and employee stock options			
Balance, beginning of year	**3,517**	4,561	4,771
Issued	**339**	507	657
Delivered	**(714)**	(1,293)	(600)
Forfeited	**(156)**	(257)	(267)
Options exercised	**(2)**	(1)	—
Balance, end of year	**2,984**	3,517	4,561
Additional paid-in capital			
Balance, beginning of year	**12,750**	11,766	11,116
Issuance of common stock	**709**	865	527
Excess net tax benefit related to delivery of stock-based awards	**103**	119	123
Balance, end of year	**13,562**	12,750	11,766
Retained earnings			
Balance, beginning of year	**7,259**	5,373	3,294
Net earnings	**3,005**	2,114	2,310
Dividends declared	**(350)**	(228)	(231)
Balance, end of year	**9,914**	7,259	5,373
Unearned compensation			
Balance, beginning of year	**(845)**	(1,220)	(1,878)
Restricted stock units granted	**(6)**	(387)	(375)
Restricted stock units forfeited	**48**	95	108
Amortization of restricted stock units	**464**	667	925
Balance, end of year	**(339)**	(845)	(1,220)
Accumulated other comprehensive income/(loss)			
Balance, beginning of year	**(122)**	(168)	(130)
Currency translation adjustment, net of tax	**128**	46	(38)
Balance, end of year	**6**	(122)	(168)
Treasury stock, at cost, par value $0.01 per share			
Balance, beginning of year	**(3,561)**	(2,086)	(648)
Repurchased	**(939)**	(1,475)	(1,438)
Balance, end of year	**(4,500)**	(3,561)	(2,086)
	$21,632	$19,003	$18,231

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

(IN MILLIONS)	YEAR ENDED NOVEMBER 2003	2002	2001
Cash flows from operating activities			
Net earnings	**$ 3,005**	$ 2,114	$ 2,310
Noncash items included in net earnings			
Depreciation and amortization	**562**	617	613
Amortization of goodwill and identifiable intangible assets	**319**	127	260
Deferred income taxes	**93**	230	52
Stock-based compensation	**711**	639	789
Changes in operating assets and liabilities			
Cash and securities segregated in compliance with U.S. federal and other regulations	**(9,311)**	1,745	(5,002)
Net receivables from brokers, dealers and clearing organizations	**(1,797)**	(2,423)	931
Net payables to customers and counterparties	**7,826**	5,265	20,056
Securities borrowed, net of securities loaned	**(10,249)**	(7,039)	(21,098)
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell	**2,081**	2,429	18,046
Financial instruments owned, at fair value	**(28,920)**	(20,977)	(14,390)
Financial instruments sold, but not yet purchased, at fair value	**19,227**	8,756	1,809
Other, net	**798**	(1,560)	(1,511)
Net cash (used for)/provided by operating activities	**(15,655)**	(10,077)	2,865
Cash flows from investing activities			
Property, leasehold improvements and equipment	**(592)**	(1,008)	(1,370)
Business combinations, net of cash acquired	**(697)**	(68)	(314)
Other investments	**(1,372)**	(27)	(225)
Net cash used for investing activities	**(2,661)**	(1,103)	(1,909)
Cash flows from financing activities			
Short-term borrowings, net	**729**	6,354	1,261
Issuance of long-term borrowings	**28,238**	12,740	6,694
Repayment of long-term borrowings, including the current portion of long-term borrowings	**(7,471)**	(8,358)	(4,208)
Derivative contracts with a financing element	**231**	—	—
Common stock repurchased	**(939)**	(1,475)	(1,438)
Dividends paid	**(350)**	(228)	(231)
Proceeds from issuance of common stock	**143**	60	5
Net cash provided by financing activities	**20,581**	9,093	2,083
Net increase/(decrease) in cash and cash equivalents	**2,265**	(2,087)	3,039
Cash and cash equivalents, beginning of year	**4,822**	6,909	3,870
Cash and cash equivalents, end of year	**$ 7,087**	$ 4,822	$ 6,909

SUPPLEMENTAL DISCLOSURES:
Cash payments for interest, net of capitalized interest, were $7.21 billion, $8.92 billion and $14.98 billion for the years ended November 2003, November 2002 and November 2001, respectively.

Cash payments for income taxes, net of refunds, were $846 million, $1.22 billion and $1.30 billion for the years ended November 2003, November 2002 and November 2001, respectively.

Noncash activities:
The value of common stock issued in connection with business combinations was $165 million, $47 million and $223 million for the years ended November 2003, November 2002 and November 2001, respectively. In addition, the firm assumed $584 million of long-term borrowings in connection with business combinations for the year ended November 2003.

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

Consolidated Statements of Comprehensive Income

(IN MILLIONS)	YEAR ENDED NOVEMBER 2003	2002	2001
Net earnings	**$3,005**	$2,114	$2,310
Currency translation adjustment, net of tax	**128**	46	(38)
Comprehensive income	**$3,133**	$2,160	$2,272

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 leading global investment banking, securities and investment management firm that provides a wide range of services worldwide to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals.

The firm's activities are divided into three segments:

- INVESTMENT BANKING – The firm provides a broad range of investment banking services to a diverse group of corporations, financial institutions, governments and individuals.
- TRADING AND PRINCIPAL INVESTMENTS – The firm facilitates customer 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 derivatives on such products. In addition, the firm engages in floor-based and electronic market making as a specialist on U.S. equities and options exchanges and clears customer transactions on major stock, options and futures exchanges worldwide. In connection with the firm's merchant banking and other investment activities, the firm makes principal investments directly and through funds that the firm raises and manages.
- ASSET MANAGEMENT AND SECURITIES SERVICES – The firm offers a broad array of investment strategies, advice and planning across all major asset classes to a diverse client base of institutions and individuals and provides prime brokerage, financing services and securities lending services to mutual funds, pension funds, hedge funds, foundations, endowments and high-net-worth individuals.

The firm made certain changes to its segment reporting structure in 2003. These changes included reclassifying the following from Asset Management and Securities Services to Trading and Principal Investments:

- equity commissions and clearing and execution fees;
- merchant banking overrides; and
- the matched book businesses.

These reclassifications did not affect the firm's previously reported consolidated results of operations, financial condition or cash flows. See Note 15 for further information regarding the firm's segments.

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements include the accounts of Group Inc. and all other entities in which the firm has a controlling financial interest. All material intercompany transactions and balances have been eliminated. The firm determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity, a variable interest entity (VIE), a special-purpose entity (SPE) or a qualifying special-purpose entity (QSPE) under generally accepted accounting principles.

Voting interest entities are entities in which the total equity investment at risk is sufficient to enable each entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities.

Voting interest entities are consolidated in accordance with Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements," as amended. ARB No. 51 states that the usual condition for a controlling financial interest in an entity is ownership of a majority voting interest. Accordingly, the firm consolidates voting interest entities in which it has all, or a majority of, the

voting interest. The firm's principal U.S. and international subsidiaries include Goldman, Sachs & Co. (GS&Co.), J. Aron & Company and Spear, Leeds & Kellogg, L.P. (SLK) in New York, Goldman Sachs International (GSI) in London and Goldman Sachs (Japan) Ltd. (GSJL) in Tokyo.

As defined in Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46, "Consolidation of Variable Interest Entities," VIEs are entities that lack one or more of the characteristics of a voting interest entity described above. Prior to the issuance of FIN No. 46, VIEs were commonly referred to as SPEs. FIN No. 46 states that a controlling financial interest in an entity is present when an enterprise has a variable interest, or combination of variable interests, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE under FIN No. 46.

In January 2003, the FASB issued FIN No. 46. In accordance with its original provisions, the firm adopted FIN No. 46 immediately for all VIEs created after January 31, 2003. For VIEs created before February 1, 2003 (pre-existing VIEs), the firm was initially required to adopt FIN No. 46 no later than November 2003. In October 2003, the FASB deferred the effective date of FIN No. 46 for pre-existing VIEs to no later than February 2004 (the firm's first quarter of fiscal 2004). In December 2003, the FASB issued a revision to FIN No. 46 (FIN No. 46-R), which incorporated the October 2003 deferral provisions and clarified and revised the accounting guidance for VIEs. Under its transition provisions, early application of FIN No. 46 or FIN No. 46-R to some or all VIEs was permitted. The firm applied either FIN No. 46 or FIN No. 46-R to substantially all pre-existing VIEs in which it held a variable interest as of November 2003. All VIEs, regardless of when created, are required to be evaluated under FIN No. 46-R no later than May 2004.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," the firm does not consolidate QSPEs. QSPEs are passive entities that hold financial assets transferred to them and are commonly used in mortgage and other securitization transactions. Prior to the adoption of FIN No. 46 or FIN No. 46-R, as applicable, the firm consolidated all nonqualifying SPEs if the firm controlled the SPE, held a majority of the SPE's substantive risks and rewards, or had transferred assets to the SPE and independent investors had not made a substantive majority equity investment in legal form.

When the firm does not have a controlling financial interest in an entity but exerts significant influence over the entity's operating and financial policies (generally defined as owning a voting or economic interest of 20% to 50%), the firm accounts for its investment in accordance with the equity method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock."

If the firm does not have a controlling financial interest in, or exert significant influence over, an entity, the firm accounts for its investment at fair value.

The firm's financial interests in, and derivative transactions with, nonconsolidated SPEs and VIEs are accounted for at fair value, in the same manner as other financial instruments. As of November 2003, the firm had no material additional financial commitments or guarantees in respect of these entities.

The firm also has formed numerous nonconsolidated merchant banking funds with third-party investors that are typically organized as limited partnerships. The firm acts as general partner for these funds and does not hold a majority of the economic interests in any fund. Where the firm holds an interest that is significant to a fund, it is subject to removal as general partner. The firm's aggregate investments in funds in which it holds a significant interest was $1.57 billion and $1.42 billion as of November 2003 and November 2002, respectively. Such fund investments are included in "Financial instruments owned, at fair value" in the consolidated statements of financial condition. Total assets in these funds were approximately $13 billion as of September 30, 2003 (the most recent investment fund reporting date).

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles that require management to make certain estimates and assumptions regarding fair value measurement, the accounting for goodwill and identifiable intangible assets, the provision for potential losses that may arise from litigation and regulatory proceedings, and other matters that affect the consolidated financial statements and related disclosures. These estimates and assumptions are based on the best available information; nonetheless, actual results could be materially different from these estimates.

Unless otherwise stated herein, all references to November 2003, November 2002 and November 2001 refer to the firm's fiscal years ended, or the dates, as the context requires, November 28, 2003, November 29,

2002 and November 30, 2001, respectively. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

Revenue Recognition

INVESTMENT BANKING

Underwriting revenues and fees from mergers and acquisitions and other corporate finance advisory assignments are recorded when the services related to the underlying transaction are completed under the terms of the engagement. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded. Underwriting revenues are presented net of related expenses. Expenses associated with advisory transactions are recorded as non-compensation expenses, net of client reimbursements.

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 foreign sovereign obligations, represent short-term collateralized financing transactions and are carried in the consolidated statements of financial condition at their contractual amounts plus accrued interest. These amounts are presented on a net-by-counterparty basis when the requirements of FIN No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements," are satisfied. The firm takes possession of securities purchased under agreements to resell, makes delivery of securities sold under agreements to repurchase, monitors the market value of these securities on a daily basis and delivers or obtains additional collateral as appropriate.

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

FINANCIAL INSTRUMENTS

The consolidated statements of financial condition generally reflect purchases and sales of financial instruments on a trade-date basis.

"Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value" in the consolidated statements of financial condition consist of financial instruments carried at fair value or amounts that approximate fair value, with related unrealized gains or losses recognized in the firm's results of operations. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

In determining fair value, the firm separates financial instruments into three categories—cash (i.e., nonderivative) trading instruments, derivative contracts and principal investments.

The fair values of cash trading instruments are generally obtained from quoted market prices in active markets, broker or dealer price quotations, or alternative pricing sources with a reasonable level of price transparency. The types of instruments valued in this manner include U.S. government and agency securities, other sovereign government obligations, liquid mortgage products, investment-grade corporate bonds, listed equities, money market securities, state, municipal and provincial obligations, and physical commodities.

Certain cash trading instruments trade infrequently and, therefore, have little or no price transparency. Such instruments may include certain high-yield debt, corporate bank loans, mortgage whole loans and distressed debt. The firm values these instruments using methodologies such as the present value of known or estimated cash flows and generally does not adjust underlying valuation assumptions unless there is substantive evidence supporting a change in the value of the underlying instrument or valuation assumptions (such as similar market transactions, changes in financial ratios and changes in the credit ratings of the underlying companies).

Cash trading instruments owned by the firm (long positions) are marked to bid prices and instruments sold but not yet purchased (short positions) are marked to offer prices. If liquidating a position is reasonably expected to affect its prevailing market price, the valuation is adjusted generally based on market evidence or predetermined policies. In certain circumstances, such as for highly illiquid positions, management's estimates are used to determine this adjustment.

The fair values of the firm's derivative contracts include cash that the firm has paid and received (for example, option premiums or cash paid or received pursuant to credit support agreements) and consist of exchange-traded and over-the-counter (OTC) derivatives. The fair

values of the firm's exchange-traded derivatives are generally determined from quoted market prices. OTC derivatives are valued using valuation models. The firm uses a variety of valuation models including the present value of known or estimated cash flows, option-pricing models and option-adjusted spread models. The valuation models used to derive the fair values of the firm's OTC derivatives require inputs including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs.

At the inception of an OTC derivative contract (day one), the firm values the contract at the model value if the firm can verify all of the significant model inputs to observable market data and verify the model value to market transactions. When appropriate, valuations are adjusted to take account of various factors such as liquidity, bid/offer and credit considerations. These adjustments are generally based on market evidence or predetermined policies. In certain circumstances, such as for highly illiquid positions, management's estimates are used to determine these adjustments.

Where the firm cannot verify all of the significant model inputs to observable market data and verify the model value to market transactions, the firm values the contract at the transaction price at inception and, consequently, records no day one gain or loss in accordance with Emerging Issues Task Force (EITF) Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities."

Following day one, the firm adjusts the inputs to valuation models only to the extent that changes in such inputs can be verified by similar market transactions, third-party pricing services and/or broker quotes or can be derived from other substantive evidence such as empirical market data. In circumstances where the firm cannot verify the model value to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

In valuing corporate and real estate principal investments, the firm's portfolio is separated into investments in private companies and investments in public companies, including the firm's investment in the convertible preferred stock of Sumitomo Mitsui Financial Group, Inc. (SMFG).

The firm's private principal investments, by their nature, have little to no price transparency. Such investments are initially carried at cost as an approximation of fair value. Adjustments to carrying value are made if there are third-party transactions evidencing a change in value. Downward adjustments are also made, in the absence of third-party transactions, if it is determined that the expected realizable value of the investment is less than the carrying value. In reaching that determination, many factors are considered, including, but not limited to, the operating cash flows and financial performance of the companies or properties relative to budgets or projections, trends within sectors and/or regions, underlying business models, expected exit timing and strategy, and any specific rights or terms associated with the investment, such as conversion features and liquidation preferences.

The firm's public principal investments, which tend to be large, concentrated holdings that resulted from initial public offerings or other corporate transactions, are valued using quoted market prices discounted for restrictions on sale. If liquidating a position is reasonably expected to affect market prices, valuations are adjusted accordingly based on predetermined written policies.

The firm's investment in the convertible preferred stock of SMFG is carried at fair value, which is derived from a model that incorporates SMFG's common stock price and credit spreads, the impact of the transfer restrictions on the firm's investment and the downside protection on the conversion strike price.

In general, transfers of financial assets are accounted for as sales under SFAS No. 140 when the firm has relinquished control over the transferred assets. For transfers accounted for as sales, any related gains or losses are recognized in net revenues. Transfers that are not accounted for as sales are accounted for as repurchase agreements or collateralized financing arrangements, with the related interest expense recognized in net revenues over the lives of the transactions.

COMMISSIONS

The firm generates commissions from executing and clearing client transactions on stock, options and futures markets worldwide. These commissions are recorded on a trade-date basis in "Trading and principal investments" in the consolidated statements of earnings.

POWER GENERATION

Power generation revenues are included in "Trading and principal investments" in the consolidated statements of earnings when power is delivered. "Cost of power generation" in the consolidated statement of earnings includes all of the direct costs of the firm's power plant operations (e.g., fuel, operations and maintenance), as well as the depreciation and amortization associated with the plant and related contractual assets.

ASSET MANAGEMENT

Asset management fees are generally recognized over the period that the related service is provided based upon average net asset values. In certain circumstances, the firm is entitled to receive incentive fees when the return on assets under management exceeds certain benchmark returns or other performance targets. Incentive fees are generally based on investment performance over a twelve-month period and are not subject to adjustment once the measurement period ends. Accordingly, incentive fees are recognized in the consolidated statements of earnings when the measurement period ends. Asset management fees and incentive fees are included in "Asset management and securities services" in the consolidated statements of earnings.

MERCHANT BANKING OVERRIDES

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 funds' investments exceeds certain threshold returns. Overrides are based on investment performance over the life of each merchant banking fund, and future investment underperformance may require amounts previously distributed to the firm to be returned to the funds. Accordingly, overrides are recognized in the consolidated statements of earnings only when all material contingencies have been resolved. Overrides are included in "Trading and principal investments" in the consolidated statements of earnings.

Cash and Cash Equivalents

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

Goodwill

Goodwill is the cost of acquired companies in excess of the fair value of identifiable net assets at acquisition date. Prior to December 1, 2001, goodwill was amortized over periods of 15 to 20 years on a straight-line basis. Effective December 1, 2001, the firm adopted SFAS No. 142, "Goodwill and Other Intangible Assets"; consequently, goodwill is no longer amortized but, instead, is tested at least annually for impairment. An impairment loss is triggered if the estimated fair value of an operating segment is less than its estimated net book value. Such loss is calculated as the difference between the estimated fair value of goodwill and its carrying value.

Identifiable Intangible Assets

Identifiable intangible assets, which consist primarily of customer lists and specialist rights, are amortized over their useful lives. Identifiable intangible assets are tested for potential impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the expected undiscounted cash flows relating to the asset or asset group are less than the corresponding carrying value.

Property, Leasehold Improvements and Equipment

Property, leasehold improvements and equipment, net of accumulated depreciation and amortization, are included in "Other assets" in the consolidated statements of financial condition. Effective December 1, 2001, the firm changed to the straight-line method of depreciation for certain property, leasehold improvements and equipment placed in service on or after December 1, 2001.

The firm's depreciation and amortization is generally computed using the methods set forth below:

	PROPERTY AND EQUIPMENT	LEASEHOLD IMPROVEMENTS		CERTAIN INTERNAL USE SOFTWARE COSTS
		TERM OF LEASE GREATER THAN USEFUL LIFE	TERM OF LEASE LESS THAN USEFUL LIFE	
Placed in service prior to December 1, 2001	Accelerated cost recovery	Accelerated cost recovery	Straight-line over the term of the lease	Straight-line over the useful life of the asset
Placed in service on or after December 1, 2001	Straight-line over the useful life of the asset	Straight-line over the useful life of the asset	Straight-line over the term of the lease	Straight-line over the useful life of the asset

Earnings Per Share

Basic earnings per share (EPS) is calculated by dividing net earnings by the weighted average number of common shares outstanding. Common shares outstanding includes common stock and 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 restricted stock units for which future service is required as a condition to the delivery of the underlying common stock.

Stock-Based Compensation

Effective for fiscal 2003, the firm began to account for stock-based employee compensation in accordance with the fair-value method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," using the prospective adoption method. Under this method of adoption, compensation expense is recognized over the relevant service period based on the fair value of stock options and restricted stock units granted for fiscal 2003 and future years. No unearned compensation is included in "Shareholders' equity" for such stock options and restricted stock units granted. Rather, such stock options and restricted stock units are included in "Shareholders' equity" under SFAS No. 123 when services required from employees in exchange for the awards are rendered and expensed. Adoption of SFAS No. 123 did not have a material effect on the firm's financial condition, results of operations or cash flows.

Compensation expense resulting from stock options and restricted stock units granted for the years ended November 2002, November 2001 and prior years was, and continues to be, accounted for under the intrinsic-value-based method prescribed by APB Opinion No.25, "Accounting for Stock Issued to Employees," as permitted by SFAS No. 123. Therefore, no compensation expense was, or will be, recognized for those unmodified stock options issued for years prior to fiscal 2003 that had no intrinsic value on the date of grant. Compensation expense for restricted stock units issued for the years prior to fiscal 2003 was, and continues to be, recognized over the relevant service periods using amortization schedules based on the applicable vesting provisions.

If the firm were to recognize compensation expense over the relevant service period under the fair-value method of SFAS No. 123 with respect to stock options granted for the year ended November 2002 and all prior years, net earnings would have decreased, resulting in pro forma net earnings and EPS as presented below:

	YEAR ENDED NOVEMBER		
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	**2003**	**2002**	**2001**
Net earnings, as reported	**$3,005**	$2,114	$2,310
Add: Stock-based employee compensation expense, net of related tax effects, included in reported net earnings	**458**	416	499
Deduct: Stock-based employee compensation expense, net of related tax effects, determined under the fair-value method for all awards	**(782)**	(785)	(844)
Pro forma net earnings	**$2,681**	$1,745	$1,965
EPS, as reported			
Basic	**$ 6.15**	$ 4.27	$ 4.53
Diluted	**5.87**	4.03	4.26
Pro forma EPS			
Basic	**$ 5.49**	$ 3.52	$ 3.86
Diluted	**5.24**	3.32	3.63

Income Taxes

Deferred tax assets and liabilities are recognized for temporary differences between the financial reporting and tax bases of the firm's assets and liabilities. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized. The firm's tax assets and liabilities are presented as a component of "Other assets" and "Other liabilities and accrued expenses," respectively, in 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 consolidated 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, when the functional currency is other than the U.S. dollar, are included, net of hedges, on the consolidated statements of comprehensive income. Hedge effectiveness is assessed based on changes in forward exchange rates; accordingly, forward points are reflected as a component of the currency translation adjustment in the consolidated statements of comprehensive income. Foreign currency remeasurement gains or losses on transactions in non-functional currencies are included in the consolidated statements of earnings.

Recent Accounting Developments

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The statement specifies the accounting for certain employee termination benefits, contract termination costs and costs to consolidate facilities or relocate employees and is effective for exit and disposal activities initiated after December 31, 2002. Adoption of this statement did not have a material effect on the firm's financial condition, results of operations or cash flows.

In November 2002, the FASB issued FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 specifies the disclosures to be made about obligations under certain issued guarantees and requires a liability to be recognized for the fair value of a guarantee obligation. The recognition and measurement provisions of the interpretation apply prospectively to guarantees issued after December 31, 2002. The firm adopted the disclosure provisions effective beginning with the firm's first fiscal quarter in 2003. Adoption of the recognition and measurement provisions did not have a material effect on the firm's financial condition or results of operations. See Note 6 for further information regarding the firm's commitments, contingencies and guarantees.

In November 2002, the EITF reached a consensus on EITF Issue No. 02-3, which precludes mark-to-market accounting for energy-trading contracts that are not derivatives pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The firm adopted the provisions of EITF Issue No. 02-3 related to energy-trading contracts as of the beginning of the first quarter of fiscal 2003, and the effect of adoption was not material to the firm's financial condition, results of operations or cash flows. EITF Issue No. 02-3 also communicates the FASB staff's view that the transaction price for a derivative contract is the best information available to estimate fair value at the inception of a contract when the estimate is not based on other observable market data. The application of the FASB staff's view did not have a material effect on the firm's financial condition, results of operations or cash flows.

As discussed above in "—Basis of Presentation," in January 2003, the FASB issued FIN No. 46 and, in December 2003, the FASB issued FIN No. 46-R. The effect of the firm's adoption of FIN No. 46 and the early application of FIN No. 46-R to certain structures was not material to the firm's financial condition, results of operations or cash flows. Management is still evaluating the effect of full adoption of FIN No. 46-R for the firm's second quarter of fiscal 2004, but does not currently expect full adoption to have a material effect on the firm's financial condition, results of operations or cash flows.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In addition, the statement clarifies when a contract is a derivative and when a derivative contains a financing component that warrants special reporting in the statement of cash flows. As required, the firm adopted SFAS No. 149 prospectively for contracts entered into or modified, and hedging relationships designated, after June 30, 2003. Adoption did not have a material effect on the firm's financial condition, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No.150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity and imposes certain

additional disclosure requirements. The provisions of SFAS No. 150 are generally effective for financial instruments entered into or modified after May 31, 2003, except for those provisions relating to noncontrolling interests that have been deferred. As required, the firm adopted the applicable provisions of SFAS No. 150 to all financial instruments at the beginning of the firm's fourth quarter of fiscal 2003. Adoption did not have a material effect on the firm's financial condition, results of operations or cash flows. If the deferred provisions are finalized in their current form, management does not expect adoption to have a material effect on the firm's financial condition, results of operations or cash flows.

NOTE 3

FINANCIAL INSTRUMENTS

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

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 132 revises employers' disclosures about pension plans and other postretirement benefits by requiring additional disclosures such as descriptions of the types of plan assets, investment strategies, measurement dates, plan obligations, cash flows and components of net periodic benefit costs recognized during interim periods. The statement does not change the measurement or recognition of the plans. Interim period disclosure is generally effective for the firm's second quarter of 2004. Required annual disclosure is effective for the firm's fiscal year ending 2004.

Transactions involving financial instruments sold, but not yet purchased, generally entail obligations to purchase financial instruments at future dates. 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 financial instruments owned, including those pledged as collateral, at fair value, and financial instruments sold, but not yet purchased, at fair value:

	AS OF NOVEMBER			
	2003		2002	
(IN MILLIONS)	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Commercial paper, certificates of deposit, time deposits and other money market instruments	**$ 4,987**	**$ —**	$ 1,092	$ —
U.S. government, federal agency and sovereign obligations	**36,634**	**34,003**	36,053	22,272
Corporate and other debt obligations				
Mortgage whole loans and collateralized debt obligations	**11,768**	**363**	8,292	738
Investment-grade corporate bonds	**9,862**	**4,641**	7,959	4,607
Bank loans	**6,706**	**264**	4,289	401
High-yield securities	**4,817**	**1,394**	1,944	940
Preferred stock	**3,822**	**163**	1,543	70
Other	**569**	**157**	1,398	146
	37,544	**6,982**	25,425	6,902
Equities and convertible debentures	**35,006**	**19,651**	23,624	14,398
State, municipal and provincial obligations	**459**	**—**	715	—
Derivative contracts	**45,733**	**41,886**	42,205	38,921
Physical commodities	**356**	**177**	661	980
Total	**$160,719**	**$102,699**	$129,775	$83,473

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 both November 2003 and November 2002, the firm held U.S. government and federal agency obligations that represented 6% 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. As of November 2003 and November 2002, the firm did not have credit exposure to any other counterparty that exceeded 5% of the firm's total assets.

Derivative Activities

Derivative contracts are 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. 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, currencies or indices.

Certain cash instruments, such as mortgage-backed securities, interest-only and principal-only obligations, and indexed debt instruments, are not considered derivatives even though their values or contractually required cash flows are derived from the price of some other security or index. However, certain commodity-related contracts are included in the firm's derivatives disclosure, as these contracts may be settled in cash or are readily convertible into cash.

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" in the consolidated statements of earnings.

The firm also enters into derivative contracts to manage the interest rate, currency and equity-linked exposure on its long-term borrowings. These derivatives generally include interest rate futures contracts, interest rate swap agreements, currency swap agreements and equity-linked contracts, which are primarily utilized to convert a substantial portion of the firm's long-term debt into U.S. dollar-based floating rate obligations. Certain interest rate swap contracts are designated as fair-value hedges. The gains and losses associated with the ineffective portion of these fair-value hedges are included in "Trading and principal investments" in the consolidated statements of earnings and were not material for the years ended November 2003, November 2002 and November 2001.

Derivative contracts are reported on a net-by-counterparty basis in the firm's consolidated statements of financial condition when 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:

	AS OF NOVEMBER			
	2003		2002	
(IN MILLIONS)	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Forward settlement contracts	**$ 8,134**	**$ 9,271**	$ 4,293	$ 4,602
Swap agreements	**25,471**	**17,317**	22,426	18,516
Option contracts	**12,128**	**15,298**	15,486	15,803
Total	**$45,733**	**$41,886**	$42,205	$38,921

Securitization Activities

The firm securitizes commercial and residential mortgages, home equity loans, government and corporate bonds, and other types of financial assets. The firm acts as underwriter of the beneficial interests that are sold to investors. The firm derecognizes financial assets transferred in securitizations provided it has relinquished control over such assets. Transferred assets are accounted for at fair value prior to securitization. Net revenues related to these underwriting activities are recognized in connection with the sales of the underlying beneficial interests to investors.

The firm may retain interests in securitized financial assets, which it generally attempts to sell as quickly as possible, subject to prevailing market conditions. Retained interests are accounted for at fair value and included in "Total financial instruments owned, at fair value" in the consolidated statements of financial condition.

During the years ended November 2003 and November 2002, the firm securitized $95.00 billion and $107.05 billion, respectively, of financial assets, including $70.89 billion and $89.33 billion, respectively, of agency mortgage-backed securities. Cash flows received on retained interests and other securitization cash flows were approximately $1 billion and $534 million for the years ended November 2003 and November 2002, respectively. As of November 2003, the firm held $3.20 billion of retained interests, including $3.04 billion held in QSPEs.

The fair value of $1.05 billion of retained interests was based on quoted market prices in active markets. The following table sets forth the weighted average key economic assumptions used in measuring the fair value of $2.15 billion of retained interests for which fair value is based on alternative pricing sources with reasonable, little or no price transparency and the sensitivity of those fair values to immediate adverse changes of 10% and 20% in those assumptions:

	AS OF NOVEMBER 2003	
	TYPE OF RETAINED INTERESTS	
($ IN MILLIONS)	MORTGAGE-BACKED	OTHER ASSET-BACKED[3]
Fair value of retained interests	$1,199	$ 954
Weighted average life (years)	3.8	3.4
Annual constant prepayment rate	22.0%	N/A
Impact of 10% adverse change	$ (3)	$ —
Impact of 20% adverse change	(7)	—
Annual credit losses[1]	2.9%	1.3%
Impact of 10% adverse change[2]	$ (11)	$ (6)
Impact of 20% adverse change[2]	(19)	(11)
Annual discount rate	15.0%	8.3%
Impact of 10% adverse change	$ (27)	$ (6)
Impact of 20% adverse change	(51)	(11)

[1] Annual percentage credit loss is based only on positions in which expected credit loss is a key assumption in the determination of fair values.

[2] The impacts of adverse change take into account credit mitigants incorporated in the retained interests, including over-collateralization and subordination provisions.

[3] Includes retained interests in government and corporate bonds and other types of financial assets that are not subject to prepayment risk.

The preceding table does not give effect to the offsetting benefit of other financial instruments that are held to hedge risks inherent in these retained interests. Changes in fair value based on a 10% adverse variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value is not usually linear. In addition, the impact of a change in a particular assumption is calculated independently of changes in any other assumption. In practice, simultaneous changes in assumptions might magnify or counteract the sensitivities disclosed above.

In addition to the retained interests described above, the firm also held interests in QSPEs, primarily agency mortgage-backed securities, purchased in connection with secondary market-making activities. These purchased interests approximated $6 billion and $3 billion as of

November 2003 and November 2002, respectively.

In connection with the issuance of asset-repackaged notes to investors, the firm had derivative receivables from QSPEs, to which the firm has transferred assets, with a fair value of $188 million and $222 million as of November 2003 and November 2002, respectively. These receivables are collateralized by a first-priority interest in the assets held by each QSPE. Accordingly, the firm views these derivative receivables in the same manner as other segregated collateral arrangements from a credit perspective.

Variable Interest Entities (VIEs)

The firm, in the ordinary course of its business, retains interests in VIEs in connection with its securitization activities. The firm also purchases and sells variable interests in VIEs, primarily mortgage-backed and asset-backed interests, in connection with its market-making activities and makes investments in and loans to VIEs that hold performing and nonperforming debt, real estate and other assets. In addition, the firm utilizes VIEs to provide investors with credit-linked and asset-repackaged notes designed to meet their objectives.

VIEs generally purchase assets by issuing debt and equity instruments and through other contractual arrangements. In certain instances, the firm has provided guarantees to certain VIEs or holders of variable interests in these VIEs. In such cases, the maximum exposure to loss included in the tables set forth below is the notional amount of such guarantees. Such amounts do not represent anticipated losses in connection with these guarantees. The firm's variable interests in these VIEs include senior and subordinated debt; limited and general partnership interests; preferred and common stock; interest rate, foreign currency, equity, commodity and credit derivatives; guarantees; and residual interests in mortgage-backed and asset-backed securitization vehicles. Group Inc. generally is not directly or indirectly obligated to repay the debt and equity instruments and contractual arrangements entered into by these VIEs.

The following table sets forth the firm's total assets and maximum exposure to loss associated with its significant variable interests in consolidated, asset-backed VIEs:

	AS OF NOVEMBER	
(IN MILLIONS)	**2003**	**2002**
VIE assets[1]	**$1,832**	$1,746
Maximum exposure to loss	**145**	270

[1] Consolidated VIE assets include assets financed by nonrecourse short-term and long-term debt. Nonrecourse debt is debt that Group Inc. is not directly or indirectly obligated to repay through a guarantee, general partnership interest or contractual arrangement.

The following table sets forth the firm's total assets and maximum exposure to loss associated with its significant variable interests in nonconsolidated VIEs:

	AS OF NOVEMBER 2003					
		MAXIMUM EXPOSURE TO LOSS				
(IN MILLIONS)	**VIE ASSETS**	**PURCHASED INTERESTS**	**GUARANTEES**	**DERIVATIVES**	**LOANS AND INVESTMENTS**	**TOTAL**
Mortgage-backed	**$1,648**	**$ 24**	**$ —**	**$ —**	**$ 507**	**$ 531**
Other asset-backed	**6,617**	**65**	**236**	**100**	**920**	**1,321**
Total	**$8,265**	**$ 89**	**$ 236**	**$100**	**$1,427**	**$1,852**

	AS OF NOVEMBER 2002					
		MAXIMUM EXPOSURE TO LOSS				
(IN MILLIONS)	VIE ASSETS	PURCHASED INTERESTS	GUARANTEES	DERIVATIVES	LOANS AND INVESTMENTS	TOTAL
Mortgage-backed	$3,102	$148	$ —	$ —	$ —	$ 148
Other asset-backed	5,614	292	—	137	318	747

Total	$8,716	$440	$ —	$137	$ 318	$ 895

Secured Borrowing and Lending Activities

The firm obtains secured short-term financing principally through the use of repurchase agreements and securities lending agreements 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, mortgage-backed, investment-grade foreign sovereign obligations and equity securities.

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 2003 and November 2002, the fair value of securities received as collateral by the firm that it was permitted to sell or repledge was $410.01 billion and $316.31 billion, respectively, of which the firm sold or repledged $350.57 billion and $272.49 billion, respectively.

The firm also pledges its own assets to collateralize repurchase agreements and other secured financings. As of November 2003 and November 2002, the carrying value of securities included in "Financial instruments owned, at fair value" that had been loaned or pledged to counter-parties that did not have the right to sell or repledge was $47.39 billion and $34.66 billion, respectively.

NOTE 4

SHORT-TERM BORROWINGS

The firm obtains unsecured short-term borrowings through issuance of promissory notes, commercial paper and bank loans. Short-term borrowings also include the portion of long-term borrowings maturing within one year and certain long-term borrowings that may be payable within one year at the option of the holder. The carrying value of these short-term obligations approximates fair value due to their short-term nature.

Short-term borrowings are set forth below:

	AS OF NOVEMBER	
(IN MILLIONS)	**2003**	**2002**
Promissory notes	**$24,119**	$20,433
Commercial paper	**4,767**	9,463
Bank loans and other	**8,183**	4,948
Current portion of long-term borrowings	**7,133**	5,794
Total[1]	**$44,202**	$40,638

[1] As of November 2003 and November 2002, the weighted average interest rates for short-term borrowings, including commercial paper, were 1.48% and 2.09%, respectively.

NOTE 5

LONG-TERM BORROWINGS

Long-term borrowings are set forth below:

	AS OF NOVEMBER	
(IN MILLIONS)	**2003**	**2002**
Fixed rate obligations[1]		
U.S. dollar	**$28,242**	$19,550
Non-U.S. dollar	**8,703**	4,407
Floating rate obligations[2]		
U.S. dollar	**13,269**	10,175

Non-U.S. dollar	**7,268**	4,579
Total	**$57,482**	$38,711

(1) During 2003 and 2002, interest rates on U.S. dollar fixed rate obligations ranged from 4.13% to 12.00% and from 5.50% to 12.00%, respectively. During 2003 and 2002, interest rates on non-U.S. dollar fixed rate obligations ranged from 0.70% to 8.88% and from 1.20% 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.

As of November 2003, long-term borrowings included nonrecourse debt of $5.4 billion, consisting of $3.2 billion issued during the year by William Street Funding Corporation (Funding Corp) (a wholly owned subsidiary of Group Inc. formed to raise funding to support loan commitments made by another wholly owned William Street entity to investment-grade clients), $1.6 billion issued by consolidated VIEs and $0.6 billion issued by other consolidated entities, primarily associated with the firm's ownership of East Coast Power L.L.C. As of November 2002, long-term borrowings included nonrecourse debt of $530 million issued by consolidated VIEs. Nonrecourse debt is debt that Group Inc. is not directly or indirectly obligated to repay through a guarantee, general partnership interest or contractual arrangement.

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

	AS OF NOVEMBER					
	2003[1][2][3]			2002[2]		
(IN MILLIONS)	U.S. DOLLAR	NON-U.S. DOLLAR	TOTAL	U.S. DOLLAR	NON-U.S. DOLLAR	TOTAL
2004	**$ —**	**$ —**	**$ —**	$ 6,846	$ 184	$ 7,030
2005	**7,854**	**4,598**	**12,452**	5,804	3,075	8,879
2006	**6,133**	**1,576**	**7,709**	1,575	1,020	2,595
2007	**1,274**	**564**	**1,838**	1,094	953	2,047
2008	**3,105**	**2,546**	**5,651**	239	593	832
2009-thereafter	**23,145**	**6,687**	**29,832**	14,167	3,161	17,328
Total	**$41,511**	**$15,971**	**$57,482**	$29,725	$8,986	$38,711

(1) Long-term borrowings maturing within one year and certain long-term borrowings that may be redeemable within one year at the option of the holder are included as short-term borrowings in the consolidated statements of financial condition.

(2) Long-term borrowings repayable at the option of the firm are reflected at their contractual maturity dates. Certain long-term borrowings redeemable prior to maturity at the option of the holder are reflected at the date such options first become exercisable.

(3) Long-term borrowings have maturities that range from one to 30 years from the date of issue.

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

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

	AS OF NOVEMBER			
	2003		2002	
($ IN MILLIONS)	AMOUNT	RATE	AMOUNT	RATE
Fixed rate obligations	**$ 1,517**	**7.43%**	$ 1,057	8.35%
Floating rate obligations	**55,965**	**1.79**	37,654	2.24
Total	**$57,482**	**1.94**	$38,711	2.40

NOTE 6

COMMITMENTS, CONTINGENCIES AND GUARANTEES

Commitments

The firm had commitments to enter into forward secured financing transactions, including certain repurchase and resale agreements and secured borrowing and lending arrangements, of $35.25 billion and $40.04 billion as of November 2003 and November 2002, respectively.

In connection with its lending activities, the firm had outstanding commitments of $15.83 billion and $9.41 billion as of November 2003 and November 2002, respectively. The firm's commitments to extend credit are agreements to lend to counterparties that 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. As of November 2003, $4.32 billion of the

firm's outstanding commitments have been issued through the William Street credit extension program.[1] Substantially all of the credit risk associated

(1) These commitments were primarily issued through William Street Commitment Corporation (Commitment Corp), a consolidated wholly owned subsidiary of Group Inc. Another consolidated wholly owned subsidiary, Funding Corp, was formed to raise funding to support the William Street credit extension program. Commitment Corp and Funding Corp are each separate corporate entities, with assets and liabilities that are legally separated from the other assets and liabilities of the firm. Accordingly, the assets of Commitment Corp and of Funding Corp will not be available to their respective shareholders until the claims of their respective creditors have been paid. In addition, no affiliate of either Commitment Corp or Funding Corp, except in limited cases as expressly agreed in writing, is responsible for any obligation of either entity.

with these commitments has been hedged through credit loss protection provided by SMFG. The firm has also hedged the credit risk of certain non-William Street commitments using a variety of other financial instruments.

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 $12.60 billion and $11.63 billion as of November 2003 and November 2002, 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 $1.38 billion and $1.46 billion in corporate and real estate investment funds as of November 2003 and November 2002, respectively.

The firm had construction-related commitments of $87 million and $301 million as of November 2003 and November 2002, respectively, and other purchase commitments of $255 million and $23 million as of November 2003 and November 2002, respectively.

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. Future minimum rental payments, net of minimum sublease rentals, and rent charged to operating expense for the last three years are set forth below:

(IN MILLIONS)	
Minimum rental payments	
2004	$ 422
2005	349
2006	339
2007	304
2008	288
2009-thereafter	2,220
Total	$3,922
Net rent expense	
2001	$ 299
2002	359
2003	**360**

Contingencies

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.

Guarantees

The firm enters into various derivative contracts that meet the definition of a guarantee under FIN No. 45. Such derivative contracts include credit default swaps, written equity and commodity put options, written currency contracts and interest rate caps, floors and swaptions. FIN No. 45 does not require disclosures about derivative contracts if such contracts may be cash settled and the firm has no basis to conclude it is probable that the counterparties held, at inception, the underlying instruments related to the derivative contracts. The firm has concluded that these conditions have been met, for certain large, internationally active commercial and investment banks and end users. Accordingly, the firm has not included such contracts in the table below.

The firm, in its capacity as an agency lender, occasionally indemnifies securities lending customers against losses incurred in the event that borrowers do not return securities and the collateral held is insufficient to cover the market value of the securities borrowed. In relation to certain asset sales and securitization transactions, the firm guarantees the collection of contractual cash flows. In connection with fund management activities, the firm may issue loan guarantees to secure financing and to obtain preferential investment terms. In addition, the firm provides letters of credit and other guarantees, on a limited basis, to enable clients to enhance their credit standing and complete transactions.

The following table sets forth certain information about the firm's derivative contracts that meet the definition of a guarantee and certain other guarantees as of November 2003:

		MAXIMUM PAYOUT/NOTIONAL AMOUNT BY PERIOD OF EXPIRATION[3]				
(IN MILLIONS)	CARRYING VALUE	2004	2005-2006	2007-2008	2009-THEREAFTER	TOTAL
Derivatives[1]	$ 7,639	$216,038	$87,843	$126,385	$163,721	$593,987
Securities lending indemnifications[2]	—	7,955	—	—	—	7,955
Guarantees of the collection of contractual cash flows	16	827	708	3	5	1,543
Fund-related commitments	—	44	20	2	2	68
Letters of credit and other guarantees	89	89	25	1	82	197

[1] The carrying value of $7.64 billion excludes the effect of a legal right of setoff that may exist under an enforceable netting agreement.

[2] Collateral held in connection with these securities lending indemnifications was $8.23 billion as of November 2003.

[3] Such amounts do not represent anticipated losses in connection with these contracts.

In the normal course of its business, the firm indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the firm or its affiliates. The firm also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including subcustodians and third-party brokers, improperly execute transactions. In addition, the firm is a member of payment, clearing and settlement networks as well as securities exchanges around the world that may require the firm to meet the obligations of such networks and exchanges in the event of member defaults. In connection with its prime brokerage and clearing businesses, the firm may agree to clear and settle on behalf of its clients the transactions entered into by them with other brokerage firms. The firm's obligations in respect of such transactions are secured by the assets in the client's account as well as any proceeds received from the transactions cleared and settled by the firm on behalf of the client. The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make material payments under these arrangements, and no liabilities related to these guarantees and indemnifications have been recognized in the consolidated statement of financial condition as of November 2003.

The firm provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The firm may also provide indemnifications protecting against changes in or adverse application of certain U.S. tax laws in connection with ordinary-course transactions such as securities issuances, borrowings or derivatives. In addition, the firm may provide indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or an adverse application of certain non-U.S. tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. Generally, there are no stated or notional amounts included in these indemnifications, and the contingencies triggering the obligation to indemnify are not expected to occur. The firm is unable to develop an estimate of the maximum payout under these guarantees. However, management believes that it is unlikely the firm will have to make material payments under these arrangements, and no liabilities related to these arrangements have been recognized in the consolidated statement of financial condition as of November 2003.

NOTE 7

SHAREHOLDERS' EQUITY

Dividends declared per common share were $0.74 in 2003 and $0.48 in each of 2002 and 2001. On December 17, 2003, the Board of Directors of Group Inc. declared a dividend of $0.25 per share to be paid on February 26, 2004 to common shareholders of record on January 27, 2004.

During 2003 and 2002, the firm repurchased 12.2 million shares and 19.4 million shares of the firm's common stock, respectively. The average price paid per share for repurchased shares was $76.83 and $76.49 for the years ended November 2003 and November 2002, respectively. As of November 2003, the firm was authorized to repurchase up to 8.6 million additional shares of common stock pursuant to the firm's common stock repurchase program.

NOTE 8

EARNINGS PER SHARE

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

	YEAR ENDED NOVEMBER		
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	**2003**	**2002**	**2001**
Numerator for basic and diluted EPS — earnings available to common shareholders	**$3,005**	$2,114	$2,310
Denominator for basic EPS — weighted average number of common shares	**488.4**	495.6	509.7
Effect of dilutive securities			
Restricted stock units	**16.0**	22.1	22.0
Stock options	**7.5**	7.4	10.1
Dilutive potential common shares	**23.5**	29.5	32.1
Denominator for diluted EPS — weighted average number of common shares and dilutive potential common shares[1]	**511.9**	525.1	541.8
Basic EPS	**$ 6.15**	$ 4.27	$ 4.53
Diluted EPS	**5.87**	4.03	4.26

[1] The diluted EPS computations do not include the antidilutive effect of the following options:

	YEAR ENDED NOVEMBER		
(IN MILLIONS)	**2003**	**2002**	**2001**
Number of antidilutive options	**27**	28	1

NOTE 9

GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

Goodwill

As of November 2003 and November 2002, goodwill of $3.16 billion and $2.86 billion, respectively, was included in “Other assets” in the consolidated statements of financial condition. Prior to December 1, 2001, goodwill was amortized over periods of 15 to 20 years on a straight-line basis.

The following table sets forth reported net earnings and EPS, as adjusted to exclude goodwill amortization expense:

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	YEAR ENDED NOVEMBER **2001**
Net earnings, as reported	$2,310
Net earnings, as adjusted	2,404
EPS, as reported	
Basic	$ 4.53
Diluted	4.26
EPS, as adjusted	
Basic	$ 4.72
Diluted	4.44

Identifiable Intangible Assets

The following table sets forth the gross carrying amount, accumulated amortization and net carrying amount of identifiable intangible assets:

(IN MILLIONS)		AS OF NOVEMBER 2003	2002
Customer lists[1]	Gross carrying amount[3]	**$1,021**	$ 859
	Accumulated amortization	**(141)**	(94)
	Net carrying amount	**$ 880**	$ 765
New York Stock Exchange (NYSE) specialist rights	Gross carrying amount	**$ 714**	$ 717
	Accumulated amortization	**(78)**	(51)
	Net carrying amount	**$ 636**	$ 666
Option and exchange-traded fund (ETF) specialist rights	Gross carrying amount	**$ 312**	$ 312
	Accumulated amortization	**(182)**	(21)
	Net carrying amount	**$ 130**	$ 291
Other[2]	Gross carrying amount	**$ 351**	$ 351
	Accumulated amortization	**(177)**	(93)
	Net carrying amount	**$ 174**	$ 258
Total	Gross carrying amount[3]	**$2,398**	$2,239
	Accumulated amortization	**(578)**[4]	(259)
	Net carrying amount	**$1,820**	$1,980

(1) Primarily includes the firm's clearance and execution and Nasdaq customer lists acquired in the firm's combination with SLK and financial counseling customer lists acquired in the firm's combination with The Ayco Company, L.P.

(2) Includes primarily technology-related assets acquired in the firm's combination with SLK.

(3) Gross carrying amount includes additions of $162 million and $147 million for the years ended November 2003 and November 2002, respectively.

(4) For the year ended November 2003, accumulated amortization includes $188 million of impairment charges primarily related to option specialist rights.

Identifiable intangible assets are amortized over a weighted average life of approximately 18 years. There were no identifiable intangible assets that were considered to be indefinite-lived and, therefore, not subject to amortization.

Amortization expense associated with identifiable intangible assets was $319 million (including $188 million of impairment charges), $127 million and $115 million for the fiscal years ended November 2003, November 2002 and November 2001, respectively.

Estimated future amortization expense for existing identifiable intangible assets is set forth below:

(IN MILLIONS)	
2004	$123
2005	123
2006	123
2007	118
2008	91

NOTE 10

OTHER ASSETS AND OTHER LIABILITIES

Other assets are generally less liquid, nonfinancial assets. The following table sets forth the firm's other assets by type:

	AS OF NOVEMBER	
(IN MILLIONS)	2003	2002
Goodwill and identifiable intangible assets[1]	**$ 4,982**	$ 4,839
Property, leasehold improvements and equipment	**3,527**	3,460
Equity-method investments and joint ventures	**2,159**	649
Miscellaneous receivables and other	**1,463**	1,469
Net deferred tax assets[2]	**1,420**	1,549
Prepaid assets and deposits	**376**	333
Total	**$13,927**	$12,299

(1) See Note 9 for further information regarding the firm's goodwill and identifiable intangible assets.

(2) See Note 13 for further information regarding the firm's income taxes.

Other liabilities and accrued expenses primarily includes compensation and benefits, minority interest in certain consolidated entities, litigation liabilities, tax-related payables, deferred revenue and other payables. The following table sets forth the firm's other liabilities and accrued expenses by type:

	AS OF NOVEMBER	
(IN MILLIONS)	2003	2002
Compensation and benefits	**$3,956**	$3,194
Accrued expenses and other payables	**2,907**	2,572
Minority interest	**1,281**	236
Total	**$8,144**	$6,002

NOTE 11

EMPLOYEE BENEFIT PLANS

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

Defined Benefit Pension Plans and Postretirement Plans

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

The following table provides a summary of the changes in the plans' benefit obligations and the fair value of assets for November 2003 and November 2002 and a statement of the funded status of the plans as of November 2003 and November 2002:

	AS OF OR FOR YEAR ENDED NOVEMBER					
	2003			2002		
(IN MILLIONS)	**U.S. PENSION**	**NON-U.S. PENSION**	**POST-RETIREMENT**	U.S. PENSION	NON-U.S. PENSION	POST-RETIREMENT
Benefit obligation						
Balance, beginning of year	**$162**	**$245**	**$ 184**	$140	$184	$ 84
Business combination	**75**	**—**	**1**	—	—	—
Service cost	**8**	**41**	**8**	6	37	8
Interest cost	**13**	**12**	**12**	10	9	9
Plan amendments	**—**	**—**	**—**	—	1	40
Actuarial loss/(gain)	**39**	**22**	**(3)**	8	7	50
Benefits paid	**(3)**	**(13)**	**(6)**	(2)	(9)	(7)
Effect of foreign exchange rates	**—**	**28**	**—**	—	16	—
Balance, end of year	**$294**	**$335**	**$ 196**	$162	$245	$ 184
Fair value of plan assets						
Balance, beginning of year	**$167**	**$206**	**$ —**	$138	$164	$ 12
Business combination	**45**	**—**	**—**	—	—	—
Actual return on plan assets	**31**	**27**	**—**	(14)	(21)	(1)
Firm contributions	**37**	**58**	**6**	45	56	7
Benefits paid	**(3)**	**(13)**	**(6)**	(2)	(9)	(7)
Other distributions	**—**	**—**	**—**	—	—	(11)
Effect of foreign exchange rates	**—**	**26**	**—**	—	16	—
Balance, end of year	**$277**	**$304**	**$ —**	$167	$206	$ —
Prepaid/(accrued) benefit cost						
Funded status	**$ (17)**	**$ (31)**	**$(196)**	$ 5	$ (39)	$(184)
Unrecognized loss	**90**	**89**	**56**	72	79	62
Unrecognized transition (asset)/obligation	**(26)**	**15**	**2**	(28)	15	1
Unrecognized prior service cost	**—**	**3**	**22**	—	4	31
Adjustment to recognize additional minimum liability	**—**	**—**	**—**	—	(1)	—
Prepaid/(accrued) benefit cost	**$ 47**	**$ 76**	**$(116)**	$ 49	$ 58	$ (90)

The accumulated benefit obligation for all defined benefit plans was $560 million and $356 million as of November 2003 and November 2002, respectively.

For plans in which the accumulated benefit obligation exceeded plan assets, the aggregate projected benefit obligation and accumulated benefit obligation was $160 million and $139 million, respectively, as of November 2003, and $72 million and $55 million, respectively, as of November 2002. The fair value of plan assets for each of these plans was $97 million and $39 million as of November 2003 and November 2002, respectively.

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

(IN MILLIONS)	YEAR ENDED NOVEMBER 2003	2002	2001
U.S. pension			
Service cost	**$ 8**	$ 6	$ 4
Interest cost	**13**	10	9
Expected return on plan assets	**(16)**	(12)	(12)
Net amortization	**5**	(2)	(3)
Total	**$ 10**	$ 2	$ (2)
Non-U.S. pension			
Service cost	**$ 41**	$ 37	$ 35
Interest cost	**12**	9	7
Expected return on plan assets	**(15)**	(12)	(9)
Net amortization	**8**	4	1
Total	**$ 46**	$ 38	$ 34
Postretirement			
Service cost	**$ 8**	$ 8	$ 6
Interest cost	**12**	9	5
Expected return on plan assets	**—**	(1)	(1)
Net amortization	**11**	10	—
Total	**$ 31**	$ 26	$ 10

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. These 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 2003	2002	2001
Defined benefit pension plans			
U.S. pension—projected benefit obligation			
Discount rate	**6.00%**	6.75%	7.00%
Rate of increase in future compensation levels	**5.00**	5.00	5.00
U.S. pension—net periodic benefit cost			
Discount rate	**6.59**[(1)]	7.00	7.50
Rate of increase in future compensation levels	**5.00**	5.00	5.00
Expected long-term rate of return on plan assets	**8.50**	8.50	8.50
Non-U.S. pension—projected benefit obligation			
Discount rate	**4.76**	4.78	4.93
Rate of increase in future compensation levels	**4.37**	4.14	4.11
Expected long-term rate of return on plan assets	**6.25**	5.86	5.74
Postretirement plans—projected benefit obligation			
Discount rate	**6.00%**	6.75%	7.00%
Rate of increase in future compensation levels	**5.00**	5.00	5.00
Postretirement plans—net periodic benefit cost			
Discount rate	**6.75**[(1)]	7.00	7.50
Rate of increase in future compensation levels	**5.00**	5.00	5.00
Expected long-term rate of return on plan assets	**—**	8.50	8.50

(1) Includes plan added in connection with business combination.

The firm's approach in determining the long-term rate of return for plan assets is based upon historical financial market relationships that have existed over time with the presumption that this trend will generally remain constant in the future.

For measurement purposes, an annual growth rate in the per capita cost of covered healthcare benefits of 14% was assumed for the fiscal year ending November 2004. The rate was assumed to decrease ratably to 5% for the fiscal year ending November 2010 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:

	1% INCREASE		1% DECREASE	
(IN MILLIONS)	2003	2002	2003	2002
Cost	**$ 4**	$ 3	**$ (3)**	$ (2)
Obligation	**33**	25	**(26)**	(22)

The following table sets forth the composition of plan assets for the U.S. defined benefit pension plans by asset category:

	AS OF NOVEMBER	
	2003	2002
Equity securities	**61%**	66%
Debt securities	**25**	19
Other	**14**	15
Total	**100%**	100%

The investment approach of the firm's U.S. defined benefit pension plans involves employing a sufficient level of flexibility to capture investment opportunities as they occur, while maintaining reasonable parameters to ensure that prudence and care are exercised in the execution of the investment program. The plans employ a total return on investment approach, whereby a mix, which is broadly similar to the actual asset allocation as of November 2003, of equity securities, debt securities and other assets is targeted to maximize the long-term return on assets for a given level of risk. Investment risk is measured and monitored on an ongoing basis by the firm's Retirement Committee through periodic portfolio reviews, meetings with investment managers and annual liability measurements.

The firm does not expect to be required to contribute to its U.S. pension plans in fiscal 2004, but does expect to contribute $6 million to its unfunded postretirement benefit plan in the form of benefit payments in fiscal 2004.

The following table sets forth amounts of benefits projected to be paid from the firm's U.S. defined benefit pension and postretirement plans and reflects expected future service, where appropriate:

(IN MILLIONS)	U.S. PENSION	POST-RETIREMENT
2004	$ 4	$ 6
2005	5	7
2006	5	7
2007	6	8
2008	7	8
2009-2013	50	45

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 $199 million, $154 million and $193 million for the years ended November 2003, November 2002 and November 2001, respectively.

The firm has also established a nonqualified defined contribution plan (the Plan) for certain senior employees. Shares of common stock

contributed to the Plan and outstanding as of November 2003 were 4.2 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 2003, November 2002 and November 2001.

NOTE 12

EMPLOYEE INCENTIVE PLANS

Stock Incentive Plan

The firm sponsors a stock incentive plan, The Goldman Sachs Amended and Restated Stock Incentive Plan (the Amended SIP), which 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. In the second quarter of fiscal 2003, the Amended SIP was approved by the firm's shareholders, effective for grants after April 1, 2003, and no further awards were or will be made under the original plan after that date, although awards granted under the original plan prior to that date remain outstanding.

The total number of shares of common stock that may be issued under the Amended SIP through fiscal 2008 may not exceed 250 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 2003, 236.8 million shares were available for grant under the Amended SIP, after taking into account stock-based compensation awards that were issued subsequent to year end, as part of year-end compensation.

As of November 2002, 128.6 million shares were available for grant under the original plan, after taking into account 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 2003 and November 2002, (i) 24.5 million units and 29.9 million units, respectively, required future service as a condition to the delivery of the underlying shares of common stock and (ii) 23.3 million units and 18.3 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 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)
Outstanding, November 2001	25,629,933	41,669,062
Granted[(1)]	1,484,153	4,855,553
Forfeited	(591,957)	(3,135,134)
Delivered	(21,700,672)	—
Vested	13,494,481	(13,494,481)
Outstanding, November 2002	18,315,938	29,895,000
Granted[(1)]	**3,615,366**	**9,357,593**
Forfeited	**(179,708)**	**(1,886,420)**
Delivered	**(11,261,989)**	**—**
Vested	**12,824,458**	**(12,824,458)**
Outstanding, November 2003	**23,314,065**	**24,541,715**

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

Total employee stock compensation expense, net of forfeitures, was $711 million, $645 million and $798 million for the years ended November 2003, November 2002 and November 2001, respectively.

Stock Options

In general, stock options granted to employees in May of 1999 in connection with the firm's initial public offering vest and become exercisable in equal installments on or about the third, fourth and fifth anniversaries of the grant date. Stock options granted to employees subsequent to the firm's initial public offering generally vest as outlined in the applicable stock option agreement and first become exercisable on the third anniversary of the grant date. All employee stock option agreements provide that vesting is accelerated in certain circumstances, such as upon retirement, death and extended absence. In general, all stock options expire on the tenth anniversary of the grant date, although they may be subject to earlier termination or cancellation in certain circumstances in accordance with the terms of the firm's stock incentive plan and the applicable stock option agreement. The dilutive effect of the firm's outstanding stock options is included in "Average common shares outstanding—Diluted," in the consolidated statements of earnings.

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

	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING LIFE (YEARS)
Outstanding, November 2000	57,435,758	$63.19	8.96
Granted[1]	29,004,359	91.89	
Exercised	(104,155)	52.03	
Forfeited	(1,969,077)	64.46	
Outstanding, November 2001	84,366,885	73.04	8.65
Granted[1]	15,908,162	79.16	
Exercised	(1,138,087)	52.78	
Forfeited	(4,867,859)	68.77	
Outstanding, November 2002	94,269,101	74.53	8.08
Granted[1]	**902,511**	**95.81**	
Exercised	**(2,686,955)**	**52.76**	
Forfeited	**(3,428,692)**	**73.08**	
Outstanding, November 2003	**89,055,965**	**75.47**	**7.17**
Exercisable, November 2003	**18,604,931**	**$53.28**	**5.45**

[1] Includes stock options granted to employees subsequent to year end as part of year-end compensation.

The options outstanding as of November 2003 are set forth below:

EXERCISE PRICE	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING LIFE (YEARS)
$45.00 – $ 59.99	28,599,381	$52.95	5.44
60.00 – 74.99	—	—	—
75.00 – 89.99	32,327,078	81.08	7.92
90.00 – 104.99	28,129,506	91.92	8.07
Outstanding, November 2003	89,055,965		

The weighted average fair value of options granted during fiscal 2003, fiscal 2002 and fiscal 2001 was $31.31 per option, $27.38 per option and $30.82 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		
	2003	**2002**	**2001**
Risk-free interest rate	**3.4%**	3.5%	5.2%
Expected volatility	**35.0**	35.0	35.0
Dividend yield	**1.0**	0.6	0.5
Expected life	**5 years**	5 years	7 years

NOTE 13

INCOME TAXES

The components of the net tax expense reflected in the consolidated statements of earnings are set forth below:

	YEAR ENDED NOVEMBER		
(IN MILLIONS)	**2003**	**2002**	**2001**
Current taxes			
U.S. federal	**$ 680**	$ 543	$ 781
State and local	**115**	35	64
Non-U.S.	**552**	331	489
Total current tax expense	**1,347**	909	1,334
Deferred taxes			
U.S. federal	**22**	7	(9)
State and local	**27**	102	95
Non-U.S.	**44**	121	(34)
Total deferred tax expense/(benefit)	**93**	230	52
Net tax expense	**$1,440**	$1,139	$1,386

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.

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

	AS OF NOVEMBER	
(IN MILLIONS)	**2003**	**2002**
Deferred tax assets		
Compensation and benefits	**$1,301**	$1,415
Unrealized losses	**177**	173
Other, net	**156**	185
	1,634	1,773
Valuation allowance[(1)]	**(18)**	(17)
Total deferred tax assets	**1,616**	1,756

Deferred tax liabilities		
Depreciation and amortization	**196**	207
Total deferred tax liabilities	**196**	207
Net deferred tax assets	**$1,420**	$1,549

(1) Relates primarily to the ability to utilize certain state and local and foreign tax credits.

The firm permanently reinvests eligible earnings of certain foreign subsidiaries that were incorporated for U.S. income tax purposes at the end of fiscal 2001 and, accordingly, does not accrue any U.S. income taxes that would arise if such earnings were repatriated. As of November 2003, this policy resulted in an unrecognized net deferred tax liability of $84 million attributable to reinvested earnings of $1.10 billion. Additionally, during 2003, the valuation allowance was increased by $1 million, primarily due to an increase in certain foreign losses. Acquired net operating loss carryforwards of $49 million as of November 2003 and $58 million as of November 2002 are subject to annual limitations on utilization and will begin to expire in 2019.

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		
	2003	**2002**	**2001**
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	**2.1**	2.7	2.8
Tax credits	**(3.1)**	(2.0)	—
Foreign operations	**(1.2)**	(0.9)	—
Tax-exempt income, including dividends	**(1.0)**	(1.3)	(0.6)
Other	**0.6**	1.5	0.3
Effective income tax rate	**32.4%**	35.0%	37.5%

Tax benefits of approximately $103 million in November 2003, $119 million in November 2002 and $123 million in November 2001, related to the delivery of restricted stock units and the exercise of options, were credited directly to "Additional paid-in capital" in the consolidated statements of financial condition and changes in shareholders' equity.

NOTE 14

REGULATED SUBSIDIARIES

GS&Co. and SLK 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 2003 and November 2002, GS&Co. had regulatory net capital, as defined, of $3.66 billion and $4.75 billion, respectively, which exceeded the amounts required by $2.82 billion and $4.09 billion, respectively. As of November 2003 and November 2002, SLK had regulatory net capital, as defined, of $1.12 billion and $1.28 billion, respectively, which exceeded the amounts required by $1.08 billion and $1.24 billion, 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 2003 and November 2002, 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 2003 and November 2002, these subsidiaries were in compliance with their local capital adequacy requirements.

NOTE 15

BUSINESS SEGMENTS

In reporting to management, the firm's operating results are categorized into the following three segments: Investment Banking, Trading and Principal Investments, and Asset Management and Securities Services.

The firm made certain changes to its segment reporting structure in 2003. These changes included reclassifying the following from Asset Management and Securities Services to Trading and Principal Investments:

- equity commissions and clearing and execution fees;
- merchant banking overrides; and
- the matched book businesses.

These reclassifications did not affect the firm's historical consolidated results of operations, financial condition or cash flows. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

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 cost drivers of the firm taken as a whole—compensation, headcount and levels of business activity—are broadly similar in each of the firm's business segments. Compensation expenses within the firm's segments reflect, among other factors, the performance of the individual business units as well as the overall performance of the firm. Consequently, pre-tax margins in one segment of the firm's business may be significantly affected by the performance of the firm's other business segments.

The firm allocates revenues and expenses among the three 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 individual business segments. 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 pretax 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, such 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:

		AS OF OR FOR YEAR ENDED NOVEMBER		
(IN MILLIONS)		**2003**	**2002**	**2001**
Investment Banking	Net revenues[1]	**$ 2,711**	$ 2,830	$ 3,836
	Operating expenses[2]	**2,504**	2,454	3,117
	Pre-tax earnings	**$ 207**	$ 376	$ 719
	Segment assets	**$ 4,867**	$ 4,555	$ 3,938
Trading and Principal Investments	Net revenues[1]	**$ 10,443**	$ 8,647	$ 9,570
	Operating expenses[2]	**6,938**	6,505	7,310
	Pre-tax earnings	**$ 3,505**	$ 2,142	$ 2,260
	Segment assets	**$250,490**	$246,789	$215,654
Asset Management and Securities Services	Net revenues[1]	**$ 2,858**	$ 2,509	$ 2,405
	Operating expenses[2]	**1,890**	1,562	1,325
	Pre-tax earnings	**$ 968**	$ 947	$ 1,080
	Segment assets	**$147,647**	$103,436	$ 91,788
Total	Net revenues[1]	**$ 16,012**	$ 13,986	$ 15,811
	Operating expenses[2][3]	**11,567**	10,733	12,115
	Pre-tax earnings	**$ 4,445**	$ 3,253	$ 3,696
	Total assets[4]	**$403,799**	$355,574	$312,218

(1) Net revenues include net interest and cost of power generation as set forth in the table below:

	YEAR ENDED NOVEMBER		
(IN MILLIONS)	**2003**	**2002**	**2001**
Investment Banking	**$ 311**	$ 258	$ 159
Trading and Principal Investments	**1,888**	1,350	274
Asset Management and Securities Services	**941**	793	860
Total net interest and cost of power generation	**$3,140**	$2,401	$1,293

(2) Operating expenses include depreciation and amortization, including the amortization of goodwill and intangible assets, as set forth in the table below:

	YEAR ENDED NOVEMBER		
(IN MILLIONS)	**2003**	**2002**	**2001**
Investment Banking	**$180**	$140	$172
Trading and Principal Investments	**584**	473	577
Asset Management and Securities Services	**117**	131	124
Total depreciation and amortization	**$881**	$744	$873

(3) Includes the following expenses that have not been allocated to the firm's segments: (i) the amortization of employee initial public offering awards of $80 million, $212 million and $363 million for the years ended November 2003, November 2002 and November 2001, respectively, and (ii) provisions for a number of litigation and regulatory proceedings of $155 million for the year ended November 2003.

(4) 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.

Geographic Information

Due to the highly integrated nature of international financial markets, the firm manages its businesses based on the profitability of the enterprise as a whole. Accordingly, management believes that profitability by geographic region is not necessarily meaningful.

The firm's revenues, expenses and identifiable assets are generally allocated based on the country of domicile of the legal entity providing the service.

The following table sets forth the total net revenues, pre-tax earnings and identifiable assets of the firm and its consolidated subsidiaries by geographic region allocated on the basis described above:

	AS OF OR FOR YEAR ENDED NOVEMBER		
(IN MILLIONS)	**2003**	**2002**	**2001**
Net revenues			
United States	**$ 10,040**	$ 8,633	$ 10,228
Other Americas	**231**	352	187
United Kingdom	**3,610**	2,991	3,483
Other Europe	**427**	479	473
Asia	**1,704**	1,531	1,440
Total net revenues	**$ 16,012**	$ 13,986	$ 15,811
Pre-tax earnings			
United States	**$ 3,105**	$ 1,850	$ 2,418
Other Americas	**217**	293	260
United Kingdom	**610**	525	665
Other Europe	**90**	173	241
Asia	**658**	624	475
Other[1]	**(235)**	(212)	(363)
Total pre-tax earnings	**$ 4,445**	$ 3,253	$ 3,696
Identifiable assets			
United States	**$ 400,996**	$ 393,333	$ 340,409
Other Americas	**1,241**	3,284	2,637
United Kingdom	**184,476**	144,608	131,812
Other Europe	**8,022**	8,573	8,129
Asia	**26,650**	25,422	25,367
Eliminations and other[2]	**(217,586)**	(219,646)	(196,136)
Total identifiable assets	**$ 403,799**	$ 355,574	$ 312,218

(1) Includes the following expenses that have not been allocated to the firm's segments: (i) amortization of employee initial public offering awards of $80 million, $212 million and $363 million for the years ended November 2003, November 2002 and November 2001, respectively, and (ii) provisions for a number of litigation and regulatory proceedings of $155 million for the year ended November 2003.

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

EXHIBIT 13.3

Supplemental Financial Information

QUARTERLY RESULTS (UNAUDITED)

The following represents the firm's unaudited quarterly results for fiscal 2003 and fiscal 2002. These quarterly results were prepared in accordance with U.S. generally accepted accounting principles and reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results. These adjustments are of a normal recurring nature.

	2003 FISCAL QUARTER			
(IN MILLIONS, EXCEPT PER SHARE DATA)	**FIRST**	**SECOND**	**THIRD**	**FOURTH**
Total revenues	**$6,094**	**$5,985**	**$5,715**	**$5,829**
Interest expense	**1,907**	**2,000**	**1,922**	**1,771**
Cost of power generation	**—**	**—**	**—**	**11**
Revenues, net of interest expense and cost of power generation	**4,187**	**3,985**	**3,793**	**4,047**
Operating expenses	**3,169**	**2,947**	**2,813**	**2,638**
Pre-tax earnings	**1,018**	**1,038**	**980**	**1,409**
Provision for taxes	**356**	**343**	**303**	**438**
Net earnings	**$ 662**	**$ 695**	**$ 677**	**$ 971**
Earnings per share				
Basic	**$ 1.35**	**$ 1.43**	**$ 1.39**	**$ 1.98**
Diluted	**1.29**	**1.36**	**1.32**	**1.89**
Dividends declared per common share	**0.12**	**0.12**	**0.25**	**0.25**

	2002 FISCAL QUARTER			
(IN MILLIONS, EXCEPT PER SHARE DATA)	FIRST	SECOND	THIRD	FOURTH
Total revenues	$5,700	$6,234	$5,872	$5,048
Interest expense	2,102	2,383	2,223	2,160
Revenues, net of interest expense	3,598	3,851	3,649	2,888
Operating expenses	2,759	2,950	2,855	2,169
Pre-tax earnings	839	901	794	719
Provision for taxes	315	338	272	214
Net earnings	$ 524	$ 563	$ 522	$ 505
Earnings per share				
Basic	$ 1.05	$ 1.13	$ 1.05	$ 1.03
Diluted	0.98	1.06	1.00	0.98
Dividends declared per common share	0.12	0.12	0.12	0.12

COMMON STOCK PRICE RANGE

The following table sets forth, for the fiscal quarters indicated, the high and low sales prices per share of the firm's common stock as reported by the Consolidated Tape Association.

	SALES PRICE					
	FISCAL 2003		FISCAL 2002		FISCAL 2001	
	HIGH	LOW	HIGH	LOW	HIGH	LOW
First quarter	**$80.90**	**$63.75**	$97.25	$77.52	$120.00	$77.00
Second quarter	**81.67**	**61.02**	92.25	74.00	105.15	77.00
Third quarter	**91.98**	**81.50**	81.97	65.55	98.14	75.05
Fourth quarter	**97.39**	**83.64**	81.00	58.57	92.75	63.27

As of February 2, 2004, there were approximately 6,038 holders of record of the firm's common stock.

On February 2, 2004, the last reported sales price for the firm's common stock on the New York Stock Exchange was $99.81 per share.

EXHIBIT 13.4

Supplemental Financial Information

SELECTED FINANCIAL DATA

	AS OF OR FOR YEAR ENDED NOVEMBER				
	2003	**2002**	**2001**	**2000[7]**	**1999[8]**
Income statement data (IN MILLIONS)					
Total revenues	**$ 23,623**	$ 22,854	$ 31,138	$ 33,000	$ 25,363
Interest expense	**7,600**	8,868	15,327	16,410	12,018
Cost of power generation[1]	**11**	—	—	—	—
Revenues, net of interest expense and cost of power generation	**16,012**	13,986	15,811	16,590	13,345
Compensation and benefits	**7,393**	6,744	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	**122**	293	464	428	268
Other operating expenses	**4,052**	3,696	3,951	3,079	2,369
Pre-tax earnings	**$ 4,445**	$ 3,253	$ 3,696	$ 5,020	$ 1,992
Balance sheet data (IN MILLIONS)					
Total assets	**$403,799**	$355,574	$312,218	$284,410	$248,348
Long-term borrowings[2]	**57,482**	38,711	31,016	31,395	20,952
Total liabilities	**382,167**	336,571	293,987	267,880	238,203
Shareholders' equity	**21,632**	19,003	18,231	16,530	10,145
Common share data (IN MILLIONS, EXCEPT PER SHARE AMOUNTS)					
Earnings per share					
Basic	**$ 6.15**	$ 4.27	$ 4.53	$ 6.33	$ 5.69
Diluted	**5.87**	4.03	4.26	6.00	5.57
Dividends declared per share	**0.74**	0.48	0.48	0.48	0.24
Book value per share[3]	**43.60**	38.69	36.33	32.18	20.94
Average common shares outstanding					
Basic	**488.4**	495.6	509.7	484.6	475.9
Diluted	**511.9**	525.1	541.8	511.5	485.8
Selected data (UNAUDITED)					
Employees					
United States	**12,786**	12,511	14,565	14,755	9,746
International	**6,690**	7,228	8,112	7,872	5,615
Total employees[4]	**19,476**	19,739	22,677	22,627[9]	15,361
Assets under management (IN BILLIONS)[5]					
Asset class					
Money markets	**$ 89**	$ 108	$ 122	$ 72	$ 48
Fixed income and currency	**115**	96	71	57	58
Equity	**98**	86	96	107	98
Alternative investments[6]	**71**	58	62	58	54
Total assets under management	**$ 373**	$ 348	$ 351	$ 294	$ 258

(1) Cost of power generation relates to the firm's previously announced acquisition of East Coast Power L.L.C. This line includes all of the direct costs of the firm's power plant operations (e.g., fuel, operations and maintenance), as well as the depreciation and amortization associated with the plants and related contractual assets.

(2) Long-term debt includes nonrecourse debt of $3.2 billion issued by Funding Corp, $1.6 billion issued by consolidated VIEs and $0.6 billion issued by other consolidated entities. Nonrecourse debt is debt, issued by certain consolidated entities, that Group Inc. is not directly or indirectly obligated to repay through a guarantee, general partnership interest or contractual arrangement.

(3) Book value per share is based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 496.1 million, 491.2 million, 501.8 million, 513.7 million and 484.6 million as of November 2003, November 2002, November 2001, November 2000 and November 1999, respectively.

(4) 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 and loan services.

(5) Substantially all assets under management are valued as of calendar month end.

(6) Includes merchant banking funds, quantitatively driven investment funds and other funds with nontraditional investment strategies that the firm manages, as well as funds where the firm recommends one or more subadvisors for the firm's clients.

(7) In 2000, pre-tax earnings included a charge of $290 million ($180 million after taxes), or $0.35 per average diluted common share outstanding, related to the firm's combination with SLK.

(8) 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.

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

EXHIBIT 13.4

Supplemental Financial Information

SELECTED FINANCIAL DATA

	AS OF OR FOR YEAR ENDED NOVEMBER				
	2003	**2002**	**2001**	**2000[7]**	**1999[8]**
Income statement data (IN MILLIONS)					
Total revenues	**$ 23,623**	$ 22,854	$ 31,138	$ 33,000	$ 25,363
Interest expense	**7,600**	8,868	15,327	16,410	12,018
Cost of power generation[1]	**11**	—	—	—	—
Revenues, net of interest expense and cost of power generation	**16,012**	13,986	15,811	16,590	13,345
Compensation and benefits	**7,393**	6,744	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	**122**	293	464	428	268
Other operating expenses	**4,052**	3,696	3,951	3,079	2,369
Pre-tax earnings	**$ 4,445**	$ 3,253	$ 3,696	$ 5,020	$ 1,992
Balance sheet data (IN MILLIONS)					
Total assets	**$403,799**	$355,574	$312,218	$284,410	$248,348
Long-term borrowings[2]	**57,482**	38,711	31,016	31,395	20,952
Total liabilities	**382,167**	336,571	293,987	267,880	238,203
Shareholders' equity	**21,632**	19,003	18,231	16,530	10,145
Common share data (IN MILLIONS, EXCEPT PER SHARE AMOUNTS)					
Earnings per share					
Basic	**$ 6.15**	$ 4.27	$ 4.53	$ 6.33	$ 5.69
Diluted	**5.87**	4.03	4.26	6.00	5.57
Dividends declared per share	**0.74**	0.48	0.48	0.48	0.24
Book value per share[3]	**43.60**	38.69	36.33	32.18	20.94
Average common shares outstanding					
Basic	**488.4**	495.6	509.7	484.6	475.9
Diluted	**511.9**	525.1	541.8	511.5	485.8
Selected data (UNAUDITED)					
Employees					
United States	**12,786**	12,511	14,565	14,755	9,746
International	**6,690**	7,228	8,112	7,872	5,615
Total employees[4]	**19,476**	19,739	22,677	22,627[9]	15,361
Assets under management (IN BILLIONS)[5]					
Asset class					
Money markets	**$ 89**	$ 108	$ 122	$ 72	$ 48
Fixed income and currency	**115**	96	71	57	58
Equity	**98**	86	96	107	98
Alternative investments[6]	**71**	58	62	58	54
Total assets under management	**$ 373**	$ 348	$ 351	$ 294	$ 258

(1) Cost of power generation relates to the firm's previously announced acquisition of East Coast Power L.L.C. This line includes all of the direct costs of the firm's power plant operations (e.g., fuel, operations and maintenance), as well as the depreciation and amortization associated with the plants and related contractual assets.

(2) Long-term debt includes nonrecourse debt of $3.2 billion issued by Funding Corp, $1.6 billion issued by consolidated VIEs and $0.6 billion issued by other consolidated entities. Nonrecourse debt is debt, issued by certain consolidated entities, that Group Inc. is not directly or indirectly obligated to repay through a guarantee, general partnership interest or contractual arrangement.

(3) Book value per share is based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 496.1 million, 491.2 million, 501.8 million, 513.7 million and 484.6 million as of November 2003, November 2002, November 2001, November 2000 and November 1999, respectively.

(4) 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 and loan services.

(5) Substantially all assets under management are valued as of calendar month end.

(6) Includes merchant banking funds, quantitatively driven investment funds and other funds with nontraditional investment strategies that the firm manages, as well as funds where the firm recommends one or more subadvisors for the firm's clients.

(7) In 2000, pre-tax earnings included a charge of $290 million ($180 million after taxes), or $0.35 per average diluted common share outstanding, related to the firm's combination with SLK.

(8) 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.

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

EXHIBIT 21.1

Significant Subsidiaries of the Registrant

The following are significant subsidiaries of The Goldman Sachs Group, Inc. as of November 28, 2003 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
William Street Equity L.L.C.	Delaware
William Street Funding Corporation	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 Holdings (Netherlands) B.V.	Netherlands
Goldman Sachs Mitsui Marine Derivative Products, L.P.[(1)]	Delaware
Goldman Sachs Financial Markets, L.P.	Delaware
GSSM Holding (U.K.)	United Kingdom
GSSM Holding Corp.	Delaware
GS Hull Holding, Inc	Delaware
The Hull Group, L.L.C.	Illinois
Hull Trading UK Limited	United Kingdom
SLK-Hull Derivatives LLC	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. (a wholly owned subsidiary of The Goldman Sachs Group, Inc.) (1%).

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-34042, 333-90677, 333-75213, 333-105242, 333-49958, 333-63082, 333-74006, 333-110371, 333-101093 and 333-112367) and on Form S-8 (File Nos. 333-80839, 333-106430 and 333-42068) of our report dated January 26, 2004 relating to the financial statements of The Goldman Sachs Group, Inc. and subsidiaries, which appears in the 2003 Annual Report to Shareholders and is incorporated by reference in this Annual Report on Form 10-K for the year ended November 28, 2003. We also consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-34042, 333-90677, 333-75213, 333-105242, 333-49958, 333-63082, 333-74006, 333-110371, 333-101093 and 333-112367) and on Form S-8 (File Nos. 333-80839, 333-106430 and 333-42068) of our reports dated January 26, 2004 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 24, 2004

EXHIBIT 31.1

CERTIFICATIONS

I, Henry M. Paulson, Jr., certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended November 28, 2003 of The Goldman Sachs Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ HENRY M. PAULSON. JR.

Name: Henry M. Paulson, Jr.
Title: Chief Executive Officer

Date: February 24, 2004

CERTIFICATIONS

I, David A. Viniar, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended November 28, 2003 of The Goldman Sachs Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ DAVID A. VINIAR

Name: David A. Viniar
Title: Chief Financial Officer

Date: February 24, 2004

EXHIBIT 32.1

Certification

Pursuant to 18 U.S.C. § 1350, the undersigned officer of The Goldman Sachs Group, Inc. (the "Company"), hereby certifies that the Company's Annual Report on Form 10-K for the year ended November 28, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 24, 2004

/s/ HENRY M. PAULSON. JR.

Henry M. Paulson, Jr.
Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

Certification

Pursuant to 18 U.S.C. § 1350, the undersigned officer of The Goldman Sachs Group, Inc. (the "Company"), hereby certifies that the Company's Annual Report on Form 10-K for the year ended November 28, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 24, 2004

/s/ DAVID A. VINIAR

David A. Viniar
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

EXHIBIT 99.1

REPORT OF INDEPENDENT AUDITORS

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") at November 28, 2003 and November 29, 2002, and for each of the three fiscal years in the period ended November 28, 2003 and have issued our report thereon appearing on page 67 of the Company's Annual Report to Shareholders, which expresses an unqualified opinion, dated January 26, 2004. 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 at November 30, 2001, November 24, 2000 and November 26, 1999, and the related consolidated statements of earnings, changes in shareholders' equity and partners' capital, cash flows and comprehensive income for the years ended November 24, 2000 and November 26, 1999 (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 28, 2003, appearing on page 103 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 26, 2004