GOLDMAN SACHS GROUP INC/
Form 10-K
January 29, 2008

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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 30, 2007 **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**
Depositary Shares, Each Representing 1/1,000th Interest in a Share of Floating Rate Non-Cumulative Preferred Stock, Series A	**New York Stock Exchange**
Depositary Shares, Each Representing 1/1,000th Interest in a Share of 6.20% Non-Cumulative Preferred Stock, Series B	**New York Stock Exchange**
Depositary Shares, Each Representing 1/1,000th Interest in a Share of Floating Rate Non-Cumulative Preferred Stock, Series C	**New York Stock Exchange**
	New York Stock Exchange

Depositary Shares, Each Representing 1/1,000th Interest in a Share of Floating Rate Non-Cumulative Preferred Stock, Series D	
5.793% Fixed-to-Floating Rate Normal Automatic Preferred Enhanced Capital Securities of Goldman Sachs Capital II (and Registrant s guarantee with respect thereto)	**New York Stock Exchange**
Floating Rate Normal Automatic Preferred Enhanced Capital Securities of Goldman Sachs Capital III (and Registrant s guarantee with respect thereto)	**New York Stock Exchange**
Medium-Term Notes, Series B, Index-Linked Notes due February 2013; Index-Linked Notes due April 2013; Index-Linked Notes due May 2013; Index-Linked Notes due 2010; and Index-Linked Notes due 2011	**American Stock Exchange**
Medium-Term Notes, Series B, 7.35% Notes due 2009; 7.80% Notes due 2010; Floating Rate Notes due 2008; and Floating Rate Notes due 2011	**New York Stock Exchange**
Medium-Term Notes, Series A, Index-Linked Notes due 2037 of GS Finance Corp. (and Registrant s guarantee with respect thereto)	**NYSE Arca**
Medium-Term Notes, Series B, Index-Linked Notes due 2037	**NYSE Arca**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes o No x

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 x No o

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 the Annual Report on Form 10-K or any amendment to the Annual Report on Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

As of May 25, 2007, the aggregate market value of the common stock of the registrant held by non-affiliates of the registrant was approximately $89.1 billion.

As of January 18, 2008, there were 395,907,302 shares of the registrant s common stock outstanding.

Documents incorporated by reference: Portions of The Goldman Sachs Group, Inc. s Proxy Statement for its 2008 Annual Meeting of Shareholders to be held on April 10, 2008 are incorporated by reference in the Annual

Report on 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 30, 2007

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PART I

Item 1. Business

Introduction

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. 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.

Our activities are divided into three segments: (i) Investment Banking, (ii) Trading and Principal Investments and (iii) Asset Management and Securities Services.

All references to 2007, 2006 and 2005 refer to our fiscal years ended, or the dates, as the context requires, November 30, 2007, November 24, 2006 and November 25, 2005, respectively. When we use the terms Goldman Sachs, the firm, we, us and our, we mean The Goldman Sachs Group, Inc., a Delaware corporation, and its consolidated subsidiaries. References herein to the Annual Report on Form 10-K are to our Annual Report on Form 10-K for the fiscal year ended November 30, 2007.

Financial information concerning our business segments and geographic regions for each of 2007, 2006 and 2005 is set forth in Management s Discussion and Analysis of Financial Condition and Results of Operations, and the consolidated financial statements and the notes thereto, which are in Part II, Items 7, 7A and 8 of the 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/shareholders. 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 well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. 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 certificate of incorporation and by-laws, 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 our 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 any executive officer, director or senior financial officer (as defined in the Code). In addition, our web site includes information concerning purchases and sales of our equity securities by our executive officers and directors, as well as disclosure relating to certain non-GAAP financial measures (as defined in the SEC s Regulation G) that we may make public orally, telephonically, by webcast, by broadcast or by similar means from time to time.

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-investor-relations@gs.com.

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Cautionary Statement Pursuant to the Private Securities Litigation Reform Act of 1995

We have included or incorporated by reference in the 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 beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside 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 the Annual Report on Form 10-K, as well as statements about the objectives and effectiveness of our risk management and liquidity policies, statements about trends in or growth opportunities for our businesses and statements about our investment banking transaction backlog, in Part II, Item 7 of the Annual Report on Form 10-K. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include, among others, those discussed below and under Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K and Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of the Annual Report on Form 10-K.

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, if any, that we actually 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 inability to obtain adequate financing, an adverse development with respect to a party to the transaction or a failure to obtain a required regulatory approval. For a discussion of other important factors that could adversely affect our investment banking transactions, see Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K and Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of the Annual Report on Form 10-K.

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Segment Operating Results
(in millions)

		Year Ended November		
		2007	**2006**	**2005**
Investment Banking	Net revenues	$ 7,555	$ 5,629	$ 3,671
	Operating expenses	4,985	4,062	3,258
	Pre-tax earnings	$ 2,570	$ 1,567	$ 413
Trading and Principal Investments	Net revenues	$ 31,226	$ 25,562	$ 16,818
	Operating expenses	17,998	14,962	10,600
	Pre-tax earnings	$ 13,228	$ 10,600	$ 6,218
Asset Management and Securities Services	Net revenues	$ 7,206	$ 6,474	$ 4,749
	Operating expenses	5,363	4,036	3,070
	Pre-tax earnings	$ 1,843	$ 2,438	$ 1,679
Total	Net revenues	$ 45,987	$ 37,665	$ 25,238
	Operating expenses [1]	28,383	23,105	16,965
	Pre-tax earnings	$ 17,604	$ 14,560	$ 8,273

[1] Includes net provisions for a number of litigation and regulatory proceedings of $37 million, $45 million and $37 million for the years ended November 2007, November 2006 and November 2005, respectively, that have not been allocated to our segments.

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Where We Conduct Business

As of November 30, 2007, we operated offices in over 25 countries and 43% of our 30,522 employees were based outside the United States. In 2007, we derived 49% of our net revenues and 57% of our pre-tax earnings outside of the Americas. See geographic information in Note 16 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K.

Our clients and customers are located worldwide, and we are an active participant in financial markets around the world. We have developed and continue to build strong investment banking relationships in new and developing markets. We also continue to expand our presence throughout these markets to invest strategically when opportunities arise and to work more closely with our asset management clients in these regions. Our global reach is illustrated by the following:

- we are a member of and an active participant in most of the world s major stock, options and futures exchanges and marketplaces;
- we are a primary dealer in many of the largest government bond markets around the world;
- we have interbank dealer status in currency markets around the world; and
- we are a member of or have relationships with major commodities exchanges worldwide.

Our businesses are supported by our Global Investment Research division, which, as of November 2007, provided research coverage of over 3,250 companies worldwide and over 50 national economies, and maintained a presence in locations around the world.

We continue to expand our geographic reach. For example, over the past two years we have opened offices in Mumbai, Moscow, Sao Paulo, Dubai, Qatar and Tel Aviv, become licensed as a broker-dealer in Russia, India and China, opened a bank in Brazil and entered into the asset management business in South Korea. In December 2007, we established two wholly owned banks in Dublin, Ireland. Through this banking presence, we will initially focus on our private client business, underwrite commercial bank loans, undertake fund administration for our European global securities services business and facilitate funding transactions for the firm.

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Business Segments

The primary products and activities of our business segments 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:	
Fixed Income, Currency and Commodities	Commodities and commodity derivatives, including power generation and related activities Credit products, including trading and investing in credit derivatives, investment-grade corporate securities, high-yield securities, bank and secured loans, municipal securities, emerging market and distressed debt, public and private equity securities and real estate Currencies and currency derivatives Interest rate products, including interest rate derivatives, global government securities and money market instruments, including matched book positions Mortgage-related securities and loan products and other asset-backed instruments
Equities	Equity securities and derivatives Securities, futures and options clearing services Market-making and specialist activities in equity securities and options Insurance activities
Principal Investments	Principal investments in connection with merchant banking activities Investment in the ordinary shares of Industrial and Commercial Bank of China Limited Investment in the convertible preferred stock of Sumitomo Mitsui Financial Group, Inc.
Asset Management and Securities Services:	
Asset Management	Investment advisory services, financial planning and investment products (primarily through separately managed accounts and commingled vehicles) across all major asset classes, including money markets, fixed

	income, equities and alternative investments (including hedge funds, private equity, real estate, currencies, commodities and asset allocation strategies), for institutional and individual investors (including high-net-worth clients, as well as retail clients through third-party channels) Management of merchant banking funds
Securities Services	Prime brokerage Financing services Securities lending

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Investment Banking

Investment Banking represented 16% of 2007 net revenues. We provide a broad range of investment banking services to a diverse group of corporations, financial institutions, investment funds, 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. We continually assess and adapt 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 goal is to make available to our clients the entire resources of the firm in a seamless fashion, with investment banking serving as front of the house. To accomplish this objective, we focus on coordination among our equity and debt underwriting activities and our corporate risk and liability management activities. This coordination is intended to assist our investment banking clients in managing their asset and liability exposures and their capital.

Our Investment Banking segment is divided into two components: Financial Advisory and Underwriting.

Financial Advisory

Financial Advisory includes advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, restructurings and spin-offs. 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 interest rate and currency hedging. In particular, a significant number of the loan commitments and bank and bridge loan facilities that we enter into arise in connection with our advisory assignments.

Underwriting

Underwriting includes public offerings and private placements of 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-related 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 transactions. 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 may be issued by, among others, corporate, sovereign and agency issuers. In addition, we underwrite and originate structured securities, which include mortgage-related securities and other asset-backed securities and collateralized debt obligations.

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Trading and Principal Investments

Trading and Principal Investments represented 68% of 2007 net revenues. Trading and Principal Investments facilitates client transactions with a diverse group of corporations, financial institutions, investment funds, governments and individuals and takes proprietary positions through market making in, trading of and investing in fixed income and equity products, currencies, commodities and derivatives on these products. In addition, we engage in market-making and specialist activities on equities and options exchanges, and we clear client transactions on major stock, options and futures exchanges worldwide. In connection with our merchant banking and other investing activities, we make principal investments directly and through funds that we raise and manage.

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 to facilitate client transactions 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; Equities; and Principal Investments.

Fixed Income, Currency and Commodities and Equities

Fixed Income, Currency and Commodities (FICC) and Equities are large and diversified operations through which we engage in a variety of customer-driven and proprietary trading and investing activities.

In our 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, by committing capital and taking risk, to facilitate client transactions and to provide liquidity. Our willingness to make markets, commit capital and take risk in a broad range of fixed income, currency, commodity and equity products and their derivatives is crucial 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 relationships and capital position, we undertake transactions in less liquid markets where spreads and fees are generally larger.

Finally, we structure and execute transactions that address complex client needs.

Our FICC and Equities businesses operate in close coordination to provide clients with services and cross-market knowledge and expertise.

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 capitalize on our analytical models to analyze information and make informed trading judgments, and we seek to benefit from perceived disparities in the value of assets in the trading markets and from macroeconomic and issuer-specific trends.

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FICC

We make markets in and trade interest rate and credit products, mortgage-related securities and loan products and other asset-backed instruments, currencies and commodities, structure and enter into a wide variety of derivative transactions, and engage in proprietary trading and investing. FICC has five principal businesses: commodities; credit products; currencies; interest rate products, including money market instruments; and mortgage-related securities and loan products and other asset-backed instruments.

Commodities. We enter into trades with our clients in, make markets in, and trade for our own account a wide variety of commodities, commodity derivatives and interests in commodity-related assets, including oil and oil products, metals, natural gas and electricity, and forest products.

As part of our commodities business, we acquire and dispose of interests in, and engage in the development and operation of, electric power generation facilities and related activities. In November 2007, we disposed of approximately 80% of our ownership interests in 14 power plants, and we have entered into contractual arrangements to manage these plants. In addition to our remaining minority interest in these facilities, we have a portfolio of four other power generation facilities.

Credit Products. We offer to and trade for our clients a broad array of credit and credit-linked products all over the world, including credit derivatives, investment-grade corporate securities, high-yield securities, bank and secured loans (origination and trading), municipal securities, and emerging market and distressed debt. For example, we enter, as principal, into complex structured transactions designed to meet client needs.

In addition, we provide credit through bridge and other loan facilities to a broad range of clients. Commitments that are extended for contingent acquisition financing are often intended to be short-term in nature, as borrowers often seek to replace them with other funding sources. As part of our ongoing credit origination activities, we may seek to reduce our credit risk on commitments by syndicating all or substantial portions of commitments to other investors or, upon funding, by securitizing the positions through investment vehicles sold to other investors. Underwriting fees from syndications of these commitments are recorded in debt underwriting in our Investment Banking segment. However, to the extent that we recognize losses on these commitments, such losses are recorded within our Trading and Principal Investments segment, net of any related underwriting fees. See Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations and Commitments in Part II, Item 7 of the Annual Report on Form 10-K for additional information on our commitments.

Our credit products business includes making significant long-term and short-term investments for our own account (sometimes investing together with our merchant banking funds) in a broad array of asset classes (including distressed debt) globally. We opportunistically invest in debt and equity securities and secured loans, and in private equity, real estate and other assets.

Currencies. We act as a dealer in foreign exchange and trade for our clients and ourselves in most currencies on exchanges and in cash and derivative markets globally.

Interest Rate Products. We trade and make markets in a variety of interest rate products, including interest rate swaps, options and other derivatives, and government bonds, as well as money market instruments, such as commercial paper, treasury bills, repurchase agreements and other highly liquid securities and instruments. This business includes our matched book, which consists of short-term collateralized financing transactions.

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Mortgage Business. We make markets in and trade for our clients and ourselves commercial and residential mortgage-related securities and loan products (including prime, subprime and other nontraditional mortgages) and other asset-backed and derivative instruments. We acquire positions in these products for proprietary trading purposes as well as for securitization or syndication. We also originate and service commercial and residential mortgages.

Equities

We make markets in and trade equities and equity-related products, structure and enter into equity derivative transactions, and engage in proprietary trading. We generate commissions from executing and clearing client transactions on major stock, options and futures exchanges worldwide through our Equities customer franchise and clearing activities.

Equities includes two principal businesses: our customer franchise business and principal strategies. We also engage in specialist and insurance activities.

Customer Franchise Business. Our customer franchise business includes primarily customer-driven activities in the shares, equity derivatives and convertible securities markets. These activities also include clearing client transactions on major stock, options and futures exchanges worldwide, as well as our options specialist and market-making businesses. Our customer franchise business increasingly involves providing our clients with access to electronic low-touch equity trading platforms, and electronic trades now account for the majority of our customer trading activity in this business. However, a majority of our net revenues in this business continues to be derived from our traditional high-touch handling of more complex trades. We expect both types of trading activities to remain important components of our customer franchise business.

We trade equity securities and equity-related products, including 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 client 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. We also execute transactions as agent and offer clients direct electronic access to trading markets.

In the options and futures markets, we structure, distribute and execute derivatives on market indices, industry groups, financial measures and individual company stocks to facilitate client transactions and our proprietary activities. We develop 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 to establish or liquidate investment positions. We are one of the leading participants in the trading and development of equity derivative instruments. In options, we are a specialist and/or market maker on the International Securities Exchange, the Chicago Board Options Exchange, NYSE Arca, the Boston Options Exchange, the Philadelphia Stock Exchange and the American Stock Exchange.

Principal Strategies. Our principal strategies business is a multi-strategy proprietary investment business that invests and trades for our own account. Principal strategies trades and invests our capital across global markets employing strategies that are primarily focused on public markets. Most strategies involve fundamental equities and relative value trading (which involves trading strategies designed to take advantage of perceived discrepancies in the relative value of financial instruments, including equity, equity-related and debt instruments). Other strategies involve event-driven investments (which focus on event-oriented special situations such as corporate restructurings, bankruptcies, recapitalizations, mergers and acquisitions, and legal and regulatory events) as well as convertible bond trading, various types of volatility trading and principal finance (which includes private structured investments in public or private companies).

At the start of our first fiscal quarter of 2008, we reassigned approximately one-half of the traders and other personnel and transferred approximately one-half of the firm s assets comprising our principal strategies business in an effort to strengthen and diversify our asset management offerings. These assets are now invested in a new alternative investment fund managed by our asset

management business. Over time, we intend to replace the reassigned personnel and transferred assets of our principal strategies business.

Specialist Activities. Our specialist activities business consists of our stock and exchange-traded funds (ETF) specialist and market-making businesses. We engage in specialist and market-making activities on equities exchanges. In the United States, we are one of the leading stock specialists on the NYSE. For ETFs, we are a specialist on the NYSE, the American Stock Exchange and NYSE Arca.

Insurance Activities. Through our insurance subsidiaries, we buy, sell and originate variable annuity and life insurance contracts, and we participate opportunistically in reinsurance activities, including life and annuity reinsurance and property catastrophe reinsurance.

Principal Investments

Principal Investments primarily represents net revenues from four primary sources: returns on corporate and real estate investments, overrides on corporate and real estate investments, our investment in the ordinary shares of Industrial and Commercial Bank of China Limited (ICBC) and our investment in the convertible preferred stock of Sumitomo Mitsui Financial Group, Inc. (SMFG).

Returns on Corporate and Real Estate Investments. As of November 2007, the aggregate carrying value of our principal investments held directly or through our merchant banking funds, excluding our investment in the ordinary shares of ICBC and the convertible preferred stock of SMFG, was $11.93 billion, comprised of corporate principal investments with an aggregate carrying value of $9.50 billion and real estate investments with an aggregate carrying value of $2.43 billion. In addition, as of November 2007, we had outstanding unfunded equity capital commitments of up to $15.25 billion.

Overrides. Consists of the increased share of the income and gains derived from our merchant banking funds when the return on a fund s investments over the life of the fund exceeds certain threshold returns (typically referred to as an override). Overrides are recognized in net revenues when all material contingencies have been resolved.

ICBC. Our investment in the ordinary shares of ICBC was acquired on April 28, 2006. The ordinary shares acquired from ICBC are subject to transfer restrictions that, among other things, prohibit any sale, disposition or other transfer until April 28, 2009. From April 28, 2009 to October 20, 2009, we may transfer up to 50% of the aggregate ordinary shares of ICBC that we owned as of October 20, 2006. We may transfer the remaining shares after October 20, 2009. As of November 2007, the carrying value of our investment in the ordinary shares of ICBC was $6.81 billion. A portion of our interest is held by investment funds managed by Goldman Sachs.

SMFG. Our investment in the convertible preferred stock of SMFG is generally nontransferable without the consent of SMFG but is freely convertible into SMFG common stock. As of November 2007, we had hedged approximately 90% of the common stock underlying our investment in SMFG and there were no restrictions on our ability to hedge the remainder. As of November 2007, the carrying value of our investment in the SMFG preferred stock was $4.06 billion.

For further information regarding our investments in the ordinary shares of ICBC and the convertible preferred stock of SMFG, see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Fair Value Cash Instruments in Part II, Item 7 of the Annual Report on Form 10-K.

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Asset Management and Securities Services

Asset Management and Securities Services represented 16% of 2007 net revenues. Our asset management business provides investment advisory and financial planning services and offers investment products (primarily through separately managed accounts and commingled vehicles) across all major asset classes to a diverse group of institutions and individuals worldwide and primarily generates revenues in the form of management and incentive fees. Securities Services provides prime brokerage services, financing services and securities lending services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and to high-net-worth individuals worldwide, and generates revenues primarily in the form of interest rate spreads or fees.

Our Asset Management and Securities Services segment is divided into two components: Asset Management and Securities Services.

Asset Management

We offer a broad array of investment strategies, advice and planning. We provide asset management services and offer investment products (primarily through separately managed accounts and commingled vehicles, such as mutual funds and private investment funds) across all major asset classes: money markets, fixed income, equities and alternative investments (including hedge funds, private equity, real estate, currencies, commodities and asset allocation strategies). Through our subsidiary, The Ayco Company, L.P. (Ayco), we also provide fee-based financial counseling and financial education in the United States.

Assets under management (AUM) typically generate fees as a percentage of asset value, which is affected by investment performance and by inflows or redemptions. The fees that we charge vary by asset class, as do our related expenses. In certain circumstances, we are also entitled to receive incentive fees based on a percentage of a fund s return or when the return on assets under management exceeds specified benchmark returns or other performance targets. Incentive fees are recognized when the performance period ends and they are no longer subject to adjustment. We have numerous incentive fee arrangements, many of which have annual performance periods that end on December 31. For that reason, incentive fees have been seasonally weighted to our first quarter.

AUM includes our mutual funds, alternative investment funds and separately managed accounts for institutional and individual investors. Alternative investments include our merchant banking funds, which generate revenues as described below under Management of Merchant Banking Funds. AUM includes assets in clients brokerage accounts to the extent that they generate fees based on the assets in the accounts rather than commissions on transactional activity in the accounts.

AUM does not include assets in brokerage accounts that generate commissions, mark-ups and spreads based on transactional activity, or our own investments in funds that we manage. Net revenues from these assets are included in our Trading and Principal Investments segment. AUM also does not include non-fee-paying assets, including interest-bearing deposits held through Goldman Sachs Bank USA (GS Bank USA).

See Trading and Principal Investments Equities Principal Strategies above for a discussion of the personnel and assets that we moved from our principal strategies business to our asset management business at the start of our first fiscal quarter of 2008.

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The amount of AUM 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 November 30:

Assets Under Management
(in billions)

The following table sets forth AUM by asset class:

Assets Under Management by Asset Class
(in billions)

	As of November 30		
	2007	**2006**	**2005**
Asset Class			
Alternative investments [1]	$ 151	$ 145	$ 110
Equity	255	215	167
Fixed income	256	198	154
Total non-money market assets	662	558	431
Money markets	206	118	101
Total assets under management	$ 868	$ 676	$ 532

[1] Primarily includes hedge funds, private equity, real estate, currencies, commodities and asset allocation strategies.

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Clients. Our clients are institutions and individuals, including both high-net-worth and retail investors. We access institutional and high-net-worth clients through both direct and third-party channels and retail clients primarily through third-party channels. Our institutional clients include pension funds, governmental organizations, corporations, insurance companies, banks, foundations and endowments. In third-party distribution channels, we distribute our mutual funds, alternative investment funds and separately 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 AUM by distribution channel and client category:

Assets Under Management by Distribution Channel
(in billions)

	As of November 30		
	2007	**2006**	**2005**
Distribution Channel			
Directly Distributed			
Institutional	$ 354	$ 296	$ 226
High-net-worth individuals	219	177	148
Third-Party Distributed			
Institutional, high-net-worth individuals and retail	295	203	158
Total	$ 868	$ 676	$ 532

Management of Merchant Banking Funds. Goldman Sachs sponsors numerous corporate and real estate private investment funds. Our strategy with respect to these 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. Our corporate investment funds pursue, on a global basis, long-term investments in equity and debt securities in privately negotiated transactions, leveraged buyouts, acquisitions and investments in funds managed by external parties. Our real estate investment funds invest in real estate operating companies, debt and equity interests in real estate assets, and other real estate-related investments. In addition, our merchant banking funds include a fund that invests in infrastructure and infrastructure-related assets and companies on a global basis.

Since inception, we have raised $118 billion of committed equity capital in these funds, consisting of $96 billion related to our corporate funds and $22 billion related to our real estate funds. As of November 2007, $68 billion of the committed equity capital was funded and the amount of AUM remaining in these funds after distributions was $64 billion.

Merchant banking activities generate three primary 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 net revenues. Second, Goldman Sachs, as a substantial investor in some of 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 a 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 Principal Investments within our Trading and Principal Investments segment.

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Securities Services

Securities Services provides prime brokerage services, financing services and securities lending services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and to high-net-worth individuals worldwide.

Prime brokerage services. 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 business provides clearing and custody in 49 markets and provides consolidated multi-currency accounting and reporting, fund administration and other ancillary services.

Financing services. A central element of our prime brokerage business involves providing financing to our clients for their securities trading activities through margin and securities loans that are collateralized by securities, cash or other acceptable collateral.

Securities lending services. Securities lending services principally involve the borrowing and lending of securities to cover clients 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. Net revenues in securities lending services are, as a general matter, weighted toward our second and third quarters each year due to seasonally higher activity levels in Europe.

Global Investment Research

Global Investment Research provides fundamental research on companies, industries, economies, currencies and commodities and macro strategy research on a worldwide basis.

Global Investment Research employs a team approach that as of November 2007 provided research coverage of over 3,250 companies worldwide and over 50 national economies. This is accomplished by the following departments:

The Equity Research Departments provide fundamental analysis, earnings forecasts and investment opinions for equity securities;

The Credit Research Department provides fundamental analysis, forecasts and investment opinions as to investment-grade and high-yield corporate bonds and credit derivatives;

The Economic Research Department formulates macroeconomic forecasts for economic activity, foreign exchange and interest rates;

The Commodities Research Department provides research on the commodity markets; and

The Strategy Research Department provides equity market forecasts, opinions on both asset and industry sector allocation, equity trading strategies, credit trading strategies and options research.

Further information regarding research at Goldman Sachs is provided below under Regulation Regulations Applicable in and Outside the United States and Legal Proceedings Research Independence Matters in Part I, Item 3 of the Annual Report on Form 10-K.

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Technology

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 provide global electronic trading and information distribution capabilities covering many of our fixed income, currency, commodity, equity and mutual fund products around the world.

Electronic commerce and technology 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.

Business Continuity and Information Security

Business continuity and information security are high priorities for Goldman Sachs. Our Business Continuity Program has been developed to provide reasonable assurance of business continuity in the event of disruptions at the firm s critical facilities and to comply with the regulatory requirements of the Financial Industry Regulatory Authority (FINRA). The SEC also reviews our Business Continuity Program. The key elements of the program are crisis management, people recovery facilities, business recovery, systems and data recovery, and process improvement. In the area of information security, we have developed and implemented a framework of principles, policies and technology to protect the information assets of the firm and our clients. Safeguards are applied to maintain the confidentiality, integrity and availability of information resources.

Employees

Management believes that a major strength and principal reason for the success of Goldman Sachs is the quality and dedication of our people and the shared sense of being part of a team. We strive to maintain a work environment that fosters professionalism, excellence, diversity, cooperation among our employees worldwide and high standards of business ethics.

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 2007, we had 30,522 employees, excluding 4,572 employees of certain consolidated entities that are held for investment purposes only. Consolidated entities held for investment purposes include entities that are held strictly for capital appreciation, have a defined exit strategy and are engaged in activities that are not closely related to our principal businesses.

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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, commercial banks, insurance companies, investment advisers, mutual funds, hedge funds, private equity funds 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.

Over time, 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 has resulted in pricing pressure in our investment banking and trading businesses and could result in pricing pressure in other of 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 increasingly seek such commitments (such as agreements to participate in their commercial paper backstop or other loan facilities) from financial services firms in connection with investment banking and other assignments. We provide these commitments through our William Street entities or through GS Bank USA, primarily for investment-grade clients, or through Goldman Sachs Credit Partners L.P. or our other subsidiaries, primarily for other clients. With respect to most of the William Street commitments, SMFG provides us with credit loss protection that is generally limited to 95% of the first loss we realize on approved loan commitments, up to a maximum of $1.00 billion. In addition, subject to the satisfaction of certain conditions, upon our request, SMFG will provide protection for 70% of the second loss on such commitments, up to a maximum of $1.13 billion. We also use other financial instruments to mitigate credit risks related to certain William Street commitments not covered by SMFG. See Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations and Commitments in Part II, Item 7 of the Annual Report on Form 10-K and Note 6 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for more information regarding the William Street entities and for a description of the credit loss protection provided by SMFG. An increasing number of our commitments in connection with investment banking and other assignments do not meet the criteria established for the William Street entities and do not benefit from the SMFG loss protection. These commitments are issued through Goldman Sachs Credit Partners L.P., GS Bank USA or our other subsidiaries.

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. 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.

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We have experienced intense price competition in some of our businesses in recent years. There has been considerable pressure in the pricing of block trades. 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 electronic and other low-touch, low-commission trading will continue. We believe that we will continue to experience competitive pressures in these and other areas in the future as some of our competitors seek to obtain market share by reducing prices.

Regulation

Goldman Sachs, as a participant in the securities and commodity futures and options industries, is subject to extensive regulation in the United States and the other countries in which we operate. As a matter of public policy, regulatory bodies around the world are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of clients 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 clients funds and securities, capital structure, recordkeeping, the financing of clients purchases, and the conduct of directors, officers and employees. A number of our affiliates are regulated by investment advisory laws in the countries in which we operate. See Risk Factors Our businesses and those of our clients are subject to extensive and pervasive regulation around the world in Part I, Item 1A of the Annual Report on Form 10-K for a further discussion of the effect that regulation may have on our businesses.

Regulation in the United States

In the United States, the SEC is the federal agency responsible for the administration of the federal securities laws. The Goldman Sachs Group, Inc. is subject to regulation by the SEC as a Consolidated Supervised Entity. As such, it is subject to group-wide supervision and examination by the SEC and to minimum capital standards on a consolidated basis. As part of a Consolidated Supervised Entity, Goldman, Sachs & Co. (GS&Co.), our principal U.S. broker-dealer, is permitted to calculate its regulatory capital requirements in accordance with the market and credit risk standards of Appendix E of Rule 15c3-1 under the Securities Exchange Act of 1934. We may be required or may determine to disclose publicly our group-wide Consolidated Supervised Entity capital ratios on an ongoing basis beginning in mid-2008.

GS&Co. is registered as a broker-dealer and as an investment adviser with the SEC and as a broker-dealer in all 50 states and the District of Columbia. Self-regulatory organizations, such as FINRA and the NYSE, adopt rules that apply to, and examine, broker-dealers such as GS&Co. FINRA was formed when the NASD and the NYSE merged their regulatory operations, although the NYSE continues to have oversight over NYSE-related market activities. In addition, state securities and other regulators also have regulatory or oversight authority over GS&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. Goldman Sachs Execution & Clearing, L.P. (GSEC) and two of its subsidiaries are registered U.S. broker-dealers and are regulated by the SEC, the NYSE and FINRA. Goldman Sachs Financial Markets, L.P. is registered with the SEC as an OTC derivatives dealer and conducts certain OTC derivatives businesses.

The commodity futures and commodity options industry in the United States is subject to regulation under the Commodity Exchange Act. The Commodity Futures Trading Commission is the federal agency charged with the administration of the Commodity Exchange Act. Several of Goldman Sachs subsidiaries, including GS&Co. and

GSEC, 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. The rules and regulations of various self-regulatory organizations, such as the Chicago Board of Trade and the Chicago Mercantile Exchange, other futures exchanges and the National Futures Association, also govern the commodity futures and commodity options businesses of these entities.

GS&Co. and GSEC are subject to Rule 15c3-1 of the SEC and Rule 1.17 of the CFTC, which specify uniform minimum net capital requirements and also effectively require that a significant part of the registrants assets be kept in relatively liquid form. GS&Co. and GSEC have elected to compute their minimum capital requirements in accordance with the Alternative Net Capital Requirement as permitted by Rule 15c3-1. As of November 2007, GS&Co. and GSEC had net capital in excess of their minimum capital requirements. In addition to its alternative minimum net capital requirements, GS&Co. is also required to hold tentative net capital in excess of $1 billion and net capital in excess of $500 million in accordance with the market and credit risk standards of Appendix E of Rule 15c3-1. GS&Co. is required to notify the SEC in the event that its tentative net capital is less than $5 billion. As of November 2007, GS&Co. had tentative net capital and net capital in excess of both the minimum and the notification requirements. These net capital requirements may have the effect of prohibiting these entities from distributing or withdrawing capital and may require prior notice to the SEC for certain withdrawals of capital. See Note 15 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K.

Goldman Sachs three limited purpose trust companies operate under state or federal law. They are not permitted to and do not accept deposits (other than as incidental to their trust activities) or make loans and, as a result, are not considered to be banks for purposes of the Bank Holding Company Act, nor are they insured by the FDIC or subject to the Community Reinvestment Act. The Goldman Sachs Trust Company, N.A., a national bank that is limited to fiduciary activities, is regulated by the Office of the Comptroller of the Currency and is a member bank of the Federal Reserve System. The Goldman Sachs Trust Company, a New York limited purpose trust company, is regulated by the New York State Banking Department. The Goldman Sachs Trust Company of Delaware, a Delaware limited purpose trust company, is regulated by the Office of the Delaware State Bank Commissioner.

Goldman Sachs has established GS Bank USA, a wholly owned industrial bank, to extend credit and to take deposits, other than demand deposits. GS Bank USA is regulated by the FDIC and the State of Utah Department of Financial Institutions and is subject to minimum capital requirements. As of November 2007, GS Bank USA was in compliance with all regulatory capital requirements. Because it does not accept demand deposits, GS Bank USA is not considered to be a bank for purposes of the Bank Holding Company Act. The deposits maintained at GS Bank USA are insured by the FDIC to the extent provided by law.

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.

J. Aron & Company is authorized by the Federal Energy Regulatory Commission to sell wholesale physical power at market-based rates. As a FERC-authorized power marketer, J. Aron & Company is subject to regulation under the Federal Power Act and FERC regulations and to the oversight of FERC. As a result of our investing activities, GS&Co. is also an exempt holding company under FERC rules.

In addition, as a result of our power-related activities, we are subject to extensive and evolving energy, environmental and other governmental laws and regulations, as discussed under Risk Factors Our power generation interests and related activities subject us to extensive regulation, as well as environmental and other risks associated with power generation activities in Part I, Item 1A of the Annual Report on Form 10-K.

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Our U.S. insurance subsidiaries are subject to state insurance regulation and oversight in the states in which they are domiciled and in the other states in which they are licensed, and we are subject to oversight as an insurance holding company in states where our insurance subsidiaries are domiciled. In addition, a number of our other businesses, including our lending and mortgage businesses, require us to obtain licenses, adhere to applicable regulations and be subject to the oversight of various regulators in the states in which we conduct these businesses.

The USA PATRIOT Act of 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 of 2001 seeks to promote the identification of parties that may be involved in terrorism, money laundering or other suspicious activities. Anti-money laundering laws outside the United States contain some similar provisions. The obligation of financial institutions, including Goldman Sachs, to identify their clients, to monitor for and report suspicious transactions, to respond to requests for information by regulatory authorities and law enforcement agencies, and to share information with other financial institutions, has required the implementation and maintenance of internal practices, procedures and controls that have increased, and may continue to increase, our costs, and any failure with respect to our programs in this area could subject us to substantial liability and regulatory fines.

Regulation Outside the United States

Goldman Sachs provides investment services in and from the United Kingdom under the regulation of the Financial Services Authority (FSA). Goldman Sachs International (GSI), our regulated U.K. broker-dealer, is subject to the capital requirements of the FSA. As of November 2007, GSI was in compliance with the FSA capital requirements. Other subsidiaries, including Goldman Sachs International Bank, are also regulated by the FSA.

Goldman Sachs has established two wholly owned banks in Dublin, Ireland. These banks are regulated by the Irish Financial Services Regulatory Authority. Because our Irish banks have no branches, agencies or banking subsidiaries in the United States, they do not subject Goldman Sachs to the U.S. Bank Holding Company Act. As of the commencement of business in December 2007, these banks were in compliance with all regulatory capital requirements.

Various other Goldman Sachs entities are regulated by the banking, insurance and securities regulatory authorities of the European countries in which they operate, including, among others, the Federal Financial Supervisory Authority (BaFin) and the Bundesbank in Germany, Banque de France and the Autorité des Marchés Financiers in France, Banca d Italia and the Commissione Nazionale per le Società e la Borsa (CONSOB) in Italy, the Federal Financial Markets Service in Russia and the Swiss Federal Banking Commission. Certain 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 regulators within the European Union are regulated in accordance with national laws, many of which implement European Union directives requiring, among other things, compliance with certain capital adequacy standards, customer protection requirements and market conduct and trade reporting rules. These standards, requirements and rules are similarly implemented, under the same directives, throughout the European Union.

On November 1, 2007, the national implementing legislation to the European Union s Markets in Financial Instruments Directive (Directive 2004/39/EC, known as MiFID) became effective in countries such as the United Kingdom, Germany and France. MiFID affects several of our subsidiaries by imposing detailed pan-European requirements in areas such as internal organization (including conflict management, outsourcing and recordkeeping),

best execution, real-time disclosure of completed transactions in shares, quoting obligations for internalized client orders in shares, transaction reporting

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to regulators, client classification and documentation, disclosure of fees and other payments received from or paid to third parties in relation to investment services and the regulation of investment services related to commodity derivatives. The lack of detailed regulatory practice under this regime could lead to regulatory uncertainties.

Goldman Sachs Japan Co., Ltd. (GSJCL), our regulated Japanese broker-dealer, is subject to the capital requirements of Japan s Financial Services Agency. As of November 2007, GSJCL was in compliance with its capital adequacy requirements. GSJCL is also regulated by the Tokyo Stock Exchange, the Osaka Securities Exchange, the Tokyo Financial Exchange, the Japan Securities Dealers Association, the Tokyo Commodity Exchange and the Ministry of Economy, Trade and Industry in Japan.

Also in Asia, the Securities and Futures Commission in Hong Kong, the Monetary Authority of Singapore, the China Securities Regulatory Commission, the Korean Financial Supervisory Service and the Securities and Exchange Board of India, among others, regulate various of our subsidiaries and also have capital standards and other requirements comparable to the rules of the SEC.

Various Goldman Sachs entities are regulated by the banking and regulatory authorities of other non-U.S. countries in which Goldman Sachs operates, including, among others, Brazil and Dubai. In addition, certain of our insurance subsidiaries are regulated by the Bermuda Registrar of Companies.

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 and other state regulators 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. From time to time, our subsidiaries have been subject to investigations and proceedings, and sanctions have been imposed for infractions of various regulations relating to our activities, none of which has had a material adverse effect on us or our businesses.

The Basel Committee on Banking Supervision has issued the Basel II capital standards, which are designed to promote enhanced risk management practices among large, international financial services firms by aligning regulatory capital requirements more closely with the underlying risks faced by these firms. GSI, as well as our other subsidiaries in the United Kingdom and elsewhere in Europe, became subject to the Basel II requirements on January 1, 2008. The Consolidated Supervised Entity rules described above under Regulation in the United States, which provide for group-wide supervision, are consistent with Basel II. Complying with these new standards has required us to develop and apply new and sophisticated measurement techniques to determine our regulatory capital adequacy. As an increasing number of financial institutions become subject to Basel II, new interpretations may arise, and harmonization among regulators could then impact the regulatory capital standards under which we operate as a Consolidated Supervised Entity, as well as the requirements for some of our regulated subsidiaries.

The research areas of investment banks have been and remain the subject of regulatory scrutiny. The SEC, the NYSE and FINRA have adopted rules governing research analysts, including rules imposing restrictions on the interaction between equity research analysts and investment banking personnel at member securities firms. Various non-U.S. jurisdictions have imposed both substantive and disclosure-based requirements with respect to research and may impose additional regulations. In 2003, GS&Co. agreed to 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. The global settlement includes certain restrictions and undertakings that have imposed additional costs and limitations on the conduct of our businesses, including restrictions on the interaction between research and investment banking areas.

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In connection with the research settlement, we have 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 imposed requirements on the conduct of the allocation process in equity and fixed income securities offerings (including initial public offerings and secondary distributions). The SEC, the FSA, the NYSE, FINRA and other U.S. or non-U.S. regulators may in the future adopt additional and more stringent rules with respect to offering procedures and the management of conflicts of interest, and we cannot fully predict the effect that any new requirements will have on our business.

Our investment management businesses are subject to significant regulation in numerous jurisdictions around the world relating to, among other things, the safeguarding of client assets and our management of client funds.

As discussed above, many of our subsidiaries are subject to regulatory capital requirements in jurisdictions throughout the world. Subsidiaries not subject to separate regulation may hold capital to satisfy local tax guidelines, rating agency requirements or internal policies, including policies concerning the minimum amount of capital a subsidiary should hold based upon its underlying risk.

Certain of our businesses are subject to compliance with regulations enacted by U.S. federal and state governments, the European Union or other jurisdictions and/or enacted by various regulatory organizations or exchanges relating to the privacy of the information of clients, employees or others, and any failure to comply with these regulations could expose us to liability and/or reputational damage.

Item 1A. Risk Factors

We face a variety of risks that are substantial and inherent in our businesses, including market, liquidity, credit, operational, legal and regulatory risks. The following are some of the more important factors that could affect our businesses.

Our businesses may be adversely affected by conditions in the global financial markets and economic conditions generally.

Our business, by its nature, does not produce predictable earnings. While we have achieved record earnings per common share in each of our last four fiscal years, reflecting a favorable trading and investing environment and an increase in investment banking activity, an adverse change in these market conditions may adversely affect our results of operations.

Our businesses are materially affected by conditions in the global financial markets and economic conditions generally, and these conditions may change suddenly and dramatically. A favorable business environment is generally characterized by, among other factors, high global gross domestic product growth, stable geopolitical conditions, transparent, liquid and efficient capital markets, low inflation, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions, which can be caused by: outbreaks of hostilities or other geopolitical instability; declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation, interest rates, exchange rate volatility, default rates or the price of basic commodities; corporate, political or other scandals that reduce investor confidence in capital markets; natural disasters or pandemics; or a combination of these or other factors, have adversely affected, and may in the future adversely affect, our business and profitability in many ways, including the following:

- 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, and may affect the fair value of financial

instruments that we issue or hold. For example, beginning in the second half of 2007, difficulties in the mortgage and broader credit markets in the United States and elsewhere resulted in a relatively sudden and substantial decrease in the

availability of credit and a corresponding increase in funding costs. Credit spreads widened significantly, affecting volatility and liquidity in the debt and equity markets, particularly in the markets for mortgage-related securities and non-investment-grade debt securities and loans. This negatively impacted prices of these securities and loans (as well as commitments for these loans), and, to the extent that we sought to do so, our ability to sell these securities and loans (and loan commitments). The sudden decline in liquidity and prices of these types of securities and loans made it generally more difficult to value them. These conditions have persisted through the end of 2007 and we cannot predict how long these conditions will exist or how our businesses may be affected.

We have been committing increasing amounts of capital in many of our businesses and generally maintain large trading, specialist and investing positions. Market fluctuations and volatility may adversely affect the value of those positions, including, but not limited to, our interest rate and credit products, currency, commodity and equity positions, and our merchant banking investments, or may reduce our willingness to enter into new transactions. From time to time, we have incurred significant trading losses in periods of market turbulence. Conversely, certain of our trading businesses depend on market volatility to provide trading and arbitrage opportunities, and decreases in volatility may reduce these opportunities and adversely affect the results of these businesses.

Increases in interest rates or credit spreads, as well as limitations on the availability of credit, such as occurred in the second half of 2007, can affect our ability to borrow on a secured or unsecured basis, which may adversely affect our liquidity and results of operations. We seek to finance our less liquid assets on a secured basis and disruptions in the credit markets are likely to make it harder and more expensive to fund these assets. In difficult credit markets, we may be forced to fund our operations at a higher cost or we may be unable to raise as much funding as we need to support our business activities. This could cause us to curtail our business activities and could increase our cost of funding, both of which could reduce our profitability.

Our investment banking business is affected by changes in market conditions. Industry-wide declines in the size and number of underwritings and mergers and acquisitions may 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. Our clients engaging in mergers and acquisitions often rely on access to the secured and unsecured credit markets to finance their transactions. The lack of available credit or increased cost of credit may adversely affect the size, volume and timing of our clients merger and acquisition transactions particularly large transactions and adversely affect our financial advisory and underwriting businesses.

We receive asset-based management fees based on the value of our clients portfolios and, in some cases, we also receive incentive fees based on increases in the value of our clients portfolios. Reductions in the level of the equity markets or increases in interest rates tend to reduce the value of our clients portfolios, which in turn may reduce the fees we earn for managing assets. Increases in interest rates or attractive conditions in other investments could cause our clients to transfer their assets out of our funds or other products. 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, including through redemptions, and in the incentive and management fees we receive and might make it more difficult to attract new investors.

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Market volatility has been relatively low in recent years, although it generally increased in the second half of 2007. An increase in volatility increases our measured risk, which might cause us to reduce our proprietary positions or to reduce certain of our business activities. In such circumstances, we may not be able to reduce our positions or our exposure in a timely, cost-effective way or in a manner sufficient to offset the increase in measured risk.

The volume of transactions that we execute for our clients and as a specialist or market maker 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. Weakness in global equity markets and the trading of securities in multiple markets and on multiple exchanges could adversely impact our trading businesses and impair the value of our goodwill and identifiable intangible assets.

The emergence of a pandemic or other widespread health emergency, or concerns over the possibility of such an emergency, could create economic and financial disruptions in emerging markets and other areas throughout the world, and could lead to operational difficulties (including travel limitations) that could impair our ability to manage our businesses around the world. In addition, unforeseen or catastrophic events, including health emergencies, terrorist attacks or natural disasters, could expose our insurance subsidiaries to significant losses.

We may incur losses as a result of ineffective risk management processes and strategies.

We seek to monitor and control our risk exposure through a risk and control framework encompassing a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems, internal controls, management review processes and other mechanisms. Our trading risk management process seeks to balance our ability to profit from trading positions with our exposure to potential losses. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. Thus, we may, in the course of our activities, incur losses.

The models that we use to assess and control our risk exposures reflect assumptions about the degrees of correlation or lack thereof among prices of various asset classes or other market indicators, and in times of market stress or other unforeseen circumstances previously uncorrelated indicators may become correlated, or conversely previously correlated indicators may move in different directions. In the past, these types of market movements have at times limited the effectiveness of our hedging strategies and have caused us to incur significant losses, and they may do so in the future. These changes in correlation can be exacerbated where other market participants are using risk or trading models with assumptions or algorithms that are similar to ours. In these cases, it may be difficult to reduce our risk positions due to the activity of other market participants. In addition, we are increasingly investing our own capital in our alternative investment and merchant banking funds, and limitations on our ability to withdraw some or all of our investments in these funds, whether for legal, reputational or other reasons, may make it more difficult for us to control the risk exposures relating to these investments.

For a further discussion of our risk management policies and procedures, see Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management in Part II, Item 7 of the Annual Report on Form 10-K.

Our liquidity, profitability and businesses may be adversely affected by an inability to access the debt capital markets or to sell assets, by a reduction in our credit ratings or by an inability of The Goldman Sachs Group, Inc.

to access funds from its subsidiaries.

Liquidity is essential to our businesses. Our liquidity could be impaired by an inability to access secured and/or unsecured debt markets, an inability to sell assets or redeem our investments, or

unforeseen outflows of cash or collateral. 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, or even by the perception among market participants that we are experiencing greater liquidity risk. The financial instruments that we hold and the contracts to which we are a party are increasingly complex, as we employ structured products to benefit our clients and ourselves, and these complex structured products often do not have readily available markets to access in times of liquidity stress. Growth of our proprietary investing activities may lead to situations where the holdings from these activities represent a significant portion of specific markets, which could restrict liquidity for our positions. Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time, as is likely to occur in a liquidity or other market crisis. In addition, financial institutions with which we interact may exercise set-off rights or the right to require additional collateral, including in difficult market conditions, which could further impair our access to liquidity.

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 these 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, 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 GS&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.

Our businesses, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, third parties who owe us money, securities or other assets or whose securities or obligations we hold.

The amount and duration of our credit exposures have been increasing over the past several years, as has the breadth and size of the entities to which we have credit exposures. 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. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. In addition, deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses and/or adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of our counterparties could also have a negative impact on our results. While in many cases we are permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral we are entitled to receive and the value of pledged assets. The termination of contracts and the foreclosure on collateral may subject us to claims for the improper exercise of our rights. Default rates, downgrades and disputes with counterparties as to the valuation of collateral tend to increase in times of market stress and illiquidity.

In addition, as part of our clearing business, we finance our client positions, and we could be held responsible for the defaults or misconduct of our clients. 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.

Concentration of risk increases the potential for significant losses.

Concentration of risk increases the potential for significant losses in our market-making, proprietary trading and investing, block trading, merchant banking, underwriting and lending businesses. This risk may increase to the extent we expand our proprietary trading and investing businesses or commit capital to facilitate customer-driven business. The number and size of such transactions may affect our results of operations in a given period. For example, we regularly enter into large transactions as part of our trading businesses, including large blocks of securities sold in block trades rather than on a marketed basis. Moreover, because of concentration of risk, we may suffer losses even when economic and market conditions are generally favorable for our competitors. In addition, we extend large commitments as part of our credit origination activities. Our inability to reduce our credit risk by selling, syndicating or securitizing these positions could negatively affect our results of operations due to a decrease in the fair value of the positions, as well as the loss of revenues associated with selling such securities or loans.

While our activities expose us to many different industries and counterparties, we routinely execute a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment funds and other institutional clients, resulting in significant credit concentration with respect to this industry. In the ordinary course of business, we may also be subject to a concentration of credit risk to a particular counterparty, borrower or issuer.

The financial services industry is highly competitive.

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 will continue to experience pricing pressures in the future as some of our competitors seek to increase market share by reducing prices. Over time, 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, has accelerated this consolidation and further increased 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. As we expand into new business areas and new geographic regions, we will face competitors with more experience and more established relationships with clients, regulators and industry participants in the relevant market, which could adversely affect our ability to expand.

Pricing and other competitive pressures in our investment banking business, as well as our other businesses, have continued to increase. For example, the trend in the underwriting business toward multiple book runners and co-managers handling transactions, where previously there would have been a single book runner, has adversely affected our business and reduced our revenues. In addition, we have experienced, due to competitive factors, pressure to extend and price credit at levels that may not always fully compensate us for the risks we take. In particular, corporate clients sometimes seek to require credit commitments from us in connection with investment banking and other assignments. Finally, competitive pressures and other industry factors, including the increasing use by our clients of low-cost electronic trading, have caused and could continue to cause a reduction in commissions and spreads.

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We face enhanced risks as new business initiatives lead us to transact with a broader array of clients and expose us to new asset classes and new markets.

A number of our recent and planned business initiatives and expansions of existing businesses may bring us into contact, directly or indirectly, with individuals and entities that are not within our traditional client base and expose us to new asset classes and new markets. For example, in recent years we have begun providing loans to small and mid-sized businesses, originating and acquiring life insurance policies and originating residential mortgages, and we are increasingly transacting business and investing in new regions, including a wider range of emerging markets. In addition, we are increasingly offering complex structured products, including securitized derivatives, and alternative investments to a wider investor base, including retail investors, both directly and through third-party distribution channels. Furthermore, a number of our businesses, including our proprietary investing and merchant banking activities, cause us to directly or indirectly own interests in, or otherwise become affiliated with the ownership and operation of, public services, such as airports, toll roads, shipping ports, electric power generation facilities and other commodities infrastructure components, both within and outside the United States. Recent market conditions are likely to lead to an increase in opportunities to acquire distressed assets, and we may determine opportunistically to increase our exposure to these types of assets. These business activities expose us to new and enhanced risks, including reputational concerns arising from dealing with less sophisticated counterparties and investors, greater regulatory scrutiny of these activities, increased credit-related and operational risks, risks arising from accidents or acts of terrorism, and reputational concerns with the manner in which these assets are being operated or held.

Derivative transactions may expose us to unexpected risk and potential losses.

We are party to a large number of derivative transactions, including credit derivatives that require that we deliver to the counterparty the underlying security, loan or other obligation in order to receive payment. In a number of cases, we do not hold the underlying security, loan or other obligation and may have difficulty obtaining, or be unable to obtain, the underlying security, loan or other obligation through the physical settlement of other transactions. As a result, we are subject to the risk that we may not be able to obtain the security, loan or other obligation within the required contractual time frame for delivery, particularly if default rates increase from the historically low levels over the past several years. This could cause us to forfeit the payments due to us under these contracts or result in settlement delays with the attendant credit and operational risk as well as increased costs to the firm.

Derivative contracts and other transactions entered into with third parties are not always confirmed by the counterparties on a timely basis. While the transaction remains unconfirmed, we are subject to heightened credit and operational risk and in the event of a default may find it more difficult to enforce the contract. In addition, as new and more complex derivative products are created, covering a wider array of underlying credit and other instruments, disputes about the terms of the underlying contracts could arise, which could impair our ability to effectively manage our risk exposures from these products and subject us to increased costs.

A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our businesses, result in the disclosure of confidential information, damage our reputation and cause losses.

Shortcomings or failures in our internal processes, people or systems could lead to impairment of our liquidity, financial loss, disruption of our businesses, liability to clients, regulatory intervention or reputational damage. Our businesses are highly dependent on our ability to process and monitor, on a daily basis, a large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. These transactions, as well as information technology services we provide to clients, often must adhere to client-specific guidelines, as well as legal and regulatory standards. As our client base and our geographical reach expands, developing and maintaining our operational systems and infrastructure becomes increasingly challenging. Our financial, accounting,

data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, such as a spike in transaction volume, adversely affecting our ability to process these transactions or provide these services. 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, termination or capacity constraints of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions, and as our interconnectivity with our clients grows, we will increasingly face the risk of operational failure with respect to our clients systems. In recent years, there has been significant consolidation among clearing agents, exchanges and clearing houses, which has increased our exposure to operational failure, termination or capacity constraints of the particular financial intermediaries that we use and could affect our ability to find adequate and cost-effective alternatives in the event of any such failure, termination or constraint. Any such failure, termination or constraint could adversely affect our ability to effect transactions, service our clients and manage our exposure to risk.

Despite the contingency plans and facilities 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 we 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 globally, regionally or in the cities where those buildings are located. Nearly all of our employees in our primary locations, including the New York metropolitan area, London, Frankfurt, Hong Kong, Tokyo and Bangalore, work in close proximity to one another, in one or more buildings. Notwithstanding our efforts to maintain business continuity, given that our headquarters and the largest concentration of our employees are in the New York metropolitan area, depending on the intensity and longevity of the event, a catastrophic event impacting our New York metropolitan area offices could very negatively affect our business. If a disruption occurs in one location and our employees in that location are unable to occupy our offices or 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, which could result in significant losses or reputational damage. 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.

We routinely transmit and receive personal, confidential and proprietary information by email and other electronic means. We have discussed and worked with clients and counterparties to develop secure transmission capabilities, but we do not have, and may be unable to put in place, secure capabilities with all of our clients and counterparties. An interception or mishandling of personal, confidential or proprietary information being sent to or received from a client or counterparty could result in legal liability, regulatory action and reputational harm. We are exposed to similar risks arising from the interception of personal, confidential or proprietary information sent to or received from, or the misuse or mishandling of personal, confidential or proprietary information by, vendors, service

providers and other third parties who may receive such information from us, and our efforts to ensure that these third parties have appropriate controls in place may not be successful.

Conflicts of interest are increasing and a failure to appropriately identify and deal with conflicts of interest could adversely affect our businesses.

Our reputation is one of our most important assets. As we have expanded the scope of our businesses and our client base, we increasingly have to address potential conflicts of interest, including situations where our services to a particular client or our own proprietary investments or other interests conflict, or are perceived to conflict, with the interests of another client, as well as situations where one or more of our businesses have access to material non-public information that may not be shared with other businesses within the firm.

The SEC, the NYSE, FINRA, other federal and state regulators and regulators outside the United States, including in the United Kingdom and Japan, have announced their intention to increase their scrutiny of potential conflicts of interest, including through detailed examinations of specific transactions. There have been complaints filed against financial institutions, including Goldman Sachs, alleging the violation of antitrust laws arising from their joint participation in certain leveraged buyouts, referred to as club deals, as discussed under Legal Proceedings Private Equity-Sponsored Acquisitions Litigation in Part I, Item 3 of the Annual Report on Form 10-K. In addition, a number of class action complaints have also been filed in connection with certain specific club deal transactions which name the relevant club deal participants among the defendants, including Goldman Sachs affiliates in several cases, and generally allege that the transactions constitute a breach of fiduciary duty by the target company and that the club participants aided and abetted such breach. We cannot predict the outcome of the litigation to which we are a party, and we may become subject to further litigation or regulatory scrutiny in the future in this regard.

We have extensive procedures and controls that are designed to identify and address conflicts of interest, including those designed to prevent the improper sharing of information among our businesses. However, appropriately identifying and dealing with conflicts of interest is complex and difficult, and our reputation could be damaged and the willingness of clients to enter into transactions in which such a conflict might arise may be affected if we fail, or appear to fail, to identify and deal appropriately with conflicts of interest. In addition, potential or perceived conflicts could give rise to litigation or enforcement actions.

Our businesses and those of our clients are subject to extensive and pervasive regulation around the world.

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 our businesses. 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 businesses or those of our clients may also adversely affect our businesses. Regulatory changes could lead to business disruptions, could require us to change certain of our business practices and could expose us to additional costs and liabilities as well as reputational harm. For a discussion of the extensive regulation to which our businesses are subject, see Business Regulation in Part I, Item 1 of the Annual Report on Form 10-K.

Our firm is subject to regulatory capital requirements at a number of levels, as described above under Business Regulation in Part I, Item 1 of the Annual Report on Form 10-K. As a Consolidated Supervised Entity, we are subject to minimum capital standards on a consolidated basis. A number of our subsidiaries, including GS&Co., GSEC, GSI, GS Bank USA, our Irish banking entities, GSJCL and Goldman, Sachs & Co. oHG, are separately subject to their own minimum capital

requirements imposed by various regulatory bodies. Complying with these requirements may cause us to limit our business activities or require us to liquidate assets or otherwise raise capital in a manner that adversely affects our shareholders and creditors. While we currently disclose these ratios to the SEC and the FSA and to rating agencies, we may be required or may determine to disclose publicly our group-wide Consolidated Supervised Entity capital ratios beginning in mid-2008. It is unclear how our ratios will compare to those of our competitors, or how our investors, counterparties or clients may react to any difference, positive or negative, in such ratios.

Firms in the financial services industry have been operating in a difficult regulatory environment. The industry has experienced increased scrutiny from a variety of regulators, both within and outside the United States. Penalties and fines sought by regulatory authorities have increased substantially over the last several years, and certain regulators have been more likely in recent years to commence enforcement actions. For example, regulators, both within and outside the United States, continue to scrutinize complex, structured finance transactions and have brought enforcement actions against a number of financial institutions in connection with such transactions. 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.

This environment has led some of our clients to be less willing to engage in transactions that may carry a risk of increased scrutiny by regulators and has created uncertainty with respect to a number of transactions that had historically been entered into by financial services firms, including our firm, and that were generally believed to be permissible and appropriate. This environment also has led us and our competitors to modify transaction structures and, in some cases, to limit or cease our execution of some types of transactions. While we have policies and procedures in place that are intended to ensure that the transactions we enter into are appropriately reviewed and comply with applicable laws and regulations, it is possible that certain transactions could give rise to litigation or enforcement actions or that the regulatory scrutiny of, and litigation in connection with, transactions will make our clients less willing to enter into these transactions with us, and will adversely affect our business.

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 and penalties claimed in litigation and regulatory proceedings against financial institutions remain high. See Legal Proceedings in Part I, Item 3 of the Annual Report on Form 10-K for a discussion of certain legal proceedings in which we are involved.

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.

The growth of electronic trading and the introduction of new technology may adversely affect our business and may increase competition.

Technology is fundamental to our business and our industry. The growth of electronic trading and the introduction of new technologies is changing our businesses and presenting us with new challenges. Securities, futures and options transactions are increasingly occurring electronically, both on our own systems and through other alternative 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, and we may experience continued competitive pressures in these and other areas. In addition, the increased use by our clients

of low-cost electronic trading systems and direct electronic access to trading

markets could cause a reduction in commissions and spreads. As our clients increasingly use our systems to trade directly in the markets, we may incur liabilities as a result of their use of our order routing and execution infrastructure. The NYSE s adoption and continued refinement of its hybrid market for trading securities may increase pressure on our Equities business as customers execute more of their NYSE-related trades electronically. We have invested significant resources into the development of electronic trading systems and expect to continue to do so, but there is no assurance that the revenues generated by these systems will yield an adequate return on our investment, particularly given the relatively lower commissions arising from electronic trades.

Our businesses may be adversely affected if we are unable to hire and retain qualified employees.

Competition from within the financial services industry and from businesses outside the financial services industry, such as hedge funds, private equity funds and venture capital funds, for qualified employees is intense. This is particularly the case in emerging markets, where we are often competing for qualified employees with entities that have a significantly greater presence or more extensive experience in the region. Our performance is largely dependent on the talents and efforts of highly skilled individuals; therefore, our continued ability to compete effectively in our businesses and to expand into new businesses and geographic areas depends on our ability to attract new employees and to retain and motivate our existing employees. 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.

Our power generation interests and related activities subject us to extensive regulation, as well as environmental and other risks associated with power generation activities.

The power generation facilities that we own and those that we operate, as well as our other power-related activities, are subject to extensive and evolving federal, state and local energy, environmental and other governmental laws and regulations, including environmental laws and regulations relating to, among others, air quality, water quality, waste management, natural resources, site remediation and health and safety. 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 companies engaged in electric power generation and wholesale sales and trading of electricity and natural gas.

In addition, we may incur substantial costs in complying with current or future laws and regulations relating to power generation, including having to commit significant capital toward environmental monitoring, installation of pollution control equipment, payment of emission fees and carbon or other taxes, and application for, and holding of, permits and licenses at our power generation facilities. In certain instances, compliance with applicable laws and regulations may require us to cease or curtail operations of one or more of our power generation facilities.

Our power generation facilities are also subject to the risk of unforeseen or catastrophic events, including terrorist attacks, natural disasters or other hostile or catastrophic events. We may not have insurance against these risks or other risks, including environmental risks, that such facilities face, and, in cases in which we do have insurance, the insurance proceeds may be inadequate to cover our losses. Our overall businesses and reputation may be adversely affected by legal and regulatory proceedings, particularly those related to environmental matters, arising out of our power generation business, as well as by the occurrence of unforeseen or catastrophic events or negative publicity associated with our power-related activities.

The operation of our power generation facilities may be disrupted for many reasons, many of which are outside our control, 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. In addition, these facilities could be adversely affected by the failure of any of our third-party suppliers or service providers to perform their contractual obligations, including the failure to obtain raw materials necessary for operation at reasonable prices. Market conditions or other factors could cause a failure to satisfy or obtain waivers under agreements with third parties, including lenders and utilities, which impose significant obligations on our subsidiaries that own such facilities. The occurrence of any of such events may prevent the affected facilities from performing under applicable power sales agreements, may impair their operations or financial results and may result in litigation or other reputational harm.

In conducting our businesses around the world, we are subject to political, economic, legal, operational and other risks that are inherent in operating in many countries.

In conducting our businesses and maintaining and supporting our global operations, we are subject to 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 and many of the transactions in which we are involved are uncertain and evolving, and it may be difficult for us to determine the exact requirements of local laws in every market. Any determination by local regulators that we have not acted in compliance with the application of local laws in a particular market or our failure to develop effective working relationships with local regulators 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 enhanced risk that transactions we structure might not be legally enforceable in all cases.

Our businesses and operations are increasingly expanding into new regions throughout the world, including emerging markets, and we expect this trend to continue. 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 any of these conditions include an adverse impact on our businesses and increased volatility in financial markets generally.

Item 1B. Unresolved Staff Comments

There are no material unresolved written comments that were received from the SEC staff 180 days or more before the end of our fiscal year relating to our periodic or current reports under the Securities Exchange Act of 1934.

Item 2. Properties

Our principal executive offices are located at 85 Broad Street, New York, New York, and comprise approximately one million rentable square feet of leased space, pursuant to a lease agreement expiring in June 2011. We also occupy over 680,000 rentable 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 approximately 3.8 million rentable square feet in the New York metropolitan area.

In August 2005, we leased from Battery Park City Authority a parcel of land in lower Manhattan, pursuant to a ground lease. We are currently constructing a 2.1 million gross square foot office building on the site that will serve as our world headquarters. Under the lease, Battery Park City Authority holds title to all improvements, including the office building, subject to Goldman Sachs right of exclusive possession and use through May 2069, the expiration date of the lease.

Under the terms of the ground lease, we made a lump-sum ground rent payment in June 2007 of $161 million, which was paid into escrow, to be released to the Battery Park City Authority pending performance of specified state and city obligations. We are required to make additional periodic payments during the term of the lease. We are obligated

under the ground lease to construct the office building by 2011 (subject to extensions in the case of force majeure) in accordance with certain

pre-approved design standards. Construction began on the building in November 2005, and we expect initial occupancy of the building during 2009. The building is projected to cost between $2.3 billion and $2.5 billion, including acquisition, development, fitout and furnishings, financing and other related costs.

We are receiving a number of benefits from the City and State of New York based on our agreement to construct our world headquarters in lower Manhattan. These benefits are subject to recoupment or recapture if we do not proceed in accordance with our agreements with the City and State of New York.

We have offices at 30 Hudson Street in Jersey City, New Jersey, which we own and which include approximately 1.6 million gross square feet of office space, and we own over 575,000 square feet of additional office space spread among four locations in New York and New Jersey. We have additional offices in the U.S. and elsewhere in the Americas, which together comprise approximately 2.5 million rentable square feet of leased space.

In Europe, the Middle East and Africa, we have offices that total approximately 2.0 million rentable square feet. Our European headquarters is located in London at Peterborough Court, pursuant to a lease expiring in 2026. In total, we lease approximately 1.5 million rentable square feet in London through various leases, relating to various properties.

In Asia, we have offices that total approximately 1.3 million rentable 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 approximately 390,000 rentable square feet through a lease that will expire in 2018. In Hong Kong, we currently lease approximately 220,000 rentable square feet under lease agreements, the majority of which will expire in 2011.

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 regularly evaluate our current and future space capacity in relation to current and projected staffing levels. In 2007, we incurred exit costs of $128 million related to office space in New York. We may incur additional exit costs in 2008 and thereafter to the extent we (i) reduce our space capacity or (ii) commit to, or occupy, new properties in the locations in which we operate and, consequently, dispose of existing space that had been held for potential growth. These 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. Given the range of litigation and investigations presently under way, our litigation expenses can be expected to remain high.

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, 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 have conspired

to fix at 7% the discount that underwriting syndicates receive from issuers of shares in certain offerings in violation of federal antitrust laws. On March 15, 1999, the purchaser plaintiffs filed a consolidated amended complaint seeking treble damages as well as injunctive relief. The district court has granted a motion to dismiss with prejudice the purchasers damages claims. The district court denied class certification with respect to the damages claims asserted by the issuers of securities, but the U.S. Court of Appeals for the Second Circuit granted the issuer plaintiffs petition to review that certification decision on an interlocutory basis and reversed and remanded by a decision, dated September 11, 2007. The issuer plaintiffs have renewed their request for certification on remand.

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 filed in the U.S. District Court for the Southern District of New York alleging, among other things, that the prospectuses for the offerings violated the federal securities laws by failing to disclose the existence of alleged arrangements tying allocations in certain offerings to higher customer brokerage commission rates as well as purchase orders in the aftermarket, and that the alleged arrangements resulted in market manipulation. The federal district court denied the motion to dismiss in all material respects relating to the underwriter defendants and generally granted plaintiffs motion for class certification in six focus cases. The U.S. Court of Appeals for the Second Circuit reversed the district court s order granting class certification, denied plaintiffs applications for rehearing and rehearing en banc, and remanded. On August 14, 2007, plaintiffs amended their complaints in the six focus cases as well as their master allegations for all such cases to reflect new class related allegations. On September 27, 2007, plaintiffs filed a new motion for class certification in the district court, and on November 14, 2007, Goldman, Sachs & Co. and the other defendants moved to dismiss the amended complaints.

The Goldman Sachs Group, Inc. is among numerous underwriting firms named as defendants in a number of complaints filed commencing October 3, 2007, in the U.S. District Court for the Western District of Washington alleging violations of the federal securities laws in connection with offerings of securities for 16 issuers during 1999 and 2000. The complaints generally assert that the underwriters, together with each issuer s directors, officers and principal shareholders, entered into purported agreements to tie allocations in the offerings to increased brokerage commissions and aftermarket purchase orders. The complaints further allege that, based upon these and other purported agreements, the underwriters violated the reporting provisions of, and are subject to short-swing profit recovery under, Section 16 of the Securities Exchange Act of 1934. On October 29, 2007, the cases were reassigned to a single district judge.

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, unspecified compensatory damages resulting from the alleged lower amount of offering proceeds. The court granted Goldman, Sachs & Co. s motion to dismiss as to five of the claims; plaintiff appealed from the dismissal of the five claims, and Goldman, Sachs & Co. appealed from the denial of its motion as to the remaining claim. The New York Appellate Division, First Department affirmed in part and reversed in part the lower court s ruling on the firm s motion to dismiss, permitting all claims to proceed except the claim for fraud, as to which the appellate court granted leave to replead, and the New York Court of Appeals affirmed in part and reversed in part, dismissing claims for breach of contract, professional malpractice and unjust enrichment, but permitting claims for breach of fiduciary duty and fraud to continue. On remand to the lower court, Goldman, Sachs & Co. moved to dismiss the surviving claims or, in the alternative, for summary judgment, but the motion was denied by a decision dated March 21, 2006. Plaintiff has moved for leave to amend the complaint again, and Goldman, Sachs & Co. has cross-moved to dismiss.

The Goldman Sachs Group, Inc. and certain of its affiliates have, together with various underwriters in certain offerings, received subpoenas and requests for documents and information

from various governmental agencies and self-regulatory organizations in connection with investigations relating to the public offering process. Goldman Sachs has cooperated with these investigations.

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 $33.50 per share, as well as in the secondary market. 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.

The defendants in the actions include Iridium, certain of its officers and directors, Motorola, Inc. (an investor in Iridium) and the lead underwriters in the offering, including Goldman, Sachs & Co. The complaints in both actions allege violations of the disclosure requirements of the federal securities laws and seek compensatory and/or rescissory damages. Defendants motion to dismiss was denied. The district court has certified two subclasses. The district court denied the plaintiffs motion for summary judgment as to claims under Section 11 of the Securities Act of 1933, but granted summary judgment dismissing claims under Section 12(a)(2) of the Securities Act against Goldman, Sachs & Co. and all but one of the other underwriter defendants. On November 3, 2006, the underwriter defendants entered into an agreement in principle to settle all claims against them for a settlement payment of $8.25 million. The settlement is subject to, among other things, documentation and court approval.

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 approximately 2.9 billion offering. 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. The court held that the claims failed and dismissed the complaint and the Amsterdam Court of Appeal affirmed dismissal of the complaint.

In March 2001, a Dutch shareholders association initiated legal proceedings for an unspecified amount of damages against Goldman Sachs International in Amsterdam District Court in connection with the World Online offering. The court rejected the claims against Goldman Sachs International, but found World Online liable in an amount to be determined. The Dutch shareholders association appealed from the dismissal of their claims against Goldman Sachs International. By a decision dated May 3, 2007, the Netherlands Court of Appeals affirmed in part and reversed in part the decision of the district court dismissing the complaint, holding that certain of the alleged disclosure deficiencies were actionable. On July 24, 2007, the shareholder association appealed from the Netherlands Court of Appeals decision to the extent that it affirmed the decision of the district court dismissing the complaint. On November 2, 2007, Goldman Sachs International joined the other defendants in

appealing from the Court of Appeals decision to the extent that it reversed the district court s dismissal.

Research Independence Matters

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, relating to coverage of RSL Communications, Inc. commenced on July 15, 2003, Goldman, Sachs & Co. s motion to dismiss the complaint was denied. The district court granted the plaintiffs motion for class certification and the U.S. Court of Appeals for the Second Circuit, by an order dated January 26, 2007, vacated the district court s class certification and remanded for reconsideration. Goldman, Sachs & Co. is also a defendant in several actions relating to research coverage of Exodus Communications, Inc. that commenced beginning in May 2003. The actions were consolidated, Goldman, Sachs & Co. s motion to dismiss was granted with leave to replead, and plaintiff filed a second amended complaint. The defendants motion to dismiss the second amended complaint was granted by order dated December 4, 2007. Plaintiff moved for reconsideration on December 21, 2007.

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, which, as amended on March 3, 2004 and June 14, 2005, alleges that the directors breached their fiduciary duties in connection with the firm s research as well as the firm s IPO allocations practices.

The Goldman Sachs Group, Inc., Goldman, Sachs & Co. and Henry M. Paulson, Jr., the former Chairman and Chief Executive Officer of The Goldman Sachs Group, Inc., have been named as defendants in a purported class action filed originally 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 duties 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. The action was transferred on consent to the U.S. District Court for the Southern District of New York, and the district court granted the defendants motion to dismiss with leave to amend. Plaintiffs filed a second amended complaint, and defendants filed a motion to dismiss. In a decision dated September 29, 2006, the federal district court granted Mr. Paulson s motion to dismiss with leave to replead but otherwise denied the motion. Plaintiffs have moved for class certification.

The Goldman Sachs Group, Inc. and its affiliates, together with other financial services firms, have received requests for information from various governmental agencies and self-regulatory organizations in connection with their review of research independence issues. Goldman Sachs has cooperated with these requests. See Business Regulation Regulations Applicable in and Outside the United States in Part I, Item 1 of the Annual Report on Form 10-K for a discussion of our global research settlement.

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 $255,875,000, (including over-allotments) 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 The

Goldman Sachs Group, Inc. as well as 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 $127,937,500 (including over-allotments) principal amount of the notes. The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. moved to dismiss the class action complaint in the Texas federal court and the motion was granted as to The Goldman Sachs Group, Inc. but denied as to Goldman, Sachs & Co. One of the plaintiffs has moved for class certification. Goldman, Sachs & Co. has moved for judgment on the pleadings against all plaintiffs. On October 18, 2007, the parties reached a settlement agreement in principle pursuant to which Goldman, Sachs & Co. has contributed $11.5 million to a settlement fund, subject to definitive documentation and court approval. Plaintiffs in various consolidated actions relating to Enron entered into a settlement with Banc of America Securities LLC on July 2, 2004 and with Citigroup, Inc. on June 10, 2005, including with respect to claims relating to the Exchangeable Notes offering, as to which affiliates of those settling defendants were two of the three underwriters (together with Goldman, Sachs & Co.).

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. As amended, the lawsuit names as defendants the underwriters of the August 1999 offering and the company s outside accounting firm, and alleges violations of the disclosure requirements of the federal securities laws, fraud and misrepresentation. The Judicial Panel on Multidistrict Litigation has transferred that action to the Texas federal district court for purposes of coordinated or consolidated pretrial proceedings with other matters relating to Enron Corp. Goldman, Sachs & Co. moved to dismiss the complaint and the motion was granted in part and denied in part. The district court granted the funds motion for leave to file a second amended complaint on January 22, 2007.

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 approximately $340 million additional commercial paper from various customers who have also been named as defendants. The bankruptcy court denied Goldman, Sachs & Co. s motion to dismiss as well as similar motions by other defendants. On August 1, 2005, various defendants including Goldman, Sachs & Co. petitioned to have the denial of their motion to dismiss reviewed by the U.S. District Court for the Southern District of New York. On November 21, 2007, Goldman, Sachs & Co. moved to remove the standing reference by the federal district court.

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 51/4% 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. The district court granted the defendants motion to dismiss with leave to replead, and the plaintiffs filed a third amended complaint. The district court denied the underwriter defendants motion to dismiss the third amended complaint. The underwriter defendants motion for reconsideration and clarification was denied. By a decision dated June 2, 2006, the district court granted summary judgment dismissing the complaint on the grounds that the plaintiffs purchases of Exodus securities were not traceable to the relevant offerings. Two new putative plaintiffs filed motions

to intervene, those motions were denied and a motion by the putative intervenors to vacate the resulting judgment was also denied. Plaintiffs filed an appeal and the underwriter defendants cross-appealed on December 11, 2006 to the extent that certain earlier grounds for dismissal had been rejected by the district court.

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 Litigation

Goldman, Sachs & Co. and The Goldman Sachs Group, Inc. have been named as defendants in a purported class action commenced originally on October 1, 2001 in Montana District Court, Second Judicial District on behalf of former 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. aided and abetted the board s breaches and rendered negligent advice 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 and its affiliates. The Montana state court denied the Goldman Sachs defendants motions to dismiss. Following the bankruptcies of certain defendants in the action, defendants removed the action to federal court, the U.S. District Court for the District of Montana, Butte Division.

On October 26, 2004, a creditors committee of Touch America Holdings, Inc. brought an action against Goldman, Sachs & Co., The Goldman Sachs Group, Inc., and a former outside law firm for Montana Power Company in Montana District Court, Second Judicial District. The complaint asserts that Touch America Holdings, Inc. is the successor to Montana Power Corporation and alleges substantially the same claims as in the purported class action. Defendants removed the action to federal court. Defendants moved to dismiss the complaint, but the motion was denied by a decision dated June 10, 2005.

Adelphia Communications Fraudulent Conveyance Litigation

Goldman, Sachs & Co. is among numerous entities named as defendants in two adversary proceedings commenced in the U.S. Bankruptcy Court for the Southern District of New York, one on July 6, 2003 by a creditors committee, and the second on or about July 31, 2003 by an equity committee of Adelphia Communications, Inc. Those proceedings have now been consolidated in a single amended complaint filed by the Adelphia Recovery Trust on October 31, 2007. The complaint seeks, among other things, to recover, as fraudulent conveyances, payments made allegedly 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. Goldman, Sachs & Co. moved to dismiss the claim related to such margin payments on December 21, 2007.

Specialist Matters

Spear, Leeds & Kellogg Specialists LLC (SLKS) and certain affiliates have received requests for information from various governmental agencies and self-regulatory organizations as part of an industry-wide investigation relating to activities of floor specialists in recent years. Goldman Sachs has cooperated with the requests.

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On March 30, 2004, certain specialist firms on the NYSE, including SLKS, without admitting or denying the allegations, entered into a final global settlement with the SEC and the NYSE covering certain activities during the years 1999 through 2003. The SLKS settlement involves, among other things, (i) findings by the SEC and the NYSE that SLKS violated certain federal securities laws and NYSE rules, and in some cases failed to supervise certain individual specialists, in connection with trades that allegedly disadvantaged customer orders, (ii) a cease and desist order against SLKS, (iii) a censure of SLKS, (iv) SLKS agreement to pay an aggregate of $45.3 million in disgorgement and a penalty to be used to compensate customers, (v) certain undertakings with respect to SLKS systems and procedures, and (vi) SLKS retention of an independent consultant to review and evaluate certain of SLKS compliance systems, policies and procedures. Comparable findings were made and sanctions imposed in the settlements with other specialist firms. The settlement did not resolve the related private civil actions against SLKS and other firms or regulatory investigations involving individuals or conduct on other exchanges.

SLKS, Spear, Leeds & Kellogg, L.P. and The Goldman Sachs Group, Inc. are among numerous defendants named in purported class actions brought beginning in October 2003 on behalf of investors in the U.S. District Court for the Southern District of New York alleging violations of the federal securities laws and state common law 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. Plaintiffs filed a consolidated amended complaint on September 16, 2004. The defendants motion to dismiss the amended complaint was granted in part and denied in part by a decision dated December 13, 2005. On June 28, 2007, plaintiffs filed a motion seeking to certify a class.

Spear, Leeds & Kellogg Specialists LLC and The Goldman Sachs Group, Inc. are among numerous defendants named in a purported class action brought in June 2007 on behalf of investors in the U.S. District Court for the Southern District of New York alleging violations of the federal antitrust and securities laws, as well as common law, in connection with execution of transactions through the New York Stock Exchange s SuperDot system. The complaint seeks, among other things, unspecified treble damages.

Treasury Matters

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. 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) and (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.

Goldman, Sachs & Co. has been named as a defendant in a purported class action filed on March 10, 2004 in the U.S. District Court for the Northern District of Illinois on behalf of holders of short positions in 30-year U.S. Treasury futures and options on the morning of October 31, 2001. The complaint alleges that the firm purchased 30-year bonds and futures prior to the Treasury s refunding announcement that morning based on non-public information about that announcement, and that such purchases increased the costs of covering such short positions. The complaint also names as defendants the Washington, D.C.-based political consultant who allegedly was the source of the information, a former Goldman, Sachs & Co. economist who allegedly received the information, and

another company and one of its employees who also allegedly received and traded on the information prior to its public announcement. The complaint alleges violations of the federal commodities and antitrust laws, as well as Illinois statutory and common law, and seeks, among other things, unspecified damages including treble damages under the antitrust laws. The district court dismissed the antitrust and Illinois state law claims but permitted the federal commodities law claims to proceed. On December 20, 2006, plaintiff moved for class certification.

Mutual Fund Matters

Goldman, Sachs & Co. and certain mutual fund affiliates have received subpoenas and requests for information from various governmental agencies and self-regulatory organizations 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 have cooperated with such requests.

Refco Securities Litigation

Goldman, Sachs & Co. and the other lead underwriters for the August 2005 initial public offering of 26,500,000 shares of common stock of Refco Inc. are among the defendants in various putative class actions filed in the U.S. District Court for the Southern District of New York beginning in October 2005 by investors in Refco Inc. in response to certain publicly reported events that culminated in the October 17, 2005 filing by Refco Inc. and certain affiliates for protection under U.S. bankruptcy laws. The actions, which have been consolidated, allege violations of the disclosure requirements of the federal securities laws and seek compensatory damages. In addition to the underwriters, the consolidated complaint names as defendants Refco Inc. and certain of its affiliates, certain officers and directors of Refco Inc., Thomas H. Lee Partners, L.P. (which held a majority of Refco Inc. s equity through certain funds it manages), Grant Thornton (Refco Inc. s outside auditor), and BAWAG P.S.K. Bank fur Arbeit und Wirtschaft und Osterreichische Postsparkasse Aktiengesellschaft (BAWAG). Lead plaintiffs entered into a settlement with BAWAG, which was approved following certain amendments on June 29, 2007. Goldman, Sachs & Co. underwrote 5,639,200 shares of common stock at a price of $22 per share for a total offering price of approximately $124 million.

A purported shareholder derivative action was filed in the U.S. District Court for the Southern District of New York on November 2, 2005 on behalf of The Goldman Sachs Group, Inc. against certain of its officers and directors. The complaint alleges that the individual defendants breached their fiduciary duties by failing to ensure that adequate due diligence was conducted in connection with the Refco Inc. initial public offering.

Goldman, Sachs & Co. has, together with other underwriters of the Refco Inc. initial public offering, received requests for information from various governmental agencies and self-regulatory organizations. Goldman, Sachs & Co. is cooperating with those requests.

Short-Selling Litigation

The Goldman Sachs Group, Inc., Goldman, Sachs & Co. and Goldman Sachs Execution & Clearing, L.P. are among the numerous financial services firms that have been named as defendants in a purported class action filed on April 12, 2006 in the U.S. District Court for the Southern District of New York by customers who engaged in short-selling transactions in equity securities since April 12, 2000. The amended complaint generally alleges that the customers were charged fees in connection with the short sales but that the applicable securities were not necessarily borrowed to effect delivery, resulting in failed deliveries, and that the defendants conspired to set a minimum threshold borrowing rate for securities designated as hard to borrow. The complaint asserts a claim under the federal antitrust laws, as well as claims under the New York Business Law and common law, and seeks treble damages as well as injunctive relief. Defendants motion to dismiss the complaint was granted by a decision dated December 20, 2007. On January 18, 2008, plaintiffs appealed from this decision.

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Fannie Mae Litigation

Goldman, Sachs & Co. was added as a defendant in an amended complaint filed on August 14, 2006 in a purported class action, and The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. were added as defendants in an amended complaint filed on September 1, 2006 in a separate shareholder derivative action, both pending in the U.S. District Court for the District of Columbia. The complaints allegations generally arise from allegations concerning Fannie Mae s accounting practices and, insofar as they relate to the Goldman Sachs defendants, assert violations of the federal securities laws and common law in connection with certain Fannie Mae-sponsored REMIC transactions that were allegedly arranged by Goldman, Sachs & Co. The other defendants include Fannie Mae, certain of its past and present officers and directors, accountants and other financial services firms. On November 28, 2006, the plaintiffs in the derivative action voluntarily dismissed the Goldman Sachs defendants without prejudice, subject to an agreement to toll the statute of limitations. By a decision dated May 8, 2007, the district court granted Goldman, Sachs & Co. s motion to dismiss.

The Goldman Sachs Group, Inc. was named as a defendant in two purported derivative actions, and Goldman, Sachs & Co. is named as a defendant in one of such actions, commenced beginning on June 29, 2007 in the U.S. District Court for the District of Columbia by Fannie Mae shareholders on behalf of Fannie Mae. The claims against the Goldman Sachs defendants are substantively identical to the claims raised in the previous derivative action which had been voluntarily dismissed subject to a tolling agreement. Both complaints generally allege that the firm s conduct in connection with the REMIC transactions constituted aiding and abetting a breach of fiduciary duty by certain Fannie Mae officers and directors as well as a breach of contract. The complaints also name as defendants certain former officers and directors of Fannie Mae as well as an outside accounting firm. The complaints seek, *inter alia*, unspecified damages.

General American Litigation

On February 13, 2007, the liquidators of General American Mutual Holding Corporation amended a pre-existing complaint pending in Missouri Circuit Court against one of the company s former officers to assert new claims against The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. The amended complaint asserts that the Goldman Sachs defendants breached certain duties and violated Missouri law in the course of acting as the company s financial advisor during 1998-1999 in connection with the exploration of a potential demutualization and initial public offering, and the ensuing sale of certain company assets. The complaint seeks compensatory and punitive damages. On July 18, 2007, the court denied motions by The Goldman Sachs Group, Inc. and Goldman, Sachs & Co. to dismiss the complaint, and to drop them as parties from the pre-existing action.

Executive Compensation Litigation

On March 16, 2007, The Goldman Sachs Group, Inc., its board of directors, executive officers and members of its management committee were named as defendants in a purported shareholder derivative action in the U.S. District Court for the Eastern District of New York challenging the sufficiency of the firm s February 21, 2007 Proxy Statement and the compensation of certain employees. The complaint generally alleges that the Proxy Statement undervalues stock option awards disclosed therein, that the recipients received excessive awards because the proper methodology was not followed, and that the firm s senior management received excessive compensation, constituting corporate waste. The complaint seeks, among other things, an injunction against the 2007 Annual Meeting of Shareholders, the voiding of any election of directors in the absence of an injunction and an equitable accounting for the allegedly excessive compensation. On July 20, 2007, defendants moved to dismiss the complaint.

On January 17, 2008, The Goldman Sachs Group, Inc., its board of directors, executive officers and members of its management committee were named as defendants in a related purported

shareholder derivative action brought by the same plaintiff in the same court predicting that the firm s 2008 Proxy Statement will violate the federal securities laws by undervaluing certain stock option awards and alleging that senior management received excessive compensation for 2007. The complaint seeks, among other things, an injunction against the distribution of the 2008 Proxy Statement, the voiding of any election of directors in the absence of an injunction and an equitable accounting for the allegedly excessive compensation. On January 25, 2008, the plaintiff moved for a preliminary injunction to prevent the 2008 Proxy Statement from using options valuations that the plaintiff alleges are incorrect and to require the amendment of SEC Form 4s filed by certain of the executive officers named in the complaint to reflect the stock option valuations alleged by the plaintiff. Defendants have yet to respond.

Mortgage-Related Matters

Goldman, Sachs & Co. and certain of its affiliates, together with other financial services firms, have received requests for information from various governmental agencies and self-regulatory organizations relating to subprime mortgages, and securitizations, collateralized debt obligations and synthetic products related to subprime mortgages. Goldman, Sachs & Co. and its affiliates are cooperating with the requests.

On January 10, 2008, the City of Cleveland filed an action in the Ohio Court of Common Pleas, Cuyahoga County, against numerous financial institutions, including The Goldman Sachs Group, Inc., alleging that the defendants activities in connection with securitizations of subprime mortgages created a public nuisance in Cleveland. The complaint seeks, among other things, unspecified compensatory damages. The defendants have yet to respond. The action was removed to the U.S. District Court for the Northern District of Ohio, Eastern Division, and on January 17, 2008, the City of Cleveland moved to remand the action to state court.

Private Equity-Sponsored Acquisitions Litigation

The Goldman Sachs Group, Inc. and GS Capital Partners are among numerous private equity firms and investment banks named as defendants in a federal antitrust action filed in the U.S. District Court for the District of Massachusetts in December 2007. The complaint generally alleges that the defendants have colluded to limit competition in bidding for private equity-sponsored acquisitions of public companies, thereby resulting in lower prevailing bids and, by extension, less consideration for shareholders of those companies in violation of Section 1 of the Sherman Act and common law.

Defendants have yet to respond.

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 30, 2007.

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EXECUTIVE OFFICERS OF THE GOLDMAN SACHS GROUP, INC.

Set forth below are the name, age, present title, principal occupation and certain biographical information as of January 28, 2008 for our executive officers, as well as for Edward C. Forst, who was an executive officer until December 1, 2007. All of our executive officers have been appointed by and serve at the pleasure of our board of directors.

Lloyd C. Blankfein, 53

Mr. Blankfein has been our Chairman and Chief Executive Officer since June 2006, and a director since April 2003. Previously, he had been our President and Chief Operating Officer since January 2004. Prior to that, from April 2002 until January 2004, he was a Vice Chairman of Goldman Sachs, with management responsibility for Goldman Sachs Fixed Income, Currency and Commodities Division (FICC) and Equities Division. Prior to becoming a Vice Chairman, he had served as co-head of FICC since its formation in 1997. From 1994 to 1997, he headed or co-headed the 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 a member of the Harvard University Committee on University Resources, the Advisory Board of the Tsinghua University School of Economics and Management and the Governing Board of the Indian School of Business, an overseer of the Weill Medical College of Cornell University, and a director of the Partnership for New York City and Catalyst.

Alan M. Cohen, 57

Mr. Cohen has been an Executive Vice President of Goldman Sachs and our 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.

Gary D. Cohn, 47

Mr. Cohn has been our President and Co-Chief Operating Officer and a director since June 2006. Previously, he had been the co-head of Goldman Sachs global securities businesses since January 2004. He also had been the co-head of Equities since 2003 and the co-head of FICC since September 2002. From March 2002 to September 2002, he served as co-chief operating officer of FICC. Prior to that, beginning in 1999, Mr. Cohn managed the FICC macro businesses. From 1996 to 1999, he was the global head of Goldman Sachs commodities business. Mr. Cohn 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 Treasury Borrowing Advisory Committee of the Securities Industry and Financial Markets Association and as a trustee of the Gilmour Academy, the NYU Child Study Center, the NYU Hospital, the NYU Medical School, the Harlem Children s Zone and American University.

Edward C. Forst, 47

Mr. Forst has been the co-head of our Investment Management Division since November 2007. Prior to that, he had been an Executive Vice President of Goldman Sachs and our Chief Administrative Officer since February 2004. He also had been 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 served as the Chair of the Securities Industry and Financial Markets Association through November 2007. He also serves as a trustee of Carnegie Hall, a non-profit organization, and as Co-Chair of the Harvard University Committee on Student Excellence and Opportunity.

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Kevin W. Kennedy, 59

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 Secretary and Treasurer of the Board of the Metropolitan Opera, a trustee of the New York Public Library, Chairman of the Board of Directors of the Wallace Foundation and an honorary trustee of the Chewonki Foundation.

Gregory K. Palm, 59

Mr. Palm has been an Executive Vice President of Goldman Sachs since May 1999, and our General Counsel and head or co-head of the Legal Department since May 1992.

Esta E. Stecher, 50

Ms. Stecher has been an Executive Vice President of Goldman Sachs and our General Counsel and co-head of the Legal Department since December 2000. From 1994 to 2000, she was head of the firm s Tax Department, over which she continues to have senior oversight responsibility. She is also a trustee of Columbia University.

David A. Viniar, 52

Mr. Viniar has been an Executive Vice President of Goldman Sachs and our Chief Financial Officer since May 1999. He has been the head of Operations, Technology, Finance and Services Division since December 2002. He was head of the Finance Division and co-head of Credit Risk Management and Advisory and Firmwide Risk from 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.

John S. Weinberg, 50

Mr. Weinberg has been a Vice Chairman of Goldman Sachs since June 2006. He has been co-head of Goldman Sachs Investment Banking Division since December 2002. From January 2002 to December 2002, he was co-head of the Investment Banking Division in the Americas. Prior to that, he served as co-head of the Investment Banking Services Department since 1997. He is affiliated with certain non-profit organizations, including as a board member at NewYork-Presbyterian Hospital, The Steppingstone Foundation, the Greenwich Country Day School and Community Anti-Drug Coalitions of America. Mr. Weinberg also serves on the Visiting Committee for Harvard Business School.

Jon Winkelried, 48

Mr. Winkelried has been our President and Co-Chief Operating Officer and a director since June 2006. Previously, he had been the co-head of Goldman Sachs Investment Banking Division since January 2005. From 2000 to 2005, he was co-head of FICC. From 1999 to 2000, he was head of FICC in Europe. From 1995 to 1999, he was responsible for Goldman Sachs leveraged finance business. Mr. Winkelried is not on the board of any public company other than Goldman Sachs. He is also a trustee of the University of Chicago.

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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 of our common stock, as reported by the Consolidated Tape Association, for each full quarterly period during fiscal 2006 and 2007 is set forth under the heading Supplemental Financial Information Common Stock Price Range in Part II, Item 8 of the Annual Report on Form 10-K. As of January 18, 2008, there were 7,784 holders of record of our common stock.

During fiscal 2007 and 2006, a dividend of $0.25 per share of common stock was declared on December 14, 2005 and dividends of $0.35 per share of common stock were declared on March 13, 2006, June 12, 2006, September 11, 2006, December 11, 2006, March 12, 2007, June 13, 2007 and September 19, 2007. The holders of our common stock share proportionately on a per share basis in all dividends and other distributions on common stock 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 Part I, Item 1 of the 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 30, 2007.

Period	Total Number of Shares Purchased [2]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [3]	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs [3]
Month #1 (September 1, 2007 to September 28, 2007)	747,400	$ 211.67	747,400	22,242,899
Month #2 (September 29, 2007 to October 26, 2007)	6,394,800	$ 226.22	6,394,800	15,848,099

Month #3 (October 27, 2007 to November 30, 2007)	4,495,500	$ 240.09	4,495,500	11,352,599
Total [1]	11,637,700	$ 230.64	11,637,700	

[1] Goldman Sachs generally does not repurchase shares of its common stock as part of the repurchase program during self-imposed black-out periods, which run from the last two weeks of a fiscal quarter through and including the date of the earnings release for such quarter.

[2] No shares were purchased other than through our publicly announced repurchase program during the fourth quarter of our fiscal year ended November 30, 2007.

[3] On March 21, 2000, we announced that our board of directors had approved a 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 280 million shares by resolutions of our board of directors adopted on June 18, 2001, March 18, 2002, November 20, 2002, January 30, 2004, January 25, 2005, September 16, 2005, September 11, 2006 and December 17, 2007. We use our share repurchase program to help maintain the appropriate level of common equity and to substantially offset increases in share count over time resulting from employee share-based

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compensation. The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by our current and projected capital positions (i.e., comparisons of our desired level of capital to our actual level of capital) but which may also be influenced by general market conditions and the prevailing price and trading volumes of our common stock. Taking into account the increased authorization in December 2007, the total remaining authorization under the repurchase program was 65,412,649 shares as of January 18, 2008; the repurchase program has no set expiration or termination date.

Information relating to compensation plans under which our equity securities are authorized for issuance is set forth in Part III, Item 12 of the Annual Report on Form 10-K.

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

The Selected Financial Data table is set forth under Part II, Item 8 of the Annual Report on Form 10-K.

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

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Introduction

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, investment funds, governments and individuals.

Trading and Principal Investments. We facilitate client transactions with a diverse group of corporations, financial institutions, investment funds, governments and individuals and take proprietary positions through market making in, trading of and investing in fixed income and equity products, currencies, commodities and derivatives on these products. In addition, we engage in market-making and specialist activities on equities and options exchanges and clear client transactions on major stock, options and futures exchanges worldwide. In connection with our merchant banking and other investing activities, we make principal investments directly and through funds that we raise and manage.

Asset Management and Securities Services. We provide investment advisory and financial planning services and offer investment products (primarily through separately managed accounts and commingled vehicles, such as mutual funds and private investment funds) across all major asset classes to a diverse group of institutions and individuals worldwide and provide prime brokerage services, financing services and securities lending services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and to high-net-worth individuals worldwide.

Unless specifically stated otherwise, all references to 2007, 2006 and 2005 refer to our fiscal years ended, or the dates, as the context requires, November 30, 2007, November 24, 2006 and November 25, 2005, respectively.

When we use the terms Goldman Sachs, we, us and our, we mean The Goldman Sachs Group, Inc. (Group Inc.), a Delaware corporation, and its consolidated subsidiaries. References herein to the Annual Report on Form 10-K are to our Annual Report on Form 10-K for the fiscal year ended November 30, 2007.

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. 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 outside 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 statements about the objectives and effectiveness of our risk management and liquidity policies, statements about trends in or growth opportunities for our businesses and statements about our investment banking transaction backlog. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in these forward-looking statements include, among others, those discussed below under Certain Risk Factors That May Affect Our Business as well as Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K and Cautionary Statement Pursuant to the Private Securities Litigation Reform Act of 1995 in Part I, Item 1 of the Annual Report on Form 10-K.

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Executive Overview

Our diluted earnings per common share were $24.73 for 2007 compared with $19.69 for 2006. During 2007, we achieved record results in the Americas, Europe and Asia, and derived over one-half of our pre-tax earnings outside of the Americas. Return on average tangible common shareholders equity[1] was 38.2% and return on average common shareholders equity was 32.7% for 2007. Book value per common share increased 25% to $90.43 at year end. During 2007, we repurchased 41.2 million shares of our common stock for a total cost of $8.96 billion.

In 2007, we generated record diluted earnings per common share, which exceeded the prior year record results by 26%. Each of our three segments produced record net revenues. The increase in Trading and Principal Investments reflected higher net revenues in Equities, Fixed Income, Currency and Commodities (FICC) and Principal Investments. Net revenues in Equities increased 33% compared with 2006, reflecting significantly higher net revenues in both our customer franchise businesses and principal strategies. During 2007, Equities operated in an environment characterized by strong customer-driven activity, generally higher equity prices and higher levels of volatility, particularly during the second half of the year. The increase in FICC reflected significantly higher net revenues in currencies and interest rate products. In addition, net revenues in mortgages were higher despite a significant deterioration in the mortgage market throughout the year, while net revenues in credit products were strong, but slightly lower compared with 2006. Credit products included substantial gains from equity investments, including a gain of approximately $900 million related to the disposition of Horizon Wind Energy L.L.C., as well as a loss of approximately $1 billion, net of hedges, related to non-investment-grade credit origination activities. During 2007, FICC operated in an environment generally characterized by strong customer-driven activity and favorable market opportunities. However, during the year, the mortgage market experienced significant deterioration and, in the second half of the year, the broader credit markets were characterized by wider spreads and reduced levels of liquidity. We continued to capitalize on trading and investing opportunities for our clients and ourselves and, accordingly, our market risk increased, particularly in interest rate and equity products. In addition, our total assets surpassed $1 trillion during the year, as we grew our balance sheet in order to support these opportunities, as well as to support increased activity in Securities Services. The increase in Principal Investments reflected strong results in both corporate and real estate investing.

The increase in Investment Banking reflected a 64% increase in Financial Advisory net revenues and a strong performance in our Underwriting business. The increase in Financial Advisory primarily reflected growth in industry-wide completed mergers and acquisitions. The increase in Underwriting reflected higher net revenues in debt underwriting, as leveraged finance activity was strong during the first half of our fiscal year, while net revenues in equity underwriting were strong but essentially unchanged from 2006. Our investment banking transaction backlog at the end of 2007 was higher than it was at the end of 2006. [2]

Net revenues in Asset Management and Securities Services also increased. The increase in Securities Services primarily reflected significant growth in global customer balances. The increase in Asset Management reflected significantly higher asset management fees, partially offset by significantly lower incentive fees. During the year, assets under management increased $192 billion, or 28%, to a record $868 billion, including net inflows of $161 billion.

[1] Return on average tangible common shareholders equity (ROTE) is computed by dividing net earnings applicable to common shareholders by average monthly tangible common shareholders equity. See Results of Operations Financial Overview below for further information regarding our calculation of ROTE.

(2) Our investment banking transaction 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.

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In 2008, we will remain focused on our clients, geographic expansion and the importance of effective risk management. We continue to see opportunities for growth in the businesses and geographic areas in which we operate and, in particular, we believe continued expansion of the economies of Brazil, Russia, India and China, as well as those of the Middle East, will offer opportunities for us to increase our presence in those markets.

Though we generated particularly strong results in 2007, our business, by its nature, does not produce predictable earnings. Our results in any given period can be materially affected by conditions in global financial markets and economic conditions generally. For a further discussion of the factors that may affect our future operating results, see Certain Risk Factors That May Affect Our Business below as well as Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K.

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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, among other factors, high global gross domestic product growth, stable geopolitical conditions, transparent, liquid and efficient capital markets, low inflation, high business and investor confidence and strong business earnings. These factors provide a positive climate for our investment banking activities, for many of our trading and investing businesses and for wealth creation, which contributes to growth in our asset management business. During the first half of 2007, global economic growth was generally solid, inflation remained contained, global equity markets rose and corporate activity levels were strong. However, during the second half of 2007, significant weakness and volatility in global credit markets, particularly in the U.S. and Europe, spread to broader financial markets and began to affect global economic growth. For a further discussion of how market conditions can affect our businesses, see Certain Risk Factors That May Affect Our Business below as well as Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K. A further discussion of the business environment in 2007 is set forth below.

Global. Growth in the global economy slowed over the course of 2007. Although the pace of economic growth was solid through the beginning of our third fiscal quarter, global growth in the latter part of our fiscal year was impacted by volatility in the credit markets, particularly in the U.S. and Europe, and accelerated weakness in the U.S. housing market. Fixed income and equity markets experienced high volatility, particularly during the second half of the year. The U.S. mortgage market experienced significant deterioration throughout the year, particularly in subprime loans and securities. The broader global credit markets were characterized by significant weakness in the second half of the year, which was evident in the significant dislocation in money market rates in the U.S. and Europe. The U.S. Federal Reserve lowered its federal funds target rate towards the end of our fiscal year, while central banks in the Eurozone, United Kingdom, Japan and China all raised rates during the year. Oil prices rose significantly during our fiscal year and, in the currency markets, the U.S. dollar weakened against most major currencies, particularly against the Euro and the British pound. Corporate activity was generally strong during our fiscal year, reflecting significant growth in mergers and acquisitions and equity underwritings, as well as strength in leveraged finance during the first half of our fiscal year.

United States. Real gross domestic product growth in the U.S. economy slowed to an estimated 2.2% in calendar year 2007, down from 2.9% in 2006. While economic growth was generally solid during the first nine months of our fiscal year, activity appeared to decelerate sharply during the fourth quarter. Much of the slowdown was attributable to the housing market, as sales of new and existing homes and residential real estate investment declined, as well as to the weakness in credit markets. Growth in industrial production slowed from 2006 levels, reflecting reduced growth in domestic demand, partially offset by stronger growth in net exports. Although business confidence remained fairly strong, consumer confidence declined over the course of the year. Growth in consumer expenditure was strong in the first quarter but declined thereafter, as concerns about the housing market intensified and oil prices rose. The unemployment rate rose during the second half of our fiscal year and ended the year higher. The rate of inflation increased sharply over our fiscal year, as energy prices rose significantly. Measures of core inflation, while slowing from 2006 levels, accelerated towards the end of the year. The U.S. Federal Reserve reduced its federal funds target rate by a total of 75 basis points to 4.50% during our fourth quarter, the first reductions since 2003. Beginning in August, the U.S. Federal Reserve also took other measures to improve liquidity in credit markets. Although the 10-year U.S. Treasury note yield rose during the first half of our fiscal year, it subsequently declined as credit concerns took hold, and ended the year 58 basis points lower at 3.97%. The Dow Jones Industrial Average, the S&P 500 Index and the NASDAQ Composite Index ended our fiscal year higher by 9%, 6% and 8%, respectively.

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Europe. Real gross domestic product growth in the Eurozone economies slowed to an estimated 2.7% in calendar year 2007, down from 2.9% in 2006. Industrial production and fixed investment slowed as the year progressed, while growth in consumer expenditure was weak throughout the year. Surveys of business and consumer confidence declined. However, the labor market strengthened, as evidenced by a decline in the unemployment rate. Measures of core inflation increased during the year. The European Central Bank (ECB) continued to raise interest rates, increasing its main refinancing operations rate by a total of 75 basis points to 4.00% by the end of June. The ECB left the rate unchanged for the rest of our fiscal year, but engaged in measures to improve liquidity conditions in the last four months of the year. In the United Kingdom, real gross domestic product rose by an estimated 3.1% for calendar year 2007, up from 2.9% in 2006, but showed signs of slowing late in the year due to credit market concerns and a slowdown in the U.K. housing market. Measures of inflation remained elevated during the year. The Bank of England increased interest rates, raising its official bank rate by a total of 75 basis points to 5.75%. Long-term bond yields in both the Eurozone and the U.K. ended the year higher. The Euro and British pound appreciated by 11% and 7%, respectively, against the U.S. dollar during our fiscal year. Major European equity markets ended our fiscal year higher.

Asia. In Japan, real gross domestic product growth slowed to an estimated 1.9% in calendar year 2007 from 2.4% in 2006. Measures of investment activity in the housing sector and growth in consumption declined during the year. Export growth remained solid but showed signs of deterioration towards year end as the environment outside of Japan worsened. The rate of inflation remained near zero percent during the year. The Bank of Japan raised its target overnight call rate by 25 basis points for the second consecutive year, bringing it to 0.50%, while the yield on 10-year Japanese government bonds declined slightly during our fiscal year. The yen appreciated by 4% against the U.S. dollar. The Nikkei 225 Index rose during the first eight months of our fiscal year but declined significantly in August, and ended our fiscal year essentially unchanged.

In China, real gross domestic product growth accelerated to an estimated 11.4% in calendar year 2007 from 11.1% in 2006, with continued strength in exports, as demonstrated by China s large and growing current account surplus and foreign exchange reserves. Industrial production accelerated during the year, while domestic demand softened but remained solid. The rate of inflation increased, particularly during the second half of the year. The People s Bank of China raised its one-year benchmark lending rate by a total of 117 basis points to 7.29% and took additional measures to reduce liquidity in the financial system. The government continued to allow the steady appreciation of its currency, which ended our fiscal year nearly 6% higher against the U.S. dollar. Elsewhere in Asia, real gross domestic product growth in India slowed to an estimated 8.7% in calendar year 2007 from 9.4% in 2006, as its currency strengthened and the central bank tightened monetary policy. The rate of wholesale inflation fell, but the rate of consumer price inflation remained elevated. Other currencies in the region also generally appreciated against the U.S. dollar. Equity markets rose sharply across the region, with the Shanghai Composite Index up 138%, and markets in Hong Kong, India and South Korea ending the year significantly higher.

Other Markets. Real gross domestic product in Brazil rose by an estimated 5.4% in calendar year 2007, supported by strong capital inflows, strong demand and rising prices in commodities, and expansionary fiscal and monetary policies. The central bank reduced interest rates even as the rate of inflation rose. In Russia, real gross domestic product rose by an estimated 7.3% in calendar year 2007, supported by strong household consumption and increased capital investment, particularly in the first half of the year. The rate of inflation rose sharply in the latter part of the year. Brazilian and Russian equity prices ended our fiscal year significantly higher.

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Certain Risk 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 below. A summary of the more 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 Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K.

Market Conditions and Market Risk. Our businesses are materially affected by conditions in the global financial markets and economic conditions generally, and these conditions may change suddenly and dramatically. A favorable business environment is generally characterized by, among other factors, high global gross domestic product growth, stable geopolitical conditions, transparent, liquid and efficient capital markets, low inflation, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions, which can be caused by: outbreaks of hostilities or other geopolitical instability; declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation, interest rates, exchange rate volatility, default rates or the price of basic commodities; corporate, political or other scandals that reduce investor confidence in capital markets; natural disasters or pandemics; or a combination of these or other factors, have adversely affected, and may in the future adversely affect, our business and profitability in many ways, including the following:

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, and may affect the fair value of financial instruments that we issue or hold. For example, beginning in the second half of 2007, difficulties in the mortgage and broader credit markets resulted in a relatively sudden and substantial decrease in the availability of credit and credit spreads widened significantly, affecting volatility and liquidity in the debt and equity markets.

We have been committing increasing amounts of capital in many of our businesses and generally maintain large trading, specialist and investing positions. Market fluctuations and volatility may adversely affect the value of those positions or may reduce our willingness to enter into new transactions. Conversely, certain of our trading businesses depend on market volatility to provide trading and arbitrage opportunities, and decreases in volatility may reduce these opportunities and adversely affect the results of these businesses.

Increases in interest rates or credit spreads, as well as limitations on the availability of credit, can affect our ability to borrow on a secured or unsecured basis, which may adversely affect our liquidity and results of operations. We seek to finance our less liquid assets on a secured basis and disruptions in the credit markets are likely to make it harder and more expensive to fund these assets. In difficult credit markets, we may be forced to fund our operations at a higher cost or we may be unable to raise as much funding as we need to support our business activities. This could cause us to curtail our business activities and could increase our cost of funding, both of which could reduce our profitability.

Industry-wide declines in the size and number of underwritings and mergers and acquisitions may have an adverse effect on our revenues and, because we may be unable to reduce expenses correspondingly, our profit margins. Our clients engaging in mergers and acquisitions often rely on access to the secured and unsecured credit markets to finance their transactions. The lack of available credit or increased cost of credit may adversely affect the size, volume and timing of our clients merger and acquisition transactions particularly large transactions and adversely affect our financial advisory and underwriting businesses.

Reductions in the level of the equity markets or increases in interest rates tend to reduce the value of our clients portfolios, which in turn may reduce the fees we earn for managing assets.

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Increases in interest rates or attractive conditions in other investments could cause our clients to transfer their assets out of our funds or other products. 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 in the incentive and management fees we receive and might make it more difficult to attract new investors.

Concentration of risk increases the potential for significant losses in our market-making, proprietary trading and investing, block trading, merchant banking, underwriting and lending businesses. This risk may increase to the extent we expand our proprietary trading and investing businesses or commit capital to facilitate customer-driven business.

An increase in market volatility increases our measured risk, which might cause us to reduce our proprietary positions or to reduce certain of our business activities. In such circumstances, we may not be able to reduce our positions or our exposure in a timely, cost-effective way or in a manner sufficient to offset the increase in measured risk.

The volume of transactions that we execute for our clients and as a specialist or market maker 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. Weakness in global equity markets and the trading of securities in multiple markets and on multiple exchanges could adversely impact our trading businesses and impair the value of our goodwill and identifiable intangible assets.

Liquidity Risk. Liquidity 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, an inability to sell assets or redeem our investments, or unforeseen outflows of cash or collateral. 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, or even by the perception among market participants that we are experiencing greater liquidity risk. The financial instruments that we hold and the contracts to which we are a party are increasingly complex, as we employ structured products to benefit our clients and ourselves, and these complex structured products often do not have readily available markets to access in times of liquidity stress. Growth of our proprietary investing activities may lead to situations where the holdings from these activities represent a significant portion of specific markets, which could restrict liquidity for our positions. Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time, as is likely to occur in a liquidity or other market crisis. In addition, financial institutions with which we interact may exercise set-off rights or the right to require additional collateral, including in difficult market conditions, which could further impair our access to liquidity.

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 these 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 Liquidity and Funding Risk Credit Ratings below.

Credit Risk. The amount and duration of our credit exposures have been increasing over the past several years, as has the breadth and size of the entities to which we have credit exposures. 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. We are also subject to the risk that our rights against

third parties may not be enforceable in all circumstances. In addition, deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses and/or adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of our counterparties could also have a negative impact on our results. While in many cases we are permitted to require additional collateral for counterparties that experience financial difficulty, disputes may arise as to the amount of collateral we are entitled to receive and the value of pledged assets.

In addition, as part of our clearing business, we finance our client positions, and we could be held responsible for the defaults or misconduct of our clients. 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, particularly as new business initiatives lead us to transact with a broader array of clients and expose us to new asset classes and new markets. 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 us.

We have experienced, due to competitive factors, pressure to extend and price credit at levels that may not always fully compensate us for the risks we take. In particular, corporate clients sometimes seek to require credit commitments from us in connection with investment banking and other assignments.

Operational Risk. Shortcomings or failures in our internal processes, people or systems, or external events could lead to impairment of our liquidity, financial loss, disruption of our businesses, liability to clients, regulatory intervention or reputational damage. Our businesses are highly dependent on our ability to process and monitor, on a daily basis, a large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. These transactions, as well as information technology services we provide to clients, often must adhere to client-specific guidelines, as well as legal and regulatory standards. Despite the contingency plans and facilities 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 we are located. This may include a disruption involving electrical, communications, transportation or other services used by us or third parties with which we conduct business.

Legal and Regulatory Risk. We are subject to extensive and evolving regulation in jurisdictions around the world. Several of our subsidiaries are subject to regulatory capital requirements and, as a Consolidated Supervised Entity (CSE), we are subject to minimum capital standards on a consolidated basis. Substantial legal liability or a significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects. Firms in the financial services industry have been operating in a difficult regulatory environment. We face significant legal risks in our businesses, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remain high. For a discussion of how we account for our legal and regulatory exposures, see Use of Estimates below.

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Critical Accounting Policies

Fair Value

The use of fair value to measure financial instruments, with related unrealized gains or losses generally recognized in Trading and principal investments in our consolidated statements of earnings, is fundamental to our financial statements and our risk management processes and is our most critical accounting policy. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Instruments that we own (long positions) are marked to bid prices, and instruments that we have sold, but not yet purchased (short positions) are marked to offer prices.

We adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, as of the beginning of 2007. See Notes 2 and 3 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for further information on SFAS No. 157.

In determining fair value, we separate our Financial instruments, owned at fair value and Financial instruments sold, but not yet purchased, at fair value into two categories: cash instruments and derivative contracts, as set forth in the following table:

Financial Instruments by Category
(in millions)

	As of November			
	2007		2006	
	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	$ 324,181	$ 112,018	$ 253,056	$ 87,244
ICBC	6,807 (2)		5,194 (2)	
SMFG (1)	4,060	3,627 (5)	4,505	3,065 (5)
Other principal investments	11,933 (3)		4,263 (3)	
Principal investments	22,800	3,627	13,962	3,065
Cash instruments	346,981	115,645	267,018	90,309
Exchange-traded	13,541	12,280	14,407	13,851
Over-the-counter	92,073	87,098	53,136	51,645
Derivative contracts	105,614 (4)	99,378 (6)	67,543 (4)	65,496 (6)

Total	$ 452,595	$ 215,023	$ 334,561	$ 155,805

(1) The fair value of our Japanese yen-denominated investment in the convertible preferred stock of Sumitomo Mitsui Financial Group, Inc. (SMFG) includes the effect of foreign exchange revaluation, for which we maintain an economic currency hedge.

(2) Includes interests of $4.30 billion and $3.28 billion as of November 2007 and November 2006, respectively, held by investment funds managed by Goldman Sachs. The fair value of our investment in the ordinary shares of Industrial and Commercial Bank of China Limited (ICBC), which trade on The Stock Exchange of Hong Kong, includes the effect of foreign exchange revaluation for which we maintain an economic currency hedge.

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(3) The following table sets forth the principal investments (in addition to our investments in ICBC and SMFG) included within the Principal Investments component of our Trading and Principal Investments segment:

	As of November					
	2007			2006		
	Corporate	Real Estate	Total	Corporate	Real Estate	Total
	(in millions)					
Private	$ 7,297	$ 2,361	$ 9,658	$ 2,741	$ 555	$ 3,296
Public	2,208	67	2,275	934	33	967
Total	$ 9,505	$ 2,428	$ 11,933	$ 3,675	$ 588	$ 4,263

(4) Net of cash received pursuant to credit support agreements of $59.05 billion and $24.06 billion as of November 2007 and November 2006, respectively.

(5) Represents an economic hedge on the shares of common stock underlying our investment in the convertible preferred stock of SMFG.

(6) Net of cash paid pursuant to credit support agreements of $27.76 billion and $16.00 billion as of November 2007 and November 2006, respectively.

Cash Instruments. Cash instruments include cash trading instruments, public principal investments and private principal investments.

Cash Trading Instruments. Our cash trading instruments are generally valued using quoted market prices in active markets, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, many other sovereign government obligations, active listed equities and most money market securities.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, most mortgage products, certain corporate bank and bridge loans, less liquid listed equities, state, municipal and provincial obligations, most physical commodities and certain loan commitments.

Certain cash trading instruments trade infrequently and therefore have little or no price transparency. Such instruments include private equity and real estate fund investments, certain corporate bank and bridge loans, less liquid mortgage whole loans, distressed debt instruments and certain loan commitments. The transaction price is initially used as the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so that the model value at inception equals the transaction price. This valuation is adjusted only when changes to inputs and assumptions are corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows.

For positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management s best estimate is used.

Public Principal Investments. Our public principal investments held within the Principal Investments component of our Trading and Principal Investments segment tend to be large, concentrated holdings resulting from initial public offerings or other corporate transactions, and are valued based on quoted market prices. For positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management s best estimate is used.

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Our most significant public principal investment is our investment in the ordinary shares of ICBC. Our investment in ICBC is valued using the quoted market prices adjusted for transfer restrictions. The ordinary shares acquired from ICBC are subject to transfer restrictions that, among other things, prohibit any sale, disposition or other transfer until April 28, 2009. From April 28, 2009 to October 20, 2009, we may transfer up to 50% of the aggregate ordinary shares of ICBC that we owned as of October 20, 2006. We may transfer the remaining shares after October 20, 2009. A portion of our interest is held by investment funds managed by Goldman Sachs.

We also have an investment in the convertible preferred stock of SMFG. This investment is valued using a model that is principally based on SMFG s common stock price. As of November 2007, the conversion price of our SMFG convertible preferred stock into shares of SMFG common stock was ¥318,800. This price is subject to downward adjustment if the price of SMFG common stock at the time of conversion is less than the conversion price (subject to a floor of ¥105,100). As a result of downside protection on the conversion stock price, the relationship between changes in the fair value of our investment and changes in SMFG s common stock price would be nonlinear for a significant decline in the SMFG common stock price. As of November 2007, we had hedged approximately 90% of the common stock underlying our investment in SMFG and there were no restrictions on our ability to hedge the remainder.

Private Principal Investments. Our private principal investments held within the Principal Investments component of our Trading and Principal Investments segment include investments in private equity, debt and real estate, primarily held through investment funds. By their nature, these investments have little or no price transparency. We value such instruments initially at transaction price and adjust valuations when evidence is available to support such adjustments. Such evidence includes transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows.

Derivative Contracts. Derivative contracts can be exchange-traded or over-the-counter (OTC). We generally value exchange-traded derivatives within portfolios using models which calibrate to market clearing levels and eliminate timing differences between the closing price of the exchange-traded derivatives and their underlying cash instruments.

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Where models are used, the selection of a particular model to value an OTC derivative depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. We generally use similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgment.

Certain OTC derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. Where we do not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, transaction price is initially used as the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so that the model value at inception equals the transaction price. Subsequent to initial recognition, we only update valuation inputs when corroborated by evidence such as similar market transactions, third-party

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pricing services and/or broker or dealer quotations, or other 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. See Credit Risk Derivatives below for further information on our OTC derivatives.

When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management s best estimate is used.

Fair Value Hierarchy Level 3 Assets. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. See Notes 2 and 3 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for further information regarding SFAS No. 157.

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The following table sets forth the fair values of assets classified as level 3 within the fair value hierarchy, along with a brief description of the valuation technique for each type of asset:

Level 3 Assets at Fair Value
(in millions)

Description	As of November 2007	Valuation Technique
Private equity and real estate fund investments [1]	$18,006	Initially valued at transaction price. Subsequently valued based on third-party investments, pending transactions or changes in financial ratios (e.g., earnings multiples) and discounted cash flows.
Bank loans [2]	13,334	Initially valued at transaction price. Subsequently valued using market data for similar instruments (e.g., recent transactions or broker quotes), comparisons to benchmark derivative indices or movements in underlying credit spreads.
Corporate debt securities and other debt obligations [3]	6,111	
Mortgage and other asset-backed loans and securities		
Loans and securities backed by commercial real estate [4]	7,410	Initially valued at transaction price. Subsequently valued using transactions for similar instruments and discounted cash flow techniques (calibrated to trading activity, where applicable).
Loans and securities backed by residential real estate [5]	2,484	Initially valued at transaction price. Subsequently valued by comparison to transactions in instruments with similar collateral and risk profiles, discounted cash flow techniques, option adjusted spread analyses, and hypothetical securitization analyses.
Loan portfolios [6]	6,106	Initially valued at transaction price. Subsequently valued using transactions for similar instruments and discounted cash flow techniques.
Cash instruments	53,451	
Derivative contracts	15,700	Valuation models are calibrated to initial trade price. Subsequent valuations are based on

		observable inputs to the valuation model (e.g., interest rates, credit spreads, volatilities, etc.). Model inputs are changed only when corroborated by market data.
Total level 3 assets at fair value	69,151	
Level 3 assets for which we do not bear economic exposure [7]	(14,437)	
Level 3 assets for which we bear economic exposure	$54,714	

(1) Includes $7.06 billion of assets for which we do not bear economic exposure. Also includes $2.02 billion of real estate fund investments.
(2) Includes mezzanine financing, leveraged loans arising from capital market transactions and other corporate bank debt.
(3) Includes $2.49 billion of collateralized debt obligations (CDOs) backed by corporate obligations.
(4) Loans and securities backed by commercial real estate were $19.02 billion, of which $7.41 billion were classified as level 3.
(5) Includes subprime mortgage exposure of $507 million, including $316 million of CDOs backed by subprime mortgages.
(6) Consists of acquired portfolios of distressed loans. These loans are primarily backed by commercial and residential real estate collateral.
(7) We do not bear economic exposure to these level 3 assets as they are financed by nonrecourse debt, attributable to minority investors or attributable to employee interests in certain consolidated funds.

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Subprime mortgage exposure. We securitize, underwrite and make markets in subprime mortgages. As of November 2007, the fair value of our long position in subprime mortgage cash instruments was $2.11 billion (of which $507 million was classified as level 3 within the fair value hierarchy), including $316 million of collateralized debt obligations (CDOs) backed by subprime mortgages. At any point in time, we may use cash instruments as well as derivatives to manage our long or short risk position in the subprime mortgage market.

Other Financial Assets and Financial Liabilities. In addition to Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value, we have elected to account for certain of our other financial assets and financial liabilities at fair value under SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140, or SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. Such financial assets and financial liabilities include (i) certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper and certain hybrid financial instruments; (ii) certain other secured financings, primarily transfers accounted for as financings rather than sales under SFAS No. 140 and debt raised through our William Street program; (iii) certain unsecured long-term borrowings, including prepaid physical commodity transactions; (iv) resale and repurchase agreements; (v) securities borrowed and loaned within Trading and Principal Investments, consisting of our matched book and certain firm financing activities; (vi) corporate loans, loan commitments and certificates of deposit issued by Goldman Sachs Bank USA (GS Bank USA) as well as securities held by GS Bank USA (previously accounted for as available-for-sale); (vii) receivables from customers and counterparties arising from transfers accounted for as secured loans rather than purchases under SFAS No. 140; and (viii) in general, investments acquired after the adoption of SFAS No. 159 where we have significant influence over the investee and would otherwise apply the equity method of accounting. See Recent Accounting Developments below for a discussion of the impact of adopting SFAS No. 159.

Controls Over Valuation of Financial Instruments. A control infrastructure, independent of the trading and investing functions, is fundamental to ensuring that our financial instruments are appropriately valued and that fair value measurements are reliable. This is particularly important where prices or valuations that require inputs are less observable.

We employ an oversight structure that includes appropriate segregation of duties. Senior management, independent of the trading and investing functions, is responsible for the oversight of control and valuation policies and for reporting the results of these policies to our Audit Committee. We seek to maintain the necessary resources to ensure that control functions are performed to the highest standards. We employ procedures for the approval of new transaction types and markets, price verification, review of daily profit and loss, and review of valuation models by personnel with appropriate technical knowledge of relevant products and markets. These procedures are performed by personnel independent of the trading and investing functions. For trading and principal investments where prices or valuations that require inputs are less observable, we employ, where possible, procedures that include comparisons with similar observable positions, analysis of actual to projected cash flows, comparisons with subsequent sales and discussions with senior business leaders. See Market Risk below for a further discussion of how we manage the risks inherent in our trading and principal investing businesses.

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Goodwill and Identifiable Intangible Assets

As a result of our acquisitions, principally SLK LLC (SLK) in 2000, The Ayco Company, L.P. (Ayco) in 2003 and our variable annuity and life insurance business in 2006, 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, which are components one level below our three business segments, for impairment at least annually in accordance with 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 price-earnings and price-book multiples. We derive the net book value of our operating segments by estimating the amount of shareholders equity required to support the activities of each operating segment. Our last annual impairment test was performed during our 2007 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
(in millions)

	As of November	
	2007	**2006**
Investment Banking		
Financial Advisory	$	$
Underwriting	125	125
Trading and Principal Investments		
FICC	123	136
Equities [1]	2,381	2,381
Principal Investments	11	4
Asset Management and Securities Services		
Asset Management [2]	564	421
Securities Services	117	117
Total	$ 3,321	$ 3,184

[1] Primarily related to SLK.

[2] Primarily related to Ayco. The increase in goodwill from November 2006 relates to our acquisition of Macquarie IMM Investment Management.

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 sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

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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
($ in millions)

	As of November 2007		2006
	Carrying Value	Range of Estimated Remaining Useful Lives (in years)	Carrying Value
Customer lists [1]	$ 732	3 18	$ 737
New York Stock Exchange (NYSE) specialist rights	502	14	542
Insurance-related assets [2]	372	7	362
Exchange-traded fund (ETF) specialist rights	100	20	105
Power contracts [3]	20	1 18	667
Other [4]	45	1 5	89
Total	$ 1,771		$ 2,502

(1) Primarily includes our clearance and execution and NASDAQ customer lists related to SLK and financial counseling customer lists related to Ayco.

(2) Consists of the value of business acquired (VOBA) and deferred acquisition costs (DAC). VOBA represents the present value of estimated future gross profits of the variable annuity and life insurance business. DAC results from commissions paid by Goldman Sachs to the primary insurer (ceding company) on life and annuity reinsurance agreements as compensation to place the business with us and to cover the ceding company s acquisition expenses. VOBA and DAC are amortized over the estimated life of the underlying contracts based on estimated gross profits, and amortization is adjusted based on actual experience. The seven-year useful life represents the weighted average remaining amortization period of the underlying contracts (certain of which extend for approximately 30 years).

(3) The reduction in power contracts from November 2006 is due to the sale of the majority of our ownership interests in 14 power generation facilities during 2007.

(4) Primarily includes marketing and technology-related assets.

A prolonged period of weakness in global equity markets and the trading of securities in multiple markets and on multiple exchanges could adversely impact our businesses and impair the value of our goodwill and/or identifiable intangible assets. In addition, certain events could indicate a potential impairment of our identifiable intangible assets, including (i) changes in market structure that could adversely affect our specialist businesses (see discussion below), (ii) an adverse action or assessment by a regulator, or (iii) adverse actual experience on the contracts in our variable

annuity and life insurance business.

During the fourth quarter of 2007, as a result of continuing weak operating results in our NYSE specialist business, we tested our NYSE specialist rights for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Under SFAS No. 144, an impairment loss is recognized if the carrying amount of our NYSE specialist rights exceeds the projected undiscounted cash flows of the business over the estimated remaining useful life of our NYSE specialist rights. Projected undiscounted cash flows exceeded the carrying amount of our NYSE specialist rights, and accordingly, we did not record an impairment loss.

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We expect that the NYSE will enact numerous rule changes in 2008 that will further align its model with investor requirements for speed and efficiency of execution and will establish specialists as Designated Market Makers (DMMs). As DMMs, specialists will retain their obligation to commit capital but for the first time, specialists will be able to trade on parity with other market participants. In addition, we understand that the NYSE plans to introduce a reserve order system that will allow for anonymous trade execution and is expected to increase liquidity and market share. The new rules are expected to bolster the NYSE s competitive position by simplifying trading and advancing the NYSE s goal of increasing execution speeds.

In projecting the undiscounted cash flows of the business for the purpose of performing our impairment test, we made several important assumptions about the potential beneficial effects of the expected rule and market structure changes described above. Specifically, we assumed that:

- overall equity trading volumes will continue to grow at a rate consistent with recent historical trends;
- the NYSE will be able to recapture approximately one-half of the market share that it lost in 2007; and
- we will increase the market share of our NYSE specialist business and, as a DMM, the profitability of each share traded.

There can be no assurance that the assumptions, rule or structure changes described above will result in sufficient cash flows to avoid future impairment of our NYSE specialist rights. As of November 30, 2007, the carrying value of our NYSE specialist rights was $502 million. To the extent that there were to be an impairment in the future, it could result in a significant writedown in the carrying value of these specialist rights.

Use of Estimates

The use of generally accepted accounting principles requires management to make certain estimates and assumptions. In addition to the estimates we make in connection with fair value measurements and the accounting for goodwill and identifiable intangible assets, the use of estimates and assumptions is also important in determining provisions for potential losses that may arise from litigation and regulatory proceedings and tax audits.

We estimate and provide for potential losses that may arise out of litigation and regulatory proceedings and tax audits to the extent that such losses are probable and can be estimated, in accordance with SFAS No. 5, Accounting for Contingencies. Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total estimated liability in respect of litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses after considering, among other factors, the progress of each case or proceeding, our experience and the experience of others in similar cases or proceedings, and the opinions and views of legal counsel. Given the inherent difficulty of predicting the outcome of our litigation and regulatory matters, particularly in cases or proceedings in which substantial or indeterminate damages or fines are sought, we cannot estimate losses or ranges of losses for cases or proceedings where there is only a reasonable possibility that a loss may be incurred. See Legal Proceedings in Part I, Item 3 of the Annual Report on Form 10-K, for information on our judicial, regulatory and arbitration proceedings.

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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. See Certain Risk Factors That May Affect Our Business above, and Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K.

Financial Overview

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

Financial Overview
($ in millions, except per share amounts)

	Year Ended November		
	2007	2006	2005
Net revenues	$ 45,987	$ 37,665	$ 25,238
Pre-tax earnings	17,604	14,560	8,273
Net earnings	11,599	9,537	5,626
Net earnings applicable to common shareholders	11,407	9,398	5,609
Diluted earnings per common share	24.73	19.69	11.21
Return on average common shareholders equity[1]	32.7%	32.8%	21.8%
Return on average tangible common shareholders equity[2]	38.2%	39.8%	26.7%

(1) Return on average common shareholders equity is computed by dividing net earnings applicable to common shareholders by average monthly common shareholders equity.

(2) Tangible common shareholders equity equals total shareholders equity less preferred stock, goodwill and identifiable intangible assets, excluding power contracts. Identifiable intangible assets associated with power contracts are not deducted from total shareholders equity because, unlike other intangible assets, less than 50% of these assets are supported by common shareholders equity.

Management believes that return on average tangible common shareholders equity (ROTE) is meaningful because it measures the performance of businesses consistently, whether they were acquired or developed internally. ROTE is computed by dividing net earnings applicable to common shareholders by average monthly tangible common shareholders equity.

The following table sets forth a reconciliation of average total shareholders equity to average tangible common shareholders equity:

	Average for the Year Ended November		
	2007	2006	2005

		(in millions)	
Total shareholders equity	$ 37,959	$ 31,048	$ 26,264
Preferred stock	(3,100)	(2,400)	(538)
Common shareholders equity	$ 34,859	$ 28,648	$ 25,726
Goodwill and identifiable intangible assets, excluding power contracts	(4,971)	(5,013)	(4,737)
Tangible common shareholders equity	$ 29,888	$ 23,635	$ 20,989

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Net Revenues

2007 versus 2006. Our net revenues were $45.99 billion in 2007, an increase of 22% compared with 2006, reflecting significantly higher net revenues in Trading and Principal Investments and Investment Banking, and higher net revenues in Asset Management and Securities Services. The increase in Trading and Principal Investments reflected higher net revenues in Equities, FICC and Principal Investments. Net revenues in Equities increased 33% compared with 2006, reflecting significantly higher net revenues in both our customer franchise businesses and principal strategies. During 2007, Equities operated in an environment characterized by strong customer-driven activity, generally higher equity prices and higher levels of volatility, particularly during the second half of the year. The increase in FICC reflected significantly higher net revenues in currencies and interest rate products. In addition, net revenues in mortgages were higher despite a significant deterioration in the mortgage market throughout the year, while net revenues in credit products were strong, but slightly lower compared with 2006. Credit products included substantial gains from equity investments, including a gain of approximately $900 million related to the disposition of Horizon Wind Energy L.L.C., as well as a loss of approximately $1 billion, net of hedges, related to non-investment-grade credit origination activities. During 2007, FICC operated in an environment generally characterized by strong customer-driven activity and favorable market opportunities. However, during the year, the mortgage market experienced significant deterioration and, in the second half of the year, the broader credit markets were characterized by wider spreads and reduced levels of liquidity. The increase in Principal Investments reflected strong results in both corporate and real estate investing.

The increase in Investment Banking reflected a 64% increase in Financial Advisory net revenues and a strong performance in our Underwriting business. The increase in Financial Advisory primarily reflected growth in industry-wide completed mergers and acquisitions. The increase in Underwriting reflected higher net revenues in debt underwriting, as leveraged finance activity was strong during the first half of our fiscal year, while net revenues in equity underwriting were strong but essentially unchanged from 2006.

Net revenues in Asset Management and Securities Services also increased. The increase in Securities Services primarily reflected significant growth in global customer balances. The increase in Asset Management reflected significantly higher asset management fees, partially offset by significantly lower incentive fees. During the year, assets under management increased $192 billion, or 28%, to a record $868 billion, including net inflows of $161 billion.

2006 versus 2005. Our net revenues were $37.67 billion in 2006, an increase of 49% compared with 2005, reflecting significantly higher net revenues in Trading and Principal Investments, Investment Banking, and Asset Management and Securities Services. The increase in Trading and Principal Investments reflected significantly higher net revenues in FICC, Equities and Principal Investments. The increase in FICC reflected particularly strong performances across all major businesses. During 2006, FICC operated in an environment characterized by strong customer-driven activity and favorable market opportunities. In addition, corporate credit spreads tightened, the yield curve flattened and volatility levels were generally low in interest rate and currency markets. The increase in Equities primarily reflected significantly higher net revenues in our customer franchise businesses. During 2006, Equities operated in a favorable environment characterized by strong customer-driven activity, generally higher equity prices and favorable market opportunities, although volatility levels were generally low. The increase in Principal Investments reflected a significant gain related to our investment in the ordinary shares of ICBC and higher gains and overrides from other principal investments, partially offset by a smaller, but still significant, gain related to our investment in the convertible preferred stock of SMFG.

The increase in Investment Banking was due to significantly higher net revenues in Underwriting and Financial Advisory, as we benefited from strong client activity levels, reflecting favorable equity and financing markets, strong CEO confidence and growth in financial sponsor activity.

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The increase in Asset Management and Securities Services was primarily due to higher assets under management and significantly higher incentive fees, as well as significantly higher global customer balances in Securities Services. Assets under management increased $144 billion or 27% to a record $676 billion, including net asset inflows of $94 billion during 2006.

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 which are significantly impacted by, among other factors, the level of net revenues, prevailing labor markets, business mix and the structure of our share-based compensation programs. For 2007, our ratio of compensation and benefits to net revenues was 43.9% compared with 43.7% for 2006.

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

Operating Expenses and Employees
($ in millions)

	Year Ended November		
	2007	**2006**	**2005**
Compensation and benefits [1]	$ 20,190	$ 16,457	$ 11,758
Brokerage, clearing, exchange and distribution fees	2,758	1,985	1,416
Market development	601	492	378
Communications and technology	665	544	490
Depreciation and amortization	624	521	501
Amortization of identifiable intangible assets	195	173	124
Occupancy	975	850	728
Professional fees	714	545	475
Cost of power generation	335	406	386
Other expenses	1,326	1,132	709
Total non-compensation expenses	8,193	6,648	5,207
Total operating expenses	$ 28,383	$ 23,105	$ 16,965
Employees at year end [2]	30,522	26,467	23,623

(1) Compensation and benefits includes $168 million, $259 million and $137 million for the years ended November 2007, November 2006 and November 2005, respectively, attributable to consolidated entities held for investment purposes. Consolidated entities held for investment purposes are entities that are held strictly for capital appreciation, have a defined exit strategy and are engaged in activities that are not closely related to our principal businesses.

(2) Excludes 4,572, 3,868 and 7,382 employees as of November 2007, November 2006 and November 2005, respectively, of consolidated entities held for investment purposes (see footnote 1 above).

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The following table sets forth non-compensation expenses of consolidated entities held for investment purposes and our remaining non-compensation expenses by line item:

Non-Compensation Expenses
(in millions)

	Year Ended November		
	2007	2006	2005
Non-compensation expenses of consolidated investments [1]	$ 446	$ 501	$ 265
Non-compensation expenses excluding consolidated investments			
Brokerage, clearing, exchange and distribution fees	2,758	1,985	1,416
Market development	593	461	361
Communications and technology	661	537	487
Depreciation and amortization	509	444	467
Amortization of identifiable intangible assets	189	169	124
Occupancy	892	738	674
Professional fees	711	534	468
Cost of power generation	335	406	386
Other expenses	1,099	873	559
Subtotal	7,747	6,147	4,942
Total non-compensation expenses, as reported	$ 8,193	$ 6,648	$ 5,207

[1] Consolidated entities held for investment purposes are entities that are held strictly for capital appreciation, have a defined exit strategy and are engaged in activities that are not closely related to our principal businesses. For example, these investments include consolidated entities that hold real estate assets, such as hotels, but exclude investments in entities that primarily hold financial assets. We believe that it is meaningful to review non-compensation expenses excluding expenses related to these consolidated entities in order to evaluate trends in non-compensation expenses related to our principal business activities. Revenues related to such entities are included in Trading and principal investments in the consolidated statements of earnings.

2007 versus 2006. Operating expenses were $28.38 billion for 2007, 23% higher than 2006. Compensation and benefits expenses of $20.19 billion increased 23% compared with 2006, reflecting increased discretionary compensation and growth in employment levels. The ratio of compensation and benefits to net revenues for 2007 was 43.9% compared with 43.7% for 2006. Employment levels increased 15% compared with November 2006.

Non-compensation expenses of $8.19 billion for 2007 increased 23% compared with 2006, primarily attributable to higher levels of business activity and continued geographic expansion. One-half of this increase was attributable to brokerage, clearing, exchange and distribution fees, principally reflecting higher transaction volumes in Equities. Other expenses, professional fees and communications and technology expenses also increased, primarily due to

higher levels of business activity. Occupancy and depreciation and amortization expenses included exit costs of $128 million related to the firm s office space.

2006 versus 2005. Operating expenses were $23.11 billion for 2006, 36% higher than 2005. Compensation and benefits expenses of $16.46 billion increased 40% compared with 2005, primarily reflecting increased discretionary compensation due to higher net revenues, and increased levels of employment. The ratio of compensation and benefits to net revenues for 2006 was 43.7% compared with 46.6% for 2005. This lower ratio primarily reflected our strong net revenues in 2006. Employment levels increased 12% compared with November 2005.

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In the first quarter of 2006, we adopted SFAS No. 123-R, which requires that share-based awards granted to retirement-eligible employees be expensed in the year of grant. In addition to expensing current year awards, prior year awards must continue to be amortized over the relevant service period. Therefore, our compensation and benefits in 2006 included both amortization of prior year share-based awards held by employees that were retirement-eligible on the date of adoption of SFAS No. 123-R and new awards granted to those employees.

Compensation and benefits expenses in 2006 included $637 million in continued amortization of prior year awards held by employees that were retirement-eligible on the date of adoption of SFAS No. 123-R. This amount represents the majority of the expense to be recognized with respect to these awards.

Non-compensation expenses of $6.65 billion for 2006 increased 28% compared with 2005. Excluding non-compensation expenses related to consolidated entities held for investment purposes, non-compensation expenses were 24% higher than 2005, primarily due to higher brokerage, clearing, exchange and distribution fees in Equities and FICC, and increased other expenses, primarily due to costs related to our insurance business, which was acquired in 2006. In addition, market development costs and professional fees were higher, reflecting increased levels of business activity, and occupancy expenses increased, primarily reflecting new office space and higher facility expenses.

Provision for Taxes

The effective income tax rate was 34.1% for 2007, down from 34.5% for 2006, primarily due to changes in the geographic mix of earnings. The effective income tax rate was 34.5% for 2006, up from 32.0% for 2005. The increase in the effective income tax rate for 2006 compared with 2005 was primarily related to a reduction in the impact of permanent benefits due to higher levels of earnings in 2006 and audit settlements in 2005.

Our effective income tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings, the level of our pre-tax earnings, the level of our tax credits and the effect of tax audits. Certain of these 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 14 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for further information regarding our provision for taxes.

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Segment Operating Results

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

Segment Operating Results
(in millions)

		Year Ended November		
		2007	**2006**	**2005**
Investment Banking	Net revenues	$ 7,555	$ 5,629	$ 3,671
	Operating expenses	4,985	4,062	3,258
	Pre-tax earnings	$ 2,570	$ 1,567	$ 413
Trading and Principal Investments	Net revenues	$ 31,226	$ 25,562	$ 16,818
	Operating expenses	17,998	14,962	10,600
	Pre-tax earnings	$ 13,228	$ 10,600	$ 6,218
Asset Management and Securities Services	Net revenues	$ 7,206	$ 6,474	$ 4,749
	Operating expenses	5,363	4,036	3,070
	Pre-tax earnings	$ 1,843	$ 2,438	$ 1,679
Total	Net revenues	$ 45,987	$ 37,665	$ 25,238
	Operating expenses [1]	28,383	23,105	16,965
	Pre-tax earnings	$ 17,604	$ 14,560	$ 8,273

[1] Operating expenses include net provisions for a number of litigation and regulatory proceedings of $37 million, $45 million and $37 million for the years ended November 2007, November 2006 and November 2005, respectively, that have not been allocated to our segments.

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 16 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for further information regarding our business 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 and benefits expenses within our segments reflect, among other factors, the overall performance of Goldman Sachs as well as the performance of individual business units. Consequently, pre-tax margins in one segment of our business may be significantly affected by the performance of our other business segments. A discussion of segment operating results follows.

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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 a wide range of securities and other financial instruments.

The following table sets forth the operating results of our Investment Banking segment:

Investment Banking Operating Results
(in millions)

	Year Ended November		
	2007	**2006**	**2005**
Financial Advisory	$ 4,222	$ 2,580	$ 1,905
Equity underwriting	1,382	1,365	704
Debt underwriting	1,951	1,684	1,062
Total Underwriting	3,333	3,049	1,766
Total net revenues	7,555	5,629	3,671
Operating expenses	4,985	4,062	3,258
Pre-tax earnings	$ 2,570	$ 1,567	$ 413

The following table sets forth our financial advisory and underwriting transaction volumes:

Goldman Sachs Global Investment Banking Volumes [1]
(in billions)

	Year Ended November		
	2007	**2006**	**2005**
Announced mergers and acquisitions	$ 1,494	$ 1,104	$ 747
Completed mergers and acquisitions	1,424	864	584
Equity and equity-related offerings [2]	71	80	49
Debt offerings [3]	312	320	270

(1)

Source: Thomson Financial. Announced and completed mergers and acquisitions volumes are based on full credit to each of the advisors in a transaction. Equity and equity-related offerings and debt offerings are based on full credit for single book managers and equal credit for joint book managers. Transaction volumes may not be indicative of net revenues in a given period.

(2) Includes Rule 144A and public common stock offerings, convertible offerings and rights offerings.

(3) Includes non-convertible preferred stock, mortgage-backed securities, asset-backed securities and taxable municipal debt. Includes publicly registered and Rule 144A issues.

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2007 versus 2006. Net revenues in Investment Banking of $7.56 billion for 2007 increased 34% compared with 2006. Net revenues in Financial Advisory of $4.22 billion increased 64% compared with 2006, primarily reflecting growth in industry-wide completed mergers and acquisitions. Net revenues in our Underwriting business of $3.33 billion increased 9% compared with 2006, due to higher net revenues in debt underwriting, primarily reflecting strength in leveraged finance during the first half of 2007. Net revenues in equity underwriting were also strong, but essentially unchanged from 2006. Our investment banking transaction backlog at the end of 2007 was higher than at the end of 2006. [(1)]

Operating expenses of $4.99 billion for 2007 increased 23% compared with 2006, primarily due to increased compensation and benefits expenses resulting from higher discretionary compensation and growth in employment levels. Pre-tax earnings of $2.57 billion in 2007 increased 64% compared with 2006.

2006 versus 2005. Net revenues in Investment Banking of $5.63 billion for 2006 increased 53% compared with 2005. Net revenues in Financial Advisory of $2.58 billion increased 35% compared with 2005, primarily reflecting strong growth in industry-wide completed mergers and acquisitions. Net revenues in our Underwriting business of $3.05 billion increased 73% compared with 2005. Net revenues were significantly higher in equity underwriting, reflecting increased client activity. Net revenues were also significantly higher in debt underwriting, primarily due to a significant increase in leveraged finance activity and, to a lesser extent, an increase in investment-grade activity. Our investment banking transaction backlog at the end of 2006 was at its highest level since 2000. [(1)]

Operating expenses of $4.06 billion for 2006 increased 25% compared with 2005, substantially all of which was due to increased compensation and benefits expenses resulting from higher levels of discretionary compensation. Pre-tax earnings were $1.57 billion in 2006 compared with $413 million in 2005.

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-related securities and loan products and other asset-backed instruments, currencies and commodities, structure and enter into a wide variety of derivative transactions, and engage in proprietary trading and investing.
>
> **Equities.** We make markets in and trade equities and equity-related products, structure and enter into equity derivative transactions and engage in proprietary trading. We generate commissions from executing and clearing client transactions on major stock, options and futures exchanges worldwide through our Equities customer franchise and clearing activities. We also engage in specialist and insurance activities.
>
> **Principal Investments.** We make real estate and corporate principal investments, including our investments in the ordinary shares of ICBC and the convertible preferred stock of SMFG. We generate net revenues from returns on these investments and from the increased share of the income and gains derived from our merchant banking funds when the return on a fund s investments over the life of the fund exceeds certain threshold returns (typically referred to as an override).

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 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.

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.

(1) Our investment banking transaction 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.

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The following table sets forth the operating results of our Trading and Principal Investments segment:

Trading and Principal Investments Operating Results
(in millions)

	Year Ended November		
	2007	**2006**	**2005**
FICC	$ 16,165	$ 14,262	$ 8,940
Equities trading	6,725	4,965	2,675
Equities commissions	4,579	3,518	2,975
Total Equities	11,304	8,483	5,650
ICBC	495	937	
SMFG	(129)	527	1,475
Gross gains	3,728	1,534	767
Gross losses	(814)	(585)	(198)
Net other corporate and real estate investments	2,914	949	569
Overrides	477	404	184
Total Principal Investments	3,757	2,817	2,228
Total net revenues	31,226	25,562	16,818
Operating expenses	17,998	14,962	10,600
Pre-tax earnings	$ 13,228	$ 10,600	$ 6,218

2007 versus 2006. Net revenues in Trading and Principal Investments of $31.23 billion for 2007 increased 22% compared with 2006.

Net revenues in FICC of $16.17 billion for 2007 increased 13% compared with 2006, reflecting significantly higher net revenues in currencies and interest rate products. In addition, net revenues in mortgages were higher despite a significant deterioration in the mortgage market throughout 2007, while net revenues in credit products were strong, but slightly lower compared with 2006. Credit products included substantial gains from equity investments, including a gain of approximately $900 million related to the disposition of Horizon Wind Energy L.L.C., as well as a loss of approximately $1 billion, net of hedges, related to non-investment-grade credit origination activities. Net revenues in commodities were also strong but lower compared with 2006. During 2007, FICC operated in an environment generally characterized by strong customer-driven activity and favorable market opportunities. However, during 2007, the mortgage market experienced significant deterioration and, in the second half of the year, the broader credit markets were characterized by wider spreads and reduced levels of liquidity.

Net revenues in Equities of $11.30 billion for 2007 increased 33% compared with 2006, reflecting significantly higher net revenues in both our customer franchise businesses and principal strategies. The customer franchise businesses benefited from significantly higher commission volumes. During 2007, Equities operated in an environment characterized by strong customer-driven activity, generally higher equity prices and higher levels of volatility, particularly during the second half of the year.

Principal Investments recorded net revenues of $3.76 billion for 2007, reflecting gains and overrides from corporate and real estate principal investments. Results in Principal Investments included a $495 million gain related to our investment in the ordinary shares of ICBC and a $129 million loss related to our investment in the convertible preferred stock of SMFG.

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Operating expenses of $18.00 billion for 2007 increased 20% compared with 2006, primarily due to increased compensation and benefits expenses, resulting from higher discretionary compensation and growth in employment levels. Non-compensation expenses increased due to the impact of higher levels of business activity and continued geographic expansion. The majority of this increase was in brokerage, clearing, exchange and distribution fees, which primarily reflected higher transaction volumes in Equities. Other expenses and professional fees also increased, reflecting increased business activity. Pre-tax earnings of $13.23 billion in 2007 increased 25% compared with 2006.

2006 versus 2005. Net revenues in Trading and Principal Investments of $25.56 billion for 2006 increased 52% compared with 2005.

Net revenues in FICC of $14.26 billion increased 60% compared with 2005, primarily due to significantly higher net revenues in credit products (which includes distressed investing) and commodities. In addition, net revenues were higher in interest rate products, currencies and mortgages. During 2006, the business operated in an environment characterized by strong customer-driven activity and favorable market opportunities. In addition, corporate credit spreads tightened, the yield curve flattened and volatility levels were generally low in interest rate and currency markets.

Net revenues in Equities of $8.48 billion increased 50% compared with 2005, primarily reflecting significantly higher net revenues in derivatives, across all regions, as well as higher net revenues in shares. The increase also reflected the contribution from our insurance business, which was acquired in 2006. In addition, principal strategies performed well, although net revenues were lower than a particularly strong 2005. During 2006, Equities operated in a favorable environment characterized by strong customer-driven activity, generally higher equity prices and favorable market opportunities, although volatility levels were generally low.

Principal Investments recorded net revenues of $2.82 billion for 2006, reflecting a $937 million gain related to our investment in the ordinary shares of ICBC, a $527 million gain related to our investment in the convertible preferred stock of SMFG and $1.35 billion in gains and overrides from other principal investments.

Operating expenses of $14.96 billion for 2006 increased 41% compared with 2005, due to increased compensation and benefits expenses, primarily resulting from higher levels of discretionary compensation due to higher net revenues and increased levels of employment, as well as higher non-compensation expenses. Excluding non-compensation expenses related to consolidated entities held for investment purposes, the increase in non-compensation expenses was primarily due to higher brokerage, clearing, exchange and distribution fees, in Equities and FICC, and increased other expenses, primarily due to costs related to our insurance business, which was acquired in 2006, and higher levels of business activity. In addition, professional fees were higher, due to increased legal and consulting fees. Pre-tax earnings of $10.60 billion in 2006 increased 70% compared with 2005.

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 and offers investment products (primarily through separately managed accounts and commingled vehicles, such as mutual funds and private investment funds) across all major asset classes to a diverse group of institutions and individuals worldwide and primarily generates revenues in the form of management and incentive fees.

Securities Services. Securities Services provides prime brokerage services, financing services and securities lending services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and to high-net-worth individuals worldwide, and generates revenues primarily in the form of interest rate

spreads or fees.

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Assets under management typically generate fees as a percentage of asset value, which is affected by investment performance and by inflows or redemptions. The fees that we charge vary by asset class, as do our related expenses. In certain circumstances, we are also entitled to receive incentive fees based on a percentage of a fund s return or when the return on assets under management exceeds specified benchmark returns or other performance targets. Incentive fees are recognized when the performance period ends and they are no longer subject to adjustment. We have numerous incentive fee arrangements, many of which have annual performance periods that end on December 31. For that reason, incentive fees have been seasonally weighted to our first quarter.

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

Asset Management and Securities Services Operating Results
(in millions)

	Year Ended November		
	2007	2006	2005
Management and other fees	$ 4,303	$ 3,332	$ 2,629
Incentive fees	187	962	327
Total Asset Management	4,490	4,294	2,956
Securities Services	2,716	2,180	1,793
Total net revenues	7,206	6,474	4,749
Operating expenses	5,363	4,036	3,070
Pre-tax earnings	$ 1,843	$ 2,438	$ 1,679

Assets under management include our mutual funds, alternative investment funds and separately managed accounts for institutional and individual investors. Substantially all assets under management are valued as of calendar month end. Assets under management do not include assets in brokerage accounts that generate commissions, mark-ups and spreads based on transactional activity, or our own investments in funds that we manage.

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

Assets Under Management by Asset Class
(in billions)

	As of November 30		
	2007	2006	2005
Alternative investments [1]	$ 151	$ 145	$ 110
Equity	255	215	167
Fixed income	256	198	154

Total non-money market assets	662	558	431
Money markets	206	118	101
Total assets under management	$ 868	$ 676	$ 532

(1) Primarily includes hedge funds, private equity, real estate, currencies, commodities and asset allocation strategies.

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The following table sets forth a summary of the changes in our assets under management:

Changes in Assets Under Management
(in billions)

	Year Ended November 30		
	2007	**2006**	**2005**
Balance, beginning of year	$ 676	$ 532	$ 452
Net inflows/(outflows)			
Alternative investments	9	32	11
Equity	26	16	25
Fixed income	38	29	16
Total non-money market net inflows/(outflows)	73[(1)]	77	52
Money markets	88	17[(2)]	11
Total net inflows/(outflows)	161	94[(3)]	63
Net market appreciation/(depreciation)	31	50	17
Balance, end of year	$ 868	$ 676	$ 532

(1) Includes $7 billion in net asset inflows in connection with our acquisition of Macquarie IMM Investment Management.

(2) Net of the transfer of $8 billion of money market assets under management to interest-bearing deposits at GS Bank USA, a wholly owned subsidiary of Goldman Sachs. These deposits are not included in assets under management.

(3) Includes $3 billion of net asset inflows in connection with the acquisition of our variable annuity and life insurance business.

2007 versus 2006. Net revenues in Asset Management and Securities Services of $7.21 billion for 2007 increased 11% compared with 2006.

Asset Management net revenues of $4.49 billion for 2007 increased 5% compared with 2006, reflecting a 29% increase in management and other fees, partially offset by significantly lower incentive fees. Incentive fees were $187 million for 2007 compared with $962 million for 2006. During 2007, assets under management increased $192 billion, or 28%, to $868 billion, reflecting non-money market net inflows of $73 billion [(1)], primarily in fixed income and equity assets, money market net inflows of $88 billion, and net market appreciation of $31 billion, reflecting appreciation in fixed income and equity assets, partially offset by depreciation in alternative investment

assets.

Securities Services net revenues of $2.72 billion for 2007 increased 25% compared with 2006, as our prime brokerage business continued to generate strong results, primarily reflecting significantly higher customer balances in securities lending and margin lending.

Operating expenses of $5.36 billion for 2007 increased 33% compared with 2006, primarily due to increased compensation and benefits expenses resulting from higher discretionary compensation and growth in employment levels, and higher distribution fees (included in brokerage, clearing, exchange and distribution fees). Pre-tax earnings of $1.84 billion in 2007 decreased 24% compared with 2006.

(1) Includes $7 billion in net asset inflows in connection with our acquisition of Macquarie IMM Investment Management.

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2006 versus 2005. Net revenues in Asset Management and Securities Services of $6.47 billion for 2006 increased 36% compared with 2005.

Asset Management net revenues of $4.29 billion increased 45% compared with 2005, reflecting significantly higher management and other fees, principally due to strong growth in assets under management, and significantly higher incentive fees. During the year, assets under management increased $144 billion or 27% to $676 billion, reflecting non-money market net inflows of $77 billion, spread across all asset classes, money market net inflows of $17 billion [(1)], and market appreciation of $50 billion, primarily in equity and fixed income assets.

Securities Services net revenues of $2.18 billion increased 22% compared with 2005, as our prime brokerage business continued to generate strong results, primarily reflecting significantly higher global customer balances in securities lending and margin lending.

Operating expenses of $4.04 billion for 2006 increased 31% compared with 2005, primarily due to increased compensation and benefits expenses, resulting from higher levels of discretionary compensation due to higher net revenues, and increased levels of employment. Non-compensation expenses also increased, primarily due to higher distribution fees. In addition, market development costs were higher, reflecting increased levels of business activity. Pre-tax earnings of $2.44 billion in 2006 increased 45% compared with 2005.

Geographic Data

For a summary of the net revenues and pre-tax earnings of Goldman Sachs by geographic region, see Note 16 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K.

[(1)] Includes the transfer of $8 billion of money market assets under management to interest-bearing deposits at GS Bank USA. These deposits are not included in assets under management.

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Off-Balance-Sheet Arrangements

We have various types of off-balance-sheet arrangements that we enter into in the ordinary course of business. Our involvement in these arrangements can take many different forms, including purchasing or retaining residual and other interests in mortgage-backed and other asset-backed securitization vehicles; holding senior and subordinated debt, interests in limited and general partnerships, and preferred and common stock in other nonconsolidated vehicles; entering into interest rate, foreign currency, equity, commodity and credit derivatives, including total return swaps; entering into operating leases; and providing guarantees, indemnifications, loan commitments, letters of credit and representations and warranties.

We enter into these arrangements for a variety of business purposes, including the securitization of commercial and residential mortgages, home equity and auto loans, government and corporate bonds, and other types of financial assets. Other reasons for entering into these arrangements include underwriting client securitization transactions; providing secondary market liquidity; making investments in performing and nonperforming debt, equity, real estate and other assets; providing investors with credit-linked and asset-repackaged notes; and receiving or providing letters of credit to satisfy margin requirements and to facilitate the clearance and settlement process.

We engage in transactions with variable interest entities (VIEs) and qualifying special-purpose entities (QSPEs). Such vehicles are critical to the functioning of several significant investor markets, including the mortgage-backed and other asset-backed securities markets, since they offer investors access to specific cash flows and risks created through the securitization process. Our financial interests in, and derivative transactions with, such nonconsolidated entities are accounted for at fair value, in the same manner as our other financial instruments, except in cases where we apply the equity method of accounting.

While we are routinely involved with VIEs and QSPEs in connection with our securitization activities, we did not have off-balance-sheet commitments to purchase or finance collateralized debt obligations held by structured investment vehicles as of November 2007.

The following table sets forth where a discussion of these and other off-balance-sheet arrangements may be found in Part II, Items 7 and 8 of the Annual Report on Form 10-K:

Type of Off-Balance-Sheet Arrangement	Disclosure in Annual Report on Form 10-K
Retained interests or contingent interests in assets transferred by us to nonconsolidated entities	See Note 3 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K.
Leases, letters of credit, and loans and other commitments	See Contractual Obligations and Commitments below and Note 6 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K.
Guarantees	See Note 6 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K.
Other obligations, including contingent obligations, arising out of variable interests we have in nonconsolidated	See Note 3 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K.

entities	
Derivative contracts	See Critical Accounting Policies above and Risk Management below and Notes 3 and 5 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K.

In addition, see Note 2 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for a discussion of our consolidation policies.

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Equity Capital

The level and composition of our equity capital are principally determined by our consolidated regulatory capital requirements but may also be influenced by rating agency guidelines, subsidiary capital requirements, the business environment, conditions in the financial markets and assessments of potential future losses due to extreme and adverse changes in our business and market environments. As of November 2007, our total shareholders equity was $42.80 billion (consisting of common shareholders equity of $39.70 billion and preferred stock of $3.10 billion) compared with total shareholders equity of $35.79 billion as of November 2006 (consisting of common shareholders equity of $32.69 billion and preferred stock of $3.10 billion). In addition to total shareholders equity, we consider the $5.00 billion of junior subordinated debt issued to trusts (see discussion below) to be part of our equity capital, as it qualifies as capital for regulatory and certain rating agency purposes.

Consolidated Regulatory Capital Requirements

Goldman Sachs is regulated by the Securities and Exchange Commission (SEC) as a CSE and, as such, is subject to group-wide supervision and examination by the SEC and to minimum capital adequacy standards on a consolidated basis. Minimum capital adequacy standards are principally driven by the amount of our market risk, credit risk and operational risk as calculated by methodologies approved by the SEC. Eligible sources of regulatory capital include common equity and certain types of preferred stock, debt and hybrid capital instruments, including our junior subordinated debt issued to trusts. The recognition of preferred stock, debt and hybrid capital instruments as regulatory capital is subject to limitations. Goldman Sachs was in compliance with the CSE capital adequacy standards as of November 2007 and November 2006.

Rating Agency Guidelines

The credit rating agencies assign credit ratings to the obligations of The Goldman Sachs Group, Inc., which directly issues or guarantees substantially all of Goldman Sachs senior unsecured obligations. The level and composition of our equity capital are among the many factors considered in determining our credit ratings. Each agency has its own definition of eligible capital and methodology for evaluating capital adequacy, and assessments are generally based on a combination of factors rather than a single calculation. See Liquidity and Funding Risk Credit Ratings below for further information regarding our credit ratings.

Subsidiary Capital Requirements

Many of our principal subsidiaries are subject to separate regulation and capital requirements in the United States and/or elsewhere. Goldman, Sachs & Co. and Goldman Sachs Execution & Clearing, L.P. are registered U.S. broker-dealers and futures commissions merchants, and are subject to regulatory capital requirements, including those imposed by the SEC, the Commodity Futures Trading Commission, the Chicago Board of Trade, The Financial Industry Regulatory Authority (FINRA) and the National Futures Association. Goldman Sachs International, our regulated U.K. broker-dealer, is subject to minimum capital requirements imposed by the U.K. s Financial Services Authority. Goldman Sachs Japan Co., Ltd., our regulated Japanese broker-dealer, is subject to minimum capital requirements imposed by Japan s Financial Services Agency. Several other subsidiaries of Goldman Sachs are regulated by securities, investment advisory, banking, insurance, and other regulators and authorities around the world. As of November 2007 and November 2006, these subsidiaries were in compliance with their local capital requirements.

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As discussed above, many of our subsidiaries are subject to regulatory capital requirements in jurisdictions throughout the world. Subsidiaries not subject to separate regulation may hold capital to satisfy local tax guidelines, rating agency requirements (for entities with assigned credit ratings) or internal policies, including policies concerning the minimum amount of capital a subsidiary should hold based on its underlying level of risk. See Liquidity and Funding Risk Conservative Liability Structure below for a discussion of our potential inability to access funds from our subsidiaries.

Equity investments in subsidiaries are generally funded with parent company equity capital. As of November 2007, Group Inc. s equity investment in subsidiaries was $40.00 billion compared with its total shareholders equity of $42.80 billion.

Our capital invested in non-U.S. subsidiaries is generally exposed to foreign exchange risk, substantially all of which is managed through a combination of derivative contracts and non-U.S. denominated debt. In addition, we generally manage the non-trading exposure to foreign exchange risk that arises from transactions denominated in currencies other than the transacting entity s functional currency.

See Note 15 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for further information regarding our regulated subsidiaries.

Equity Capital Management

Our objective is to maintain a sufficient level and optimal composition of equity capital. We manage our capital through repurchases of our common stock and issuances of preferred stock, junior subordinated debt issued to trusts and other subordinated debt. We manage our capital requirements principally by setting limits on balance sheet assets and/or limits on risk, in each case at both the consolidated and business unit levels. We attribute capital usage to each of our business units based upon the CSE regulatory capital framework and manage the levels of usage based upon the balance sheet and risk limits established.

Share Repurchase Program. We use our share repurchase program to help maintain the appropriate level of common equity and to substantially offset increases in share count over time resulting from employee share-based compensation. The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by our current and projected capital positions (i.e., comparisons of our desired level of capital to our actual level of capital) but which may also be influenced by general market conditions and the prevailing price and trading volumes of our common stock.

The following table sets forth the level of share repurchases for the years ended November 2007 and November 2006:

	As of November	
	2007	**2006**
	(in millions, except per share amounts)	
Number of shares repurchased	41.22	50.23
Total cost	$ 8,956	$ 7,817
Average cost per share	$ 217.29	$ 155.64

The repurchase program was increased by 60.0 million shares on December 17, 2007. Taking into account this increased authorization, the total remaining authorization under the repurchase program was 65.4 million shares as of January 18, 2008. For additional information on our repurchase program, see Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities in Part ll, Item 5 of the Annual Report on Form 10-K.

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Preferred Stock. As of November 2007, Goldman Sachs had 124,000 shares of perpetual non-cumulative preferred stock issued and outstanding in four series as set forth in the following table:

Preferred Stock by Series

Series	Shares Issued	Shares Authorized	Dividend Rate	Earliest Redemption Date	Redemption Value (in millions)
A	30,000	50,000	3 month LIBOR + 0.75%, with floor of 3.75% per annum	April 25, 2010	$ 750
B	32,000	50,000	6.20% per annum	October 31, 2010	800
C	8,000	25,000	3 month LIBOR + 0.75%, with floor of 4% per annum	October 31, 2010	200
D	54,000	60,000	3 month LIBOR + 0.67%, with floor of 4% per annum	May 24, 2011	1,350
	124,000	185,000			$ 3,100

Each share of preferred stock issued and outstanding has a par value of $0.01, has a liquidation preference of $25,000, is represented by 1,000 depositary shares and is redeemable at our option at a redemption price equal to $25,000 plus declared and unpaid dividends. Dividends on each series of preferred stock, if declared, are payable quarterly in arrears. Our ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, our common stock is subject to certain restrictions in the event that we fail to pay or set aside full dividends on our preferred stock for the latest completed dividend period. All series of preferred stock are pari passu and have a preference over our common stock upon liquidation.

Junior Subordinated Debt Issued to Trusts in Connection with Normal Automatic Preferred Enhanced Capital Securities. In the second quarter of 2007, we issued $1.75 billion of fixed rate junior subordinated debt to Goldman Sachs Capital II and $500 million of floating rate junior subordinated debt to Goldman Sachs Capital III, Delaware statutory trusts that, in turn, issued $2.25 billion of guaranteed perpetual Automatic Preferred Enhanced Capital Securities (APEX) to third parties and a de minimis amount of common securities to Goldman Sachs. The junior subordinated debt is included in Unsecured long-term borrowings in the consolidated statements of financial condition. In connection with the APEX issuance, we entered into stock purchase contracts with Goldman Sachs Capital II and III under which we will be obligated to sell and these entities will be obligated to purchase $2.25 billion of perpetual non-cumulative preferred stock that we will issue in the future. Goldman Sachs Capital II and III are required to remarket the junior subordinated debt in order to fund their purchase of the preferred stock, but in the event that a remarketing is unsuccessful, they will relinquish the subordinated debt to us in exchange for the preferred stock. Because of certain characteristics of the junior subordinated debt (and the associated APEX), including its long-term nature, the future issuance of perpetual non-cumulative preferred stock under the stock purchase contracts, our ability to defer payments due on the debt and the subordinated nature of the debt in our capital structure, it qualifies as regulatory capital for CSE purposes and is included as part of our equity capital.

Junior Subordinated Debt Issued to a Trust in Connection with Trust Preferred Securities. We issued $2.84 billion of junior subordinated debentures in the first quarter of 2004 to Goldman Sachs Capital I, a Delaware statutory trust that, in turn, issued $2.75 billion of guaranteed preferred beneficial interests to third parties and $85 million of common beneficial interests to Goldman Sachs. The junior subordinated debentures are included in Unsecured long-term borrowings in the consolidated statements of financial condition. Because of certain characteristics of the junior subordinated debt (and the associated trust preferred securities), including its long-term nature, our ability to defer coupon interest for up to ten consecutive semiannual periods and the subordinated nature of the debt in our capital structure, it qualifies as regulatory capital for CSE purposes and is included as part of our equity capital.

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Subordinated Debt. In addition to junior subordinated debt issued to trusts, we had other outstanding subordinated debt of $11.23 billion as of November 2007. Although not part of our shareholders equity, subordinated debt may be used to meet a portion of our consolidated capital requirements as a CSE.

Capital Ratios and Metrics

The following table sets forth information on our assets, shareholders equity, leverage ratios and book value per common share:

	As of November	
	2007	2006
	($ in millions, except per share amounts)	
Total assets	$ 1,119,796	$ 838,201
Adjusted assets [1]	747,300	541,033
Total shareholders equity	42,800	35,786
Tangible equity capital [2]	42,728	33,517
Leverage ratio [3]	26.2x	23.4x
Adjusted leverage ratio [4]	17.5x	16.1x
Debt to equity ratio [5]	3.8x	3.4x
Common shareholders equity	39,700	32,686
Tangible common shareholders equity [6]	34,628	27,667
Book value per common share [7]	$ 90.43	$ 72.62
Tangible book value per common share [8]	78.88	61.47

(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 borrowed and financial instruments purchased under agreements to resell, at fair value, and then subtracting our nonderivative short positions), (ii) cash and securities we segregate for regulatory and other purposes and (iii) goodwill and identifiable intangible assets, excluding power contracts. We do not deduct identifiable intangible assets associated with power contracts from total assets in order to be consistent with the calculation of tangible equity capital and the adjusted leverage ratio (see footnote 2 below).

The following table sets forth a reconciliation of total assets to adjusted assets:

		As of November	
		2007	2006
		(in millions)	
Total assets		$ 1,119,796	$ 838,201
Deduct:	Securities borrowed	(277,413)	(219,342)
	Financial instruments purchased under agreements to resell, at fair value	(85,717)	(82,126)
Add:	Financial instruments sold, but not yet purchased, at fair value	215,023	155,805
	Less derivative liabilities	(99,378)	(65,496)

	Subtotal	115,645	90,309
Deduct:	Cash and securities segregated for regulatory and other purposes	(119,939)	(80,990)
	Goodwill and identifiable intangible assets, excluding power contracts	(5,072)	(5,019)
Adjusted assets		$ 747,300	$ 541,033

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(2) Tangible equity capital equals total shareholders equity and junior subordinated debt issued to trusts less goodwill and identifiable intangible assets, excluding power contracts. We do not deduct identifiable intangible assets associated with power contracts from total shareholders equity because, unlike other intangible assets, less than 50% of these assets are supported by common shareholders equity. We consider junior subordinated debt issued to trusts to be a component of our tangible equity capital base due to certain characteristics of the debt, including its long-term nature, our ability to defer payments due on the debt and the subordinated nature of the debt in our capital structure.

The following table sets forth the reconciliation of total shareholders equity to tangible equity capital:

		As of November	
		2007	2006
		(in millions)	
Total shareholders equity		$ 42,800	$ 35,786
Add:	Junior subordinated debt issued to trusts	5,000	2,750
Deduct:	Goodwill and identifiable intangible assets, excluding power contracts	(5,072)	(5,019)
Tangible equity capital		$ 42,728	$ 33,517

(3) Leverage ratio equals total assets divided by total shareholders equity.

(4) Adjusted leverage ratio equals adjusted assets divided by tangible equity capital. We believe that the adjusted leverage ratio is a more meaningful measure of our capital adequacy than the leverage ratio because it excludes certain low-risk collateralized assets that are generally supported with little or no capital and reflects the tangible equity capital deployed in our businesses.

(5) Debt to equity ratio equals unsecured long-term borrowings divided by total shareholders equity.

(6) Tangible common shareholders equity equals total shareholders equity less preferred stock, goodwill and identifiable intangible assets, excluding power contracts. We do not deduct identifiable intangible assets associated with power contracts from total shareholders equity because, unlike other intangible assets, less than 50% of these assets are supported by common shareholders equity.

The following table sets forth a reconciliation of total shareholders equity to tangible common shareholders equity:

		As of November	
		2007	2006
		(in millions)	
Total shareholders equity		$ 42,800	$ 35,786
Deduct:	Preferred stock	(3,100)	(3,100)
Common shareholders equity		39,700	32,686

Deduct:	Goodwill and identifiable intangible assets, excluding power contracts	(5,072)	(5,019)
Tangible common shareholders equity		$ 34,628	$ 27,667

(7) Book value per common share is based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 439.0 million and 450.1 million as of November 2007 and November 2006, respectively.

(8) Tangible book value per common share is computed by dividing tangible common shareholders equity by the number of common shares outstanding, including restricted stock units granted to employees with no future service requirements.

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Contractual Obligations and Commitments

Goldman Sachs has contractual obligations to make future payments related to our unsecured long-term borrowings, secured long-term financings, long-term noncancelable lease agreements and purchase obligations and has commitments under a variety of commercial arrangements.

The following table sets forth our contractual obligations by fiscal maturity date as of November 2007:

Contractual Obligations
(in millions)

	2008	2009 - 2010	2011 - 2012	2013 - Thereafter	Total
Unsecured long-term borrowings [1][2][3]	$	$ 36,885	$ 29,295	$ 97,994	$ 164,174
Secured long-term financings [1][2][4]		5,204	7,400	20,696	33,300
Minimum rental payments	450	850	568	2,022	3,890
Purchase obligations [5]	2,176	309	21	27	2,533

(1) Obligations maturing within one year of our financial statement date or redeemable within one year of our financial statement date at the option of the holder are excluded from this table and are treated as short-term obligations. See Note 3 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for further information regarding our secured financings.

(2) Obligations that are repayable prior to maturity at the option of Goldman Sachs are reflected at their contractual maturity dates. Obligations that are redeemable prior to maturity at the option of the holder are reflected at the dates such options become exercisable.

(3) Includes $15.93 billion accounted for at fair value under SFAS No. 155 or SFAS No. 159 as of November 2007, primarily consisting of hybrid financial instruments.

(4) These obligations are reported within Other secured financings in the consolidated statements of financial condition and include $18.53 billion accounted for at fair value under SFAS No. 159 as of November 2007.

(5) Primarily includes amounts related to the acquisition of Litton Loan Servicing LP (Litton) and construction-related obligations.

As of November 2007, our unsecured long-term borrowings were $164.17 billion, with maturities extending to 2043, and consisted principally of senior borrowings. See Note 5 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for further information regarding our unsecured long-term borrowings.

As of November 2007, our future minimum rental payments, net of minimum sublease rentals, under noncancelable leases were $3.89 billion. These lease commitments, principally for office space, expire on various dates through 2069. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. See Note 6 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for further information regarding our leases.

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 regularly evaluate our current and future space capacity in relation to current and projected staffing levels. In 2007, we incurred exit costs of $128 million (included in occupancy and depreciation and amortization expenses in the consolidated statements of earnings). We may incur additional exit costs in 2008 and thereafter to the extent we (i) reduce our space capacity or (ii) commit to, or occupy, new properties in the locations in which we operate and, consequently, dispose of existing space that had been held for potential growth. These exit costs may be material to our results of operations in a given period.

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As of November 2007 and November 2006, we had construction-related obligations of $769 million and $1.63 billion, respectively, including outstanding commitments of $642 million and $500 million as of November 2007 and November 2006, respectively, related to our new world headquarters in New York City, which is expected to cost between $2.3 billion and $2.5 billion. We are partially financing this construction project with tax-exempt Liberty Bonds. We borrowed approximately $1.40 billion and approximately $250 million in 2005 and 2007, respectively, through the issuance of Liberty Bonds.

In addition, we entered into an agreement in 2007 to acquire Litton, the mortgage servicing unit of Credit-Based Asset Servicing and Securitization LLC (C-BASS). The transaction closed in December 2007 at a purchase price of $428 million, plus repayment of $916 million of outstanding Litton debt obligations.

The following table sets forth our commitments as of November 2007:

Commitments
(in millions)

	Commitment Amount by Fiscal Period of Expiration				
	2008	2009 - 2010	2011 - 2012	2013 - Thereafter	Total
Commitments to extend credit					
Commercial lending:					
Investment-grade	$ 4,456	$ 3,108	$ 3,248	$ 907	$ 11,719
Non-investment-grade	2,956	2,969	6,845	29,160	41,930
William Street program	2,571	4,046	16,929	942	24,488
Warehouse financing	3,386	1,224			4,610
Total commitments to extend credit	13,369	11,347	27,022	31,009	82,747
Forward starting resale and securities borrowing agreements	24,269	3,867			28,136
Forward starting repurchase and securities lending agreements	15,392				15,392
Commitments under letters of credit issued by banks to counterparties	8,281	271	183	12	8,747
Investment commitments	6,180	7,827	1,594	2,157	17,758
Underwriting commitments	88				88
Total	$ 67,579	$ 23,312	$ 28,799	$ 33,178	$ 152,868

Our commitments to extend credit are agreements to lend to counterparties that have fixed termination dates and are contingent on the satisfaction of all conditions to borrowing set forth in the contract. In connection with our lending activities, we had outstanding commitments to extend credit of $82.75 billion as of November 2007 compared with $100.48 billion as of November 2006. Since these commitments may expire unused or be reduced or cancelled at the counterparty s request, the total commitment amount does not necessarily reflect the actual future cash flow requirements. Our commercial lending commitments are generally extended in connection with contingent acquisition

financing and other types of corporate lending as well as commercial real estate financing. We may seek to reduce our credit risk on these commitments by syndicating all or substantial portions of commitments to other investors. In addition, commitments that are extended for contingent acquisition financing are often intended to be short-term in nature, as borrowers often seek to replace them with other funding sources.

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Substantially all of the commitments provided under the William Street credit extension program are to investment-grade corporate borrowers. Commitments under the program are extended by William Street Commitment Corporation (Commitment Corp.), a consolidated wholly owned subsidiary of Group Inc. whose assets and liabilities are legally separated from other assets and liabilities of Goldman Sachs, William Street Credit Corporation, GS Bank USA, Goldman Sachs Credit Partners L.P. or other consolidated wholly owned subsidiaries of Group Inc. The commitments extended by Commitment Corp. are supported, in part, by funding raised by William Street Funding Corporation (Funding Corp.), another consolidated wholly owned subsidiary of Group Inc. whose assets and liabilities are also legally separated from other assets and liabilities of Goldman Sachs. With respect to most of the William Street commitments, SMFG provides us with credit loss protection that is generally limited to 95% of the first loss we realize on approved loan commitments, up to a maximum of $1.00 billion. In addition, subject to the satisfaction of certain conditions, upon our request, SMFG will provide protection for 70% of the second loss on such commitments, up to a maximum of $1.13 billion. We also use other financial instruments to mitigate credit risks related to certain William Street commitments not covered by SMFG.

Our commitments to extend credit also include financing for the warehousing of financial assets to be securitized. These financings are expected to be repaid from the proceeds of the related securitizations for which we may or may not act as underwriter. These arrangements are secured by the warehoused assets, primarily consisting of corporate bank loans and commercial mortgages as of November 2007 and residential mortgages and mortgage-backed securities, corporate bank loans and commercial mortgages as of November 2006.

See Note 6 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for further information regarding our commitments, contingencies and guarantees.

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

We seek to monitor and control our risk exposure through a variety of separate but complementary financial, credit, operational, compliance 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, as described further below. These committees (including their subcommittees), meet regularly and consist of senior members of both our revenue-producing units and departments that are independent of our revenue-producing units.

Segregation of duties and management oversight are fundamental elements of our risk management process. In addition to the committees described below, functions that are independent of the revenue-producing units, such as Compliance, Finance, Legal, Management Controls (Internal Audit) and Operations, perform risk management functions, which include monitoring, analyzing and evaluating risk.

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 and trading risk parameters.

Risk Committees. The Firmwide Risk Committee reviews the activities of existing trading businesses, approves new businesses and products, approves firmwide market risk limits, reviews business unit market risk limits, approves

market risk limits for selected sovereign markets and

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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 for our trading activities subject to overall firmwide risk limits, based on a number of measures, including VaR, stress tests and scenario analyses. Several other committees oversee various risk, valuation, operational, credit and business practice issues related to our asset management business.

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 respective markets and the instruments available to hedge their exposures.

Market risk limits are monitored by the Finance Division and are reviewed regularly by the appropriate risk committee. Limit violations are reported to the appropriate risk committee and business unit managers and addressed, as necessary. Credit risk limits are also monitored by the Finance Division and reviewed by the appropriate risk committee.

Business Practices Committee. The Business Practices Committee assists senior management in its oversight of compliance and operational risks and related reputational concerns, seeks to ensure the consistency of our policies, practices and procedures with our Business Principles, and makes recommendations on ways to mitigate potential risks.

Firmwide Capital Committee. The Firmwide Capital Committee reviews and approves transactions involving commitments of our capital. Such capital commitments include, but are not limited to, extensions of credit, alternative liquidity commitments, certain bond underwritings and certain distressed debt and principal finance activities. The Firmwide Capital Committee is also responsible for establishing business and reputational standards for capital commitments and seeking to ensure that they are maintained on a global basis.

Commitments Committee. The Commitments Committee reviews and approves underwriting and distribution activities, primarily with respect to offerings of equity and equity-related securities, 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.

Finance Committee. The Finance Committee establishes and oversees our liquidity policies, sets certain inventory position limits and has oversight responsibility for liquidity risk, the size and composition of our balance sheet and capital base, and our credit ratings. The Finance Committee regularly reviews our funding position and capitalization and makes adjustments in light of current events, risks and exposures.

New Products Committee. The New Products Committee, under the oversight of the Firmwide Risk Committee, is responsible for reviewing and approving new products and businesses globally.

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.

Structured Products Committee. The Structured Products Committee reviews and approves structured product transactions entered into with our clients that raise legal, regulatory, tax or accounting issues or present reputational risk to Goldman Sachs.

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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 market-making, proprietary trading, underwriting, specialist and investing activities. Substantially all of our inventory positions are marked-to-market on a daily basis and changes are recorded in net revenues.

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:

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.

Equity price risks result from exposures to changes in prices and volatilities of individual equities, equity baskets and equity indices.

Currency rate risks result from exposures to changes in spot prices, forward prices and volatilities of currency rates.

Commodity price risks result from exposures to changes in spot prices, forward prices and volatilities of commodities, such as electricity, natural gas, crude oil, petroleum products, and precious and base metals.

We seek to manage these risks by diversifying exposures, controlling position sizes and establishing economic hedges in related securities or derivatives. For example, we may hedge a portfolio of common stocks 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 for Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value in the consolidated statements of financial condition. 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 equity markets and significant moves in selected emerging markets; and

inventory position limits for selected business units.

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VaR

VaR is the potential loss in value of 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 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 standard methodology for estimating VaR, and different assumptions and/or approximations could produce materially different VaR estimates.

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

The following tables set forth the daily VaR:

Average Daily VaR [1]
(in millions)

	Year Ended November		
Risk Categories	**2007**	**2006**	**2005**
Interest rates	$ 85	$ 49	$ 37
Equity prices	100	72	34
Currency rates	23	21	17
Commodity prices	26	30	26
Diversification effect [2]	(96)	(71)	(44)
Total	$ 138	$ 101	$ 70

(1) Certain portfolios and individual positions are not included in VaR, where VaR is not the most appropriate measure of risk (e.g., due to transfer restrictions and/or illiquidity). See Other Market Risk Measures below.

(2)

Equals the difference between total 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.

Our average daily VaR increased to $138 million in 2007 from $101 million in 2006. The increase was primarily due to higher levels of exposure and volatility in interest rates and equity prices.

Our average daily VaR increased to $101 million in 2006 from $70 million in 2005. We increased our level of exposure across all risk categories, particularly equity prices and interest rates.

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Daily VaR
(in millions)

Risk Categories	As of November 2007	As of November 2006	Year Ended November 2007 High	Year Ended November 2007 Low
Interest rates	$ 105	$ 51	$ 152	$ 42
Equity prices	82	84	167	59
Currency rates	35	15	41	12
Commodity prices	33	21	51	17
Diversification effect [1]	(121)	(52)		
Total	$ 134	$ 119	$ 181	$ 104

[1] Equals the difference between total 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.

Our daily VaR increased to $134 million as of November 2007 from $119 million as of November 2006. The increase primarily reflected higher levels of exposure to interest rates, currency rates and commodity prices, as well as increased levels of volatility in interest rates, partially offset by the benefit of increased diversification effects among different risk categories.

The following chart presents our daily VaR during 2007:

Daily VaR
($ in millions)

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Trading Net Revenues Distribution

The following chart sets forth the frequency distribution of our daily trading net revenues for substantially all inventory positions included in VaR for the year ended November 2007:

Daily Trading Net Revenues
($ in millions)

As part of our overall risk control process, daily trading net revenues are compared with VaR calculated as of the end of the prior business day. Trading losses incurred on a single day exceeded our 95% one-day VaR on ten occasions during 2007.

Other Market Risk Measures

Certain portfolios and individual positions are not included in VaR, where VaR is not the most appropriate measure of risk (e.g., due to transfer restrictions and/or illiquidity). The market risk related to our investments in the ordinary shares of ICBC and the convertible preferred stock of SMFG is measured by estimating the potential reduction in net revenues associated with a 10% decline in the ICBC ordinary share price and a 10% decline in the SMFG common stock price, respectively. The market risk related to the remaining positions is measured by estimating the potential reduction in net revenues associated with a 10% decline in asset values.

The sensitivity analyses for equity and debt positions in our trading portfolio and equity, debt (primarily mezzanine instruments) and real estate positions in our non-trading portfolio are measured by the impact of a decline in the asset values (including the impact of leverage in the underlying investments for real estate positions in our non-trading portfolio) of such positions. The fair value of the underlying positions may be impacted by factors such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows.

The sensitivity analysis of our investment in the ordinary shares of ICBC excludes interests held by investment funds managed by Goldman Sachs.

The sensitivity analysis of our investment in the convertible preferred stock of SMFG, net of the economic hedge on a substantial portion of the common stock underlying our investment, is

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measured by the impact of a decline in the SMFG common stock price. This sensitivity should not be extrapolated to a significant decline in the SMFG common stock price, as the relationship between the fair value of our investment and the SMFG common stock price would be nonlinear due to downside protection on the conversion stock price.

The following table sets forth market risk for positions not included in VaR. These measures do not reflect diversification benefits across asset categories and, given the differing likelihood of the potential declines in asset categories, these measures have not been aggregated:

Asset Categories	10% Sensitivity Measure	10% Sensitivity Amount as of November 2007	2006
		(in millions)	
Trading Risk [1]			
Equity	Underlying asset value	$ 1,325	$ 377
Debt	Underlying asset value	1,020	725
Non-trading Risk			
ICBC	ICBC ordinary share price	250	191
SMFG	SMFG common stock price	41	140
Other Equity	Underlying asset value	1,013	390
Debt	Underlying asset value	500	199
Real Estate [2]	Underlying asset value	1,108	341

(1) In addition to the positions in these portfolios, which are accounted for at fair value, we make investments accounted for under the equity method and we also make direct investments in real estate, both of which are included in Other assets in the consolidated statements of financial condition. Direct investments in real estate are accounted for at cost less accumulated depreciation. See Note 10 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for information on Other assets.

(2) Relates to interests in our real estate investment funds.

The increase in our 10% sensitivity measures during 2007 in our trading and non-trading portfolios (excluding ICBC and SMFG) was primarily due to new investments.

In addition, as of November 2007 and November 2006, in our bank and insurance subsidiaries we held approximately $10.58 billion and $9.95 billion of securities, respectively, primarily consisting of mortgage-backed, federal agency and investment-grade corporate bonds.

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, or upon a deterioration in the credit quality of third parties whose securities or other instruments, including OTC derivatives, we hold. Our exposure to credit risk principally arises through our trading, investing and financing activities. 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 (i) entering into agreements that enable us to obtain collateral from a counterparty on an upfront or contingent basis, (ii) seeking third-party guarantees of the counterparty s obligations, and/or (iii) transferring our credit risk to third parties using credit derivatives and/or other structures and techniques.

To measure and manage our credit exposures, we use a variety of tools, including credit limits referenced to both current exposure and potential exposure. Potential exposure is generally based on projected worst-case market movements over the life of a transaction. In addition, as part of our market risk management process, for positions measured by changes in credit spreads, we use VaR

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and other sensitivity measures. To supplement our primary credit exposure measures, we also use scenario analyses, such as credit spread widening scenarios, stress tests and other quantitative tools.

Our global credit management systems monitor credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. These systems also provide management, including the Firmwide Risk and Credit Policy Committees, with information regarding credit risk by product, industry sector, country and region.

While our activities expose us to many different industries and counterparties, we routinely execute a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment funds and other institutional clients, resulting in significant credit concentration with respect to this industry. In the ordinary course of business, we may also be subject to a concentration of credit risk to a particular counterparty, borrower or issuer.

As of November 2007 and November 2006, we held $45.75 billion (4% of total assets) and $46.20 billion (6% of total assets), respectively, of U.S. government and federal agency obligations (including securities guaranteed by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation) included in Financial instruments owned, at fair value and Cash and securities segregated for regulatory and other purposes in the consolidated statements of financial condition. As of November 2007 and November 2006, we held $31.65 billion (3% of total assets) and $23.64 billion (3% of total assets), respectively, of other sovereign obligations, principally consisting of securities issued by the governments of Japan and the United Kingdom. In addition, as of November 2007 and November 2006, $144.92 billion and $104.76 billion of our financial instruments purchased under agreements to resell and securities borrowed, respectively, were collateralized by U.S. government and federal agency obligations. As of November 2007 and 2006, $41.26 billion and $38.22 billion of our financial instruments purchased under agreements to resell and securities borrowed, respectively, were collateralized by other sovereign obligations. As of November 2007 and November 2006, we did not have credit exposure to any other counterparty that exceeded 2% 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 derivative activities and market evolution toward longer dated transactions. 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.

Substantially all of our derivative transactions are entered into to facilitate client transactions, to take proprietary positions or as a means of risk management. In addition to derivative transactions entered into for trading purposes, we enter into derivative contracts to manage currency exposure on our net investment in non-U.S. operations and to manage the interest rate and currency exposure on our long-term borrowings and certain short-term borrowings.

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

The fair value of our derivative contracts is reflected net of cash paid or received pursuant to credit support agreements and is reported on a net-by-counterparty 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.

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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 2007					
Assets	**0 - 6**	**6 - 12**	**1 - 5**	**5 - 10**	**10 Years or**	
Contract Type	**Months**	**Months**	**Years**	**Years**	**Greater**	**Total**
Interest rates [1]	$ 5,970	$ 4,301	$ 10,417	$ 7,402	$ 20,614	$ 48,704
Currencies	10,614	2,342	3,623	901	405	17,885
Commodities	3,335	1,538	8,464	1,299	657	15,293
Equities	4,616	1,329	1,560	2,114	572	10,191
Total	$ 24,535	$ 9,510	$ 24,064	$ 11,716	$ 22,248	$ 92,073

Liabilities	**0 - 6**	**6 - 12**	**1 - 5**	**5 - 10**	**10 Years or**	
Contract Type	**Months**	**Months**	**Years**	**Years**	**Greater**	**Total**
Interest rates [1]	$ 6,980	$ 1,212	$ 11,675	$ 6,614	$ 11,579	$ 38,060
Currencies	9,662	1,977	3,641	680	657	16,617
Commodities	3,912	2,082	5,827	1,304	338	13,463
Equities	7,526	3,804	3,823	3,393	412	18,958
Total	$ 28,080	$ 9,075	$ 24,966	$ 11,991	$ 12,986	$ 87,098

	As of November 2006					
Assets	**0 - 6**	**6 - 12**	**1 - 5**	**5 - 10**	**10 Years or**	
Contract Type	**Months**	**Months**	**Years**	**Years**	**Greater**	**Total**
Interest rates [1]	$ 2,432	$ 1,706	$ 5,617	$ 5,217	$ 6,201	$ 21,173
Currencies	5,578	943	3,103	1,669	966	12,259
Commodities	3,892	1,215	5,836	1,258	231	12,432
Equities	1,430	1,134	1,329	2,144	1,235	7,272
Total	$ 13,332	$ 4,998	$ 15,885	$ 10,288	$ 8,633	$ 53,136

Liabilities	**0 - 6**	**6 - 12**	**1 - 5**	**5 - 10**	**10 Years**

Contract Type	Months	Months	Years	Years	or Greater	Total
Interest rates [1]	$ 2,807	$ 1,242	$ 6,064	$ 3,582	$ 5,138	$ 18,833
Currencies	6,859	1,290	2,582	494	634	11,859
Commodities	3,078	658	4,253	1,643	273	9,905
Equities	3,235	1,682	2,615	3,239	277	11,048
Total	$ 15,979	$ 4,872	$ 15,514	$ 8,958	$ 6,322	$ 51,645

[1] Includes credit derivatives.

We enter into certain OTC option transactions that provide us or our counterparties with the right to extend the maturity of the underlying contract. The fair value of these option contracts is not material to the aggregate fair value of our OTC derivative portfolio. In the tables above, for option contracts that require settlement by delivery of an underlying derivative instrument, the remaining contractual maturity is generally classified based upon the maturity date of the underlying derivative instrument. In those instances where the underlying instrument does not have a maturity date or either counterparty has the right to settle in cash, the remaining contractual maturity is generally based upon the option expiration date.

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The following table sets forth the distribution, by credit rating, of substantially all of our exposure with respect to OTC derivatives as of November 2007, after taking into consideration the effect of netting agreements. The categories shown reflect our internally determined public rating agency equivalents:

OTC Derivative Credit Exposure
($ in millions)

	As of November 2007				As of November 2006
Credit Rating Equivalent	**Exposure** [1]	**Collateral Held**	**Exposure Net of Collateral**	**Percentage of Total Exposure Net of Collateral**	**Percentage of Total Exposure Net of Collateral**
AAA/Aaa	$ 16,683	$ 2,087	$ 14,596	21%	12%
AA/Aa2	28,562	4,143	24,419	35	29
A/A2	20,742	4,553	16,189	23	29
BBB/Baa2	9,896	3,338	6,558	9	15
BB/Ba2 or lower	13,696	6,218	7,478	10	13
Unrated	2,494	1,325	1,169	2	2
Total	$ 92,073	$ 21,664	$ 70,409	100%	100%

[1] Net of cash received pursuant to credit support agreements of $59.05 billion.

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

Exposure Net of Collateral
(in millions)

	As of November 2007					
Credit Rating Equivalent	**0 - 6 Months**	**6 - 12 Months**	**1 - 5 Years**	**5 - 10 Years**	**10 Years or Greater**	**Total** [1]
AAA/Aaa	$ 3,669	$ 1,132	$ 2,453	$ 1,904	$ 5,438	$ 14,596
AA/Aa2	5,569	3,024	4,815	2,683	8,328	24,419
A/A2	5,913	1,242	4,288	1,544	3,202	16,189
BBB/Baa2	2,087	650	2,236	564	1,021	6,558
BB/Ba2 or lower	2,159	670	2,626	1,257	766	7,478

Unrated	271	321	422	90	65	1,169
Total	$ 19,668	$ 7,039	$ 16,840	$ 8,042	$ 18,820	$ 70,409

Contract Type	0 - 6 Months	6 - 12 Months	1 - 5 Years	5 - 10 Years	10 Years or Greater	Total [1]
Interest rates [2]	$ 5,454	$ 3,291	$ 7,255	$ 5,788	$ 17,341	$ 39,129
Currencies	8,266	1,735	3,037	560	381	13,979
Commodities	2,757	1,352	5,619	778	586	11,092
Equities	3,191	661	929	916	512	6,209
Total	$ 19,668	$ 7,039	$ 16,840	$ 8,042	$ 18,820	$ 70,409

(1) 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.

(2) Includes credit derivatives.

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Derivative transactions may also involve legal risks including the risk that they are not authorized or appropriate for a counterparty, that documentation has not been properly executed or that executed agreements may not be enforceable against the counterparty. We attempt to minimize these risks by obtaining advice of counsel on the enforceability of agreements as well as on the authority of a counterparty to effect the derivative transaction. In addition, certain derivative transactions (e.g., credit derivative contracts) involve the risk that we may have difficulty obtaining, or be unable to obtain, the underlying security or obligation in order to satisfy any physical settlement requirement.

Liquidity and Funding Risk

Liquidity 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 resulting from adverse circumstances. Accordingly, Goldman Sachs has in place a comprehensive set of liquidity and funding policies that are intended to maintain significant flexibility to address both Goldman Sachs-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 generate revenues, even under adverse circumstances.

Management has implemented a number of policies according to the following liquidity risk management framework:

Excess Liquidity We maintain substantial excess liquidity to meet a broad range of potential cash outflows in a stressed environment including financing obligations.

Asset-Liability Management We seek to maintain funding sources that are sufficiently long-term in order to withstand a prolonged or severe liquidity-stressed environment without having to rely on asset sales.

Conservative Liability Structure We access funding across a diverse range of markets, products and counterparties, emphasize less credit-sensitive sources of funding and conservatively manage the distribution of funding across our entity structure.

Crisis Planning We base our liquidity and funding management on stress-scenario planning and maintain a crisis plan detailing our response to a liquidity-threatening event.

Excess Liquidity

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 pool of excess liquidity provides us with a resilient source of funds and gives us significant flexibility in managing through a difficult funding environment. Our Global Core Excess reflects the following principles:

The first days or weeks of a liquidity crisis are the most critical to a company s survival.

Focus must be maintained on all potential cash and collateral outflows, 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 and client commitments, all of which can change dramatically in a difficult funding environment.

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.

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 have larger unsecured debt balances than our businesses would otherwise require. We believe that our liquidity is stronger with greater

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balances of highly liquid unencumbered securities, even though it increases our unsecured liabilities.

The size of our Global Core Excess is based on 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 and letters of credit;
- potential buybacks of a portion of our outstanding negotiable unsecured debt;
- adverse changes in the terms or availability of secured funding;
- derivatives and other margin and collateral outflows, including those due to market moves;
- potential cash outflows associated with our prime brokerage business;
- additional collateral that could be called in the event of a two-notch downgrade in our credit ratings;
- draws on our unfunded commitments not supported by William Street Funding Corporation [(1)]; and
- upcoming cash outflows, such as tax and other large payments.

The following table sets forth the average loan value (the estimated amount of cash that would be advanced by counterparties against these securities) of our Global Core Excess:

	Year Ended November	
	2007	2006
	(in millions)	
U.S. dollar-denominated	$ 48,635	$ 40,862
Non-U.S. dollar-denominated	11,928	10,202
Total Global Core Excess	$ 60,563	$ 51,064

The U.S. dollar-denominated excess is comprised of only unencumbered U.S. government securities, U.S. agency securities and highly liquid U.S. agency mortgage-backed securities, all of which are Federal Reserve repo-eligible, as well as overnight cash deposits. Our non-U.S. dollar-denominated excess is comprised of only unencumbered French, German, United Kingdom and Japanese government bonds and euro, British pound and Japanese yen overnight cash deposits. We strictly limit our Global Core Excess to this narrowly defined list of securities and cash because we believe they are highly liquid, even in a difficult funding environment. We do not believe other potential sources of excess liquidity, such as lower-quality unencumbered securities or committed credit facilities, are as reliable in a liquidity crisis.

The majority of our Global Core Excess is structured such that it is available to meet the liquidity requirements of our parent company, Group Inc., and all of its subsidiaries. The remainder is held in our principal non-U.S. operating entities, primarily to better match the currency and timing requirements for those entities potential liquidity obligations.

In addition to our Global Core Excess, 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. We do not include these securities in our Global Core Excess.

(1) The Global Core Excess excludes liquid assets of $6.17 billion held separately by William Street Funding Corporation. See Contractual Obligations and Commitments above for a further discussion of the William Street credit extension program.

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We maintain Global Core Excess and other unencumbered assets in an amount that, if pledged or sold, would provide the funds necessary to replace at least 110% of our unsecured obligations that are scheduled to mature (or where holders have the option to redeem) within the next 12 months. We assume conservative loan values that are based on stress-scenario borrowing capacity and we regularly review these assumptions asset class by asset class. The estimated aggregate loan value of our Global Core Excess and our other unencumbered assets averaged $156.74 billion and $134.38 billion for the fiscal years ended 2007 and 2006, respectively.

Asset-Liability Management

We seek to maintain a highly liquid balance sheet and substantially all of our inventory is marked-to-market daily. We utilize aged inventory limits for certain financial instruments as a disincentive to our businesses to hold inventory over longer periods of time. We believe that these limits provide a complementary mechanism for ensuring appropriate balance sheet liquidity in addition to our standard position limits. Although our balance sheet fluctuates due to seasonal activity, market conventions and periodic market opportunities in certain of our businesses, our total assets and adjusted assets at financial statement dates are not materially different from those occurring within our reporting periods.

We seek to manage the maturity profile of our funding base 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. We do not rely on immediate sales of assets (other than our Global Core Excess) to maintain liquidity in a distressed environment, although we recognize orderly asset sales may be prudent and necessary in a persistent liquidity crisis.

In order to avoid reliance on asset sales, our goal is to ensure that we have sufficient total capital (unsecured long-term borrowings plus total shareholders equity) to fund our balance sheet for at least one year. The amount of our total capital is based on an internal liquidity model, which incorporates, among other things, 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, assuming conservative loan values;
- goodwill and identifiable intangible assets, property, leasehold improvements and equipment, and other illiquid assets;
- derivative and other margin and collateral requirements;
- anticipated draws on our unfunded loan commitments; and
- capital or other forms of financing in our regulated subsidiaries that is in excess of their long-term financing requirements. See Conservative Liability Structure below for a further discussion of how we fund our subsidiaries.

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Certain financial instruments may be more difficult to fund on a secured basis during times of market stress. Accordingly, we generally hold higher levels of total capital for these assets than more liquid types of financial instruments. The table below sets forth our aggregate holdings in these categories of financial instruments:

	As of November	
	2007	2006
	(in millions)	
Mortgage and other asset-backed loans and securities [1]	$ 46,436	$ 41,017
Bank loans [2]	49,154	28,196
High-yield securities	12,807	9,403
Emerging market debt securities	3,343	2,291
Private equity and real estate fund investments [3]	16,244	5,968
Emerging market equity securities	8,014	3,046
ICBC ordinary shares [4]	6,807	5,194
SMFG convertible preferred stock	4,060	4,505
Other restricted public equity securities	3,455	1,730
Other investments in funds [5]	3,437	260

(1) Excludes $7.64 billion of mortgage whole loans that were transferred to securitization vehicles where such transfers were accounted for as secured financings rather than sales under SFAS No. 140. We distributed to investors the securities that were issued by the securitization vehicles and therefore do not bear economic exposure to the underlying mortgage whole loans.

(2) Includes funded commitments and inventory held in connection with our origination and secondary trading activities.

(3) Includes interests in our merchant banking funds. Such amounts exclude assets related to consolidated investment funds of $8.13 billion and $6.03 billion as of November 2007 and November 2006, respectively, for which Goldman Sachs does not bear economic exposure.

(4) Includes interests of $4.30 billion and $3.28 billion as of November 2007 and November 2006, respectively, held by investment funds managed by Goldman Sachs.

(5) Includes interests in other investment funds that we manage.

A large portion of these assets are funded through secured funding markets or nonrecourse financing. We focus on demonstrating a consistent ability to fund these assets on a secured basis for extended periods of time to reduce refinancing risk and to help ensure that they have an established amount of loan value in order that they can be funded in periods of market stress.

See Note 3 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for further information regarding the financial instruments we hold.

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Conservative Liability Structure

We seek to structure our liabilities conservatively to reduce refinancing risk and the risk that we may redeem or repurchase certain of our borrowings prior to their contractual maturity. Our conservative liability structure reflects the following policies:

- We fund a substantial portion of our inventory on a secured basis. We believe secured financing provides Goldman Sachs with a more stable source of liquidity than unsecured financing, as it is less sensitive to changes in our credit due to the underlying collateral.

- Our liquidity depends to an important degree on the stability of our short-term unsecured financing base. Accordingly, we prefer the use of promissory notes (in which Goldman Sachs does not make a market) over commercial paper, which we may repurchase prior to maturity through the ordinary course of business as a market maker. As of November 2007 and November 2006, our unsecured short-term borrowings, including the current portion of unsecured long-term borrowings, were $71.56 billion and $47.90 billion, respectively. See Note 4 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for further information regarding our unsecured short-term borrowings.

- We recognize that secured funding transactions have greater refinancing risk when the underlying collateral is more difficult to fund. Consequently, we seek longer maturities for secured funding transactions collateralized by these assets. In some cases, we use extendible maturity features to obtain a rolling minimum term to the funding.

- We issue substantially all of our unsecured debt without provisions that would, based solely upon an adverse change in our credit ratings, financial ratios, earnings, cash flows or stock price, trigger a requirement for an early payment, collateral support, change in terms, acceleration of maturity or the creation of an additional financial obligation.

We seek to maintain broad and diversified funding sources globally for both secured and unsecured funding. We make extensive use of the repurchase agreement and securities lending markets, as well as other secured funding markets. In addition, we issue debt through syndicated U.S. registered offerings, U.S. registered and 144A medium-term note programs, offshore medium-term note offerings and other bond offerings, U.S. and non-U.S. commercial paper and promissory note issuances, and other methods. We also arrange for letters of credit to be issued on our behalf.

We benefit from distributing our debt issuances through our own sales force to a large, diverse global creditor base and we believe that our relationships with our creditors are critical to our liquidity. Our creditors include banks, governments, securities lenders, pension funds, insurance companies and mutual funds. We access funding in a variety of markets in the Americas, Europe and Asia. We have imposed various internal guidelines on investor concentration, 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.

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To mitigate refinancing risk, we have created internal guidelines on the principal amount of debt maturing on any one day or during any week or year. The following table sets forth our quarterly unsecured long-term borrowings maturity profile through 2013:

Unsecured Long-Term Borrowings Maturity Profile
($ in millions)

The weighted average maturity of our unsecured long-term borrowings as of November 2007 was approximately seven 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.

For a discussion of factors that could impair our ability to access the capital markets, see Certain Risk Factors That May Affect Our Business above as well as Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K.

Subsidiary Funding 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 and capital requirements. In addition, the parent company provides its regulated subsidiaries with the necessary capital to meet their regulatory requirements. The benefits of this approach to subsidiary funding include enhanced control and greater flexibility to meet the funding requirements of our subsidiaries.

Our intercompany funding policies are predicated on an assumption that, unless legally provided for, funds or securities are not freely available from a subsidiary to its parent company or other subsidiaries. In particular, many of our subsidiaries are subject to laws that authorize regulatory bodies to block or limit 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. As such, we assume that capital or other financing provided to our regulated subsidiaries is not available to our parent company or other subsidiaries. In addition, we assume that the Global Core Excess held in our principal non-U.S. operating entities will not be available to our parent company or other subsidiaries and therefore is available only to meet the potential liquidity requirements of those entities.

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We also manage our liquidity risk by 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 maintain unencumbered assets to cover their intercompany borrowings (other than subordinated debt) in order to mitigate parent company liquidity risk.

Group Inc. has provided substantial amounts of equity and subordinated indebtedness, directly or indirectly, to its regulated subsidiaries; for example, as of November 2007, Group Inc. had $24.49 billion of such equity and subordinated indebtedness invested in Goldman, Sachs & Co., its principal U.S. registered broker-dealer; $27.51 billion invested in Goldman Sachs International, a regulated U.K. broker-dealer; $2.40 billion invested in Goldman Sachs Execution & Clearing, L.P., a U.S. registered broker-dealer; and $3.15 billion invested in Goldman Sachs Japan Co., Ltd., a regulated Japanese broker-dealer. Group Inc. also had $44.99 billion of unsubordinated loans to these entities as of November 2007, as well as significant amounts of capital invested in and loans to its other regulated subsidiaries.

Crisis Planning

In order to be prepared for a liquidity event, or a period of market stress, we base our liquidity risk management framework and our resulting funding and liquidity policies on conservative stress-scenario assumptions. Our planning incorporates several market-based and operational stress scenarios. We also periodically conduct liquidity crisis drills to test our lines of communication and backup funding procedures.

In addition, we maintain a liquidity crisis plan that specifies an approach for analyzing and responding to a liquidity-threatening event. The plan provides the framework to estimate the likely impact of a liquidity event on Goldman Sachs based on some of the risks identified above 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.

Credit Ratings

We rely upon the short-term and long-term debt capital markets to fund a significant portion of our 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 primarily based on the credit rating agencies assessment of our liquidity, market, credit and operational risk management practices, the level and variability of our earnings, our capital base, our franchise, reputation and management, our corporate governance and the external operating environment. See Certain Risk Factors That May Affect Our Business above for a discussion of the risks associated with a reduction in our credit ratings.

The following table sets forth our unsecured credit ratings as of November 2007:

	Short-Term Debt	Long-Term Debt	Subordinated Debt	Preferred Stock
Dominion Bond Rating Service Limited	R-1 (middle)	AA (low)	A (high)	A
Fitch, Inc.	F1+	AA	A+	A+
Moody s Investors Service	P-1	Aa3	A1	A2
Standard & Poor s	A-1+	AA	A+	A

Rating and Investment Information, Inc.	a-1+	AA	Not Applicable	Not Applicable

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As of November 2007, collateral or termination payments pursuant to bilateral agreements with certain counterparties of approximately $728 million would have been required in the event of a one-notch reduction in our long-term credit ratings. In evaluating our liquidity requirements, we consider additional collateral or termination payments that would be required in the event of a two-notch downgrade in our long-term credit ratings, as well as collateral that has not been called by counterparties, but is available to them.

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.

Year Ended November 2007. Our cash and cash equivalents increased by $5.59 billion to $11.88 billion at the end of 2007. We raised $73.79 billion in net cash from financing and investing activities, primarily through the issuance of unsecured borrowings, partially offset by common stock repurchases. We used net cash of $68.20 billion in our operating activities, primarily to capitalize on trading and investing opportunities for our clients and ourselves.

Year Ended November 2006. Our cash and cash equivalents decreased by $3.97 billion to $6.29 billion at the end of 2006. We raised $64.09 billion in net cash from financing activities, primarily in long-term borrowings as well as through secured financings, partially offset by common stock repurchases. We used net cash of $68.06 billion in our operating and investing activities, primarily to capitalize on trading and investing opportunities for our clients and ourselves.

Operational Risk

Operational risk relates to the risk of loss arising from shortcomings or failures in internal processes, people or systems, or from external events. Operational risk can arise from many factors ranging from routine processing errors to potentially costly incidents related to, for example, major systems failures. Operational risk may also cause 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 which are supported by 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 across Goldman Sachs; and a framework of strong and independent control departments that monitor operational risk on a daily basis. Together, these elements form a strong firmwide control culture that serves as the foundation of our efforts to minimize operational risk exposure.

The Operational Risk Department, an independent risk management function, is responsible for developing and implementing a standardized framework to identify, measure, monitor, and report operational risks to support active risk management across Goldman Sachs. This framework, which evolves with the changing needs of our businesses and regulatory guidance, incorporates analysis of internal and external operational risk events, business environment and internal control factors, and scenario analysis. The framework also provides regular reporting of our operational risk exposures to our Board, risk committees and senior management. For a further discussion of operational risk see Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K.

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Recent Accounting Developments

FIN No. 48. In June 2006, the FASB issued FIN No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109. FIN No. 48 requires that we determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets this recognition threshold, the position is measured to determine the amount of benefit to be recognized in the financial statements. We will adopt the provisions of FIN No. 48 in the first quarter of 2008. Adoption of FIN No. 48 will not have a material effect on our financial condition, results of operations or cash flows.

SFAS No. 157. In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under SFAS No. 157, fair value measurements are not adjusted for transaction costs.

SFAS No. 157 nullifies the guidance included in 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, that prohibited the recognition of a day one gain or loss on derivative contracts (and hybrid financial instruments measured at fair value under SFAS No. 155) where we were unable to verify all of the significant model inputs to observable market data and/or verify the model to market transactions. However, SFAS No. 157 requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model.

In addition, SFAS No. 157 prohibits the recognition of block discounts for large holdings of unrestricted financial instruments where quoted prices are readily and regularly available for an identical asset or liability in an active market.

The provisions of SFAS No. 157 are to be applied prospectively, except changes in fair value measurements that result from the initial application of SFAS No. 157 to existing derivative financial instruments measured under EITF Issue No. 02-3, existing hybrid financial instruments measured at fair value and block discounts, all of which are to be recorded as an adjustment to beginning retained earnings in the year of adoption.

We adopted SFAS No. 157 as of the beginning of 2007. The transition adjustment to beginning retained earnings was a gain of $51 million, net of tax. For the first quarter of 2007, the effect of the nullification of EITF Issue No. 02-3 and the removal of liquidity discounts for actively traded positions was not material. In addition, under SFAS No. 157, gains on principal investments are recorded in the absence of substantial third-party transactions if market evidence is sufficient. In the first quarter of 2007, we recorded approximately $500 million of such gains as a result of adopting SFAS No. 157.

SFAS No. 158. In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132-R. SFAS No. 158 requires an entity to recognize in its statement of financial condition the funded status of its defined benefit pension and postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation. SFAS No. 158 also requires an entity to recognize changes in the funded status of a defined benefit pension and postretirement plan within accumulated other comprehensive income, net of tax, to the extent such changes are not recognized in earnings as components of periodic net benefit cost. SFAS No. 158 is effective as of the

end of the fiscal year ending after December 15, 2006. We adopted SFAS No. 158 as of the end of 2007. The adjustment to accumulated other comprehensive loss for the initial application of SFAS No. 158 was $194 million, net of tax.

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SFAS No. 159. In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which gives entities the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not accounted for at fair value under other accounting standards. The election to use the fair value option is available at specified election dates, such as when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. Additionally, SFAS No. 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings.

We adopted SFAS No. 159 as of the beginning of 2007 and elected to apply the fair value option to the following financial assets and liabilities existing at the time of adoption:

- certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper;
- certain other secured financings, primarily transfers accounted for as financings rather than sales under SFAS No. 140 and debt raised through our William Street program;
- certain unsecured long-term borrowings, including prepaid physical commodity transactions;
- resale and repurchase agreements;
- securities borrowed and loaned within Trading and Principal Investments, consisting of our matched book and certain firm financing activities;
- securities held by GS Bank USA, which were previously accounted for as available-for-sale; and
- receivables from customers and counterparties arising from transfers accounted for as secured loans rather than purchases under SFAS No. 140.

The transition adjustment to beginning retained earnings related to the adoption of SFAS No. 159 was a loss of $45 million, net of tax, substantially all of which related to applying the fair value option to prepaid physical commodity transactions.

Subsequent to the adoption of SFAS No. 159, we have elected to apply the fair value option (i) to new positions within the above categories, (ii) to corporate loans, corporate loan commitments and certificates of deposit issued by GS Bank USA and (iii) generally to investments where we would otherwise apply the equity method of accounting. In certain cases, we may continue to apply the equity method of accounting to those investments which are strategic in nature or closely related to our principal business activities, where we have a significant degree of involvement in the cash flows or operations of the investee, and/or where cost-benefit considerations are less significant.

The primary reasons for electing the fair value option are mitigating volatility in earnings from using different measurement attributes, simplification and cost-benefit considerations.

SOP No. 07-1 and FSP FIN No. 46-R-7. In June 2007, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) No. 07-1, Clarification of the Scope of the Audit and Accounting Guide Audits of Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies. SOP No. 07-1 clarifies when an entity may apply the provisions of the Audit and Accounting Guide for Investment Companies (the Guide). In May 2007, the FASB issued FSP FIN No. 46-R-7, Application of FIN 46-R to Investment Companies, which amends FIN No. 46-R to make permanent the temporary

deferral of the application of FIN No. 46-R to entities within the scope of the revised Guide under SOP No. 07-1. FSP FIN No. 46-R-7 is effective upon adoption of SOP No. 07-1. In November 2007, the FASB issued Proposed FSP SOP No. 07-1-a, The Effective Date of AICPA Statement of Position 07-1, which proposes to indefinitely defer the effective date for SOP No. 07-01 and, consequently, FSP FIN No. 46-R-7.

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EITF Issue No. 06-11. In June 2007, the EITF reached consensus on Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF Issue No. 06-11 requires that the tax benefit related to dividend equivalents paid on restricted stock units, which are expected to vest, be recorded as an increase to additional paid-in capital. We currently account for this tax benefit as a reduction to income tax expense. EITF Issue No. 06-11 is to be applied prospectively for tax benefits on dividends declared in fiscal years beginning after December 15, 2007, and we expect to adopt the provisions of EITF Issue No. 06-11 beginning in the first quarter of 2009. We are currently evaluating the impact of adopting EITF Issue No. 06-11 on our financial condition, results of operations and cash flows.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosure about market risk is set forth under Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management in Part II, Item 7 of the Annual Report on Form 10-K.

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Item 8. Financial Statements and Supplementary Data

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Management s Report on Internal Control over Financial Reporting

Management of The Goldman Sachs Group, Inc., together with its consolidated subsidiaries (the firm), is responsible for establishing and maintaining adequate internal control over financial reporting. The firm s internal control over financial reporting is a process designed under the supervision of the firm s principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the firm s financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of the end of the firm s 2007 fiscal year, management conducted an assessment of the effectiveness of the firm s internal control over financial reporting based on the framework established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the firm s internal control over financial reporting as of November 30, 2007 was effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the firm; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the firm s assets that could have a material effect on our financial statements.

The firm s internal control over financial reporting as of November 30, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing on page 108, which expresses an unqualified opinion on the effectiveness of the firm s internal control over financial reporting as of November 30, 2007.

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Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of The Goldman Sachs Group, Inc. and its subsidiaries (the Company) at November 30, 2007 and November 24, 2006, and the results of its operations and its cash flows for each of the three fiscal years in the period ended November 30, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of November 30, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing on page 107. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, the Company has adopted SFAS No. 157, Fair Value Measurements and SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York
January 24, 2008

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended November		
	2007	2006	2005
	(in millions, except per share amounts)		
Revenues			
Investment banking	$ 7,555	$ 5,613	$ 3,599
Trading and principal investments	29,714	24,027	15,452
Asset management and securities services	4,731	4,527	3,090
Interest income	45,968	35,186	21,250
Total revenues	87,968	69,353	43,391
Interest expense	41,981	31,688	18,153
Revenues, net of interest expense	45,987	37,665	25,238
Operating expenses			
Compensation and benefits	20,190	16,457	11,758
Brokerage, clearing, exchange and distribution fees	2,758	1,985	1,416
Market development	601	492	378
Communications and technology	665	544	490
Depreciation and amortization	624	521	501
Amortization of identifiable intangible assets	195	173	124
Occupancy	975	850	728
Professional fees	714	545	475
Cost of power generation	335	406	386
Other expenses	1,326	1,132	709
Total non-compensation expenses	8,193	6,648	5,207
Total operating expenses	28,383	23,105	16,965
Pre-tax earnings	17,604	14,560	8,273
Provision for taxes	6,005	5,023	2,647
Net earnings	11,599	9,537	5,626
Preferred stock dividends	192	139	17
Net earnings applicable to common shareholders	$ 11,407	$ 9,398	$ 5,609
Earnings per common share			
Basic	$ 26.34	$ 20.93	$ 11.73

Diluted	24.73	19.69	11.21
Average common shares outstanding			
Basic	433.0	449.0	478.1
Diluted	461.2	477.4	500.2

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

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	As of November	
	2007	**2006**
	(in millions, except share and per share amounts)	
Assets		
Cash and cash equivalents	$ 11,882	$ 6,293
Cash and securities segregated for regulatory and other purposes (includes $94,018 and $20,723 at fair value as of November 2007 and November 2006, respectively)	119,939	80,990
Receivables from brokers, dealers and clearing organizations	19,078	13,223
Receivables from customers and counterparties (includes $1,950 at fair value as of November 2007)	129,105	79,790
Collateralized agreements:		
Securities borrowed (includes $83,277 at fair value as of November 2007)	277,413	219,342
Financial instruments purchased under agreements to resell (includes $85,717 at fair value as of November 2007)	85,717	82,126
Financial instruments owned, at fair value	406,457	298,563
Financial instruments owned and pledged as collateral, at fair value	46,138	35,998
Total financial instruments owned, at fair value	452,595	334,561
Other assets	24,067	21,876
Total assets	$ 1,119,796	$ 838,201
Liabilities and shareholders equity		
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes $48,331 and $10,220 at fair value as of November 2007 and November 2006, respectively)	$ 71,557	$ 47,904
Bank deposits (includes $463 at fair value as of November 2007)	15,370	10,697
Payables to brokers, dealers and clearing organizations	8,335	6,293
Payables to customers and counterparties	310,118	206,884
Collateralized financings:		
Securities loaned (includes $5,449 at fair value as of November 2007)	28,624	22,208
Financial instruments sold under agreements to repurchase (includes $159,178 at fair value as of November 2007)	159,178	147,492
Other secured financings (includes $33,581 and $3,300 at fair value as of November 2007 and November 2006, respectively)	65,710	50,424
Financial instruments sold, but not yet purchased, at fair value	215,023	155,805
Other liabilities and accrued expenses	38,907	31,866
Unsecured long-term borrowings (includes $15,928 and $7,250 at fair value as of November 2007 and November 2006, respectively)	164,174	122,842
Total liabilities	1,076,996	802,415

Commitments, contingencies and guarantees

Shareholders equity		
Preferred stock, par value $0.01 per share; 150,000,000 shares authorized, 124,000 shares issued and outstanding as of both November 2007 and November 2006, with liquidation preference of $25,000 per share	3,100	3,100
Common stock, par value $0.01 per share; 4,000,000,000 shares authorized, 618,707,032 and 599,697,200 shares issued as of November 2007 and November 2006, respectively, and 390,682,013 and 412,666,084 shares outstanding as of November 2007 and November 2006, respectively	6	6
Restricted stock units and employee stock options	9,302	6,290
Nonvoting common stock, par value $0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	22,027	19,731
Retained earnings	38,642	27,868
Accumulated other comprehensive income/(loss)	(118)	21
Common stock held in treasury, at cost, par value $0.01 per share; 228,025,019 and 187,031,116 shares as of November 2007 and November 2006, respectively	(30,159)	(21,230)
Total shareholders equity	42,800	35,786
Total liabilities and shareholders equity	$ 1,119,796	$ 838,201

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

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

	Year Ended November		
	2007	2006	2005
	(in millions, except per share amounts)		
Preferred stock			
Balance, beginning of year	$ 3,100	$ 1,750	$
Issued		1,350	1,750
Balance, end of year	3,100	3,100	1,750
Common stock, par value $0.01 per share			
Balance, beginning of year	6	6	6
Issued			
Balance, end of year	6	6	6
Restricted stock units and employee stock options			
Balance, beginning of year	6,290	3,415	2,013
Issuance and amortization of restricted stock units and employee stock options	4,684	3,787	1,871
Delivery of common stock underlying restricted stock units	(1,548)	(781)	(423)
Forfeiture of restricted stock units and employee stock options	(113)	(129)	(37)
Exercise of employee stock options	(11)	(2)	(9)
Balance, end of year	9,302	6,290	3,415
Additional paid-in capital			
Balance, beginning of year	19,731	17,159	15,501
Issuance of common stock, including the delivery of common stock underlying restricted stock units and proceeds from the exercise of employee stock options	2,338	2,432	1,580
Cancellation of restricted stock units in satisfaction of withholding tax requirements	(929)	(375)	(163)
Stock purchase contract fee related to automatic preferred enhanced capital securities	(20)		
Preferred stock issuance costs		(1)	(31)
Excess net tax benefit related to share-based compensation	908	653	272
Cash settlement of share-based compensation	(1)	(137)	
Balance, end of year	22,027	19,731	17,159
Retained earnings			
Balance, beginning of year, as previously reported	27,868	19,085	13,970
Cumulative effect of adjustment from adoption of SFAS No. 157, net of tax	51		
Cumulative effect of adjustment from adoption of SFAS No. 159, net of tax	(45)		

Balance, beginning of year, after cumulative effect of adjustments	27,874	19,085	13,970
Net earnings	11,599	9,537	5,626
Dividends and dividend equivalents declared on common stock and restricted stock units	(639)	(615)	(494)
Dividends declared on preferred stock	(192)	(139)	(17)
Balance, end of year	38,642	27,868	19,085
Unearned compensation			
Balance, beginning of year			(117)
Amortization of restricted stock units			117
Balance, end of year			
Accumulated other comprehensive income/(loss)			
Balance, beginning of year	21		11
Adjustment from adoption of SFAS No. 158, net of tax	(194)		
Currency translation adjustment, net of tax	39	45	(27)
Minimum pension liability adjustment, net of tax	38	(27)	(11)
Net gains/(losses) on cash flow hedges, net of tax	(2)	(7)	9
Net unrealized gains/(losses) on available-for-sale securities, net of tax	(12)	10	18
Reclassification to retained earnings from adoption of SFAS No. 159, net of tax	(8)		
Balance, end of year	(118)	21	
Common stock held in treasury, at cost			
Balance, beginning of year	(21,230)	(13,413)	(6,305)
Repurchased	(8,956)	(7,817)	(7,108)
Reissued	27		
Balance, end of year	(30,159)	(21,230)	(13,413)
Total shareholders equity	$ 42,800	$ 35,786	$ 28,002

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

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended November		
	2007	2006	2005
	(in millions)		
Cash flows from operating activities			
Net earnings	$ 11,599	$ 9,537	$ 5,626
Non-cash items included in net earnings			
Depreciation and amortization	916	749	689
Amortization of identifiable intangible assets	251	246	165
Deferred income taxes	129	(1,505)	(450)
Share-based compensation	4,465	3,654	1,756
Changes in operating assets and liabilities			
Cash and securities segregated for regulatory and other purposes	(39,079)	(21,044)	(3,226)
Net receivables from brokers, dealers and clearing organizations	(3,811)	(1,794)	1,322
Net payables to customers and counterparties	53,857	9,823	2,953
Securities borrowed, net of securities loaned	(51,655)	(28,666)	(32,777)
Financial instruments sold under agreements to repurchase, net of financial instruments purchased under agreements to resell	8,095	(42)	62,269
Financial instruments owned, at fair value	(118,864)	(48,479)	(66,899)
Financial instruments sold, but not yet purchased, at fair value	57,938	6,384	16,974
Other, net	7,962	12,823	(815)
Net cash used for operating activities	(68,197)	(58,314)	(12,413)
Cash flows from investing activities			
Purchase of property, leasehold improvements and equipment	(2,130)	(1,744)	(1,421)
Proceeds from sales of property, leasehold improvements and equipment	93	69	639
Business acquisitions, net of cash acquired	(1,900)	(1,661)	(556)
Proceeds from sales of investments	4,294	2,114	274
Purchase of available-for-sale securities	(872)	(12,922)	
Proceeds from sales of available-for-sale securities	911	4,396	
Net cash provided by/(used for) investing activities	396	(9,748)	(1,064)
Cash flows from financing activities			
Unsecured short-term borrowings, net	12,262	(4,031)	(5)
Other secured financings (short-term), net	2,780	16,856	2,238
Proceeds from issuance of other secured financings (long-term)	21,703	14,451	7,279
Repayment of other secured financings (long-term), including the current portion	(7,355)	(7,420)	(5,941)
Proceeds from issuance of unsecured long-term borrowings	57,516	48,839	35,898
Repayment of unsecured long-term borrowings, including the current portion	(14,823)	(13,510)	(16,399)

Derivative contracts with a financing element, net	4,814	3,494	1,060
Bank deposits, net	4,673	10,697	
Common stock repurchased	(8,956)	(7,817)	(7,108)
Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units	(831)	(754)	(511)
Proceeds from issuance of common stock	791	1,613	1,143
Proceeds from issuance of preferred stock, net of issuance costs		1,349	1,719
Excess tax benefit related to share-based compensation	817	464	
Cash settlement of share-based compensation	(1)	(137)	
Net cash provided by financing activities	73,390	64,094	19,373
Net increase/(decrease) in cash and cash equivalents	5,589	(3,968)	5,896
Cash and cash equivalents, beginning of year	6,293	10,261	4,365
Cash and cash equivalents, end of year	$ 11,882	$ 6,293	$ 10,261

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest, net of capitalized interest, were $40.74 billion, $30.98 billion and $17.49 billion for the years ended November 2007, November 2006 and November 2005, respectively.

Cash payments for income taxes, net of refunds, were $5.78 billion, $4.56 billion and $2.47 billion for the years ended November 2007, November 2006 and November 2005, respectively.

Non-cash activities:
The firm assumed $409 million, $498 million and $1.15 billion of debt in connection with business acquisitions for the years ended November 2007, November 2006 and November 2005, respectively. For the year ended November 2007, the firm issued $17 million of common stock in connection with business acquisitions.

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

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended November		
	2007	**2006**	**2005**
	(in millions)		
Net earnings	$ 11,599	$ 9,537	$ 5,626
Currency translation adjustment, net of tax	39	45	(27)
Minimum pension liability adjustment, net of tax	38	(27)	(11)
Net gains/(losses) on cash flow hedges, net of tax	(2)	(7)	9
Net unrealized gains/(losses) on available-for-sale securities, net of tax	(12)	10	18
Comprehensive income	$ 11,662	$ 9,558	$ 5,615

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

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Business

The Goldman Sachs Group, Inc. (Group Inc.), a Delaware corporation, together with its consolidated subsidiaries (collectively, the firm), is a 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, investment funds, governments and individuals.

Trading and Principal Investments. The firm facilitates client transactions with a diverse group of corporations, financial institutions, investment funds, governments and individuals and takes proprietary positions through market making in, trading of and investing in fixed income and equity products, currencies, commodities and derivatives on these products. In addition, the firm engages in market-making and specialist activities on equities and options exchanges and clears client transactions on major stock, options and futures exchanges worldwide. In connection with the firm s merchant banking and other investing activities, the firm makes principal investments directly and through funds that the firm raises and manages.

Asset Management and Securities Services. The firm provides investment advisory and financial planning services and offers investment products (primarily through separately managed accounts and commingled vehicles, such as mutual funds and private investment funds) across all major asset classes to a diverse group of institutions and individuals worldwide and provides prime brokerage services, financing services and securities lending services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and to high-net-worth individuals worldwide.

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) or a qualifying special-purpose entity (QSPE) under generally accepted accounting principles.

Voting Interest Entities. Voting interest entities are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance its activities independently and (ii) the equity holders have 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 a majority voting interest.

Variable Interest Entities. VIEs are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an enterprise has a variable interest, or a combination of variable interests, that will absorb a majority of the

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

VIE s expected losses, receive a majority of the VIE s expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. In accordance with Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46-R, Consolidation of Variable Interest Entities, the firm consolidates VIEs for which it is the primary beneficiary. The firm determines whether it is the primary beneficiary of a VIE by first performing a qualitative analysis of the VIE that includes a review of, among other factors, its capital structure, contractual terms, which interests create or absorb variability, related party relationships and the design of the VIE. Where qualitative analysis is not conclusive, the firm performs a quantitative analysis. For purposes of allocating a VIE s expected losses and expected residual returns to its variable interest holders, the firm utilizes the top down method. Under that method, the firm calculates its share of the VIE s expected losses and expected residual returns using the specific cash flows that would be allocated to it, based on contractual arrangements and/or the firm s position in the capital structure of the VIE, under various probability-weighted scenarios.

QSPEs. QSPEs are passive entities that are commonly used in mortgage and other securitization transactions. Statement of Financial Accounting Standards (SFAS) No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, sets forth the criteria an entity must satisfy to be a QSPE. These criteria include the types of assets a QSPE may hold, limits on asset sales, the use of derivatives and financial guarantees, and the level of discretion a servicer may exercise in attempting to collect receivables. These criteria may require management to make judgments about complex matters, including whether a derivative is considered passive and the degree of discretion a servicer may exercise. In accordance with SFAS No. 140 and FIN No. 46-R, the firm does not consolidate QSPEs.

Equity-Method Investments. 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 interest of 20% to 50%) and has an investment in common stock or in-substance common stock, 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. For investments acquired subsequent to the adoption of SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, the firm generally has elected to apply the fair value option in accounting for such investments. See Recent Accounting Developments for a discussion of the firm s adoption of SFAS No. 159.

Other. If the firm does not consolidate an entity or apply the equity method of accounting, the firm accounts for its investment at fair value. The firm also has formed numerous nonconsolidated investment funds with third-party investors that are typically organized as limited partnerships. The firm acts as general partner for these funds and generally does not hold a majority of the economic interests in these funds. The firm has generally provided the third-party investors with rights to terminate the funds or to remove the firm as the general partner. These fund investments are included in Financial instruments owned, at fair value in the consolidated statements of financial condition.

Unless otherwise stated herein, all references to November 2007, November 2006 and November 2005 refer to the firm s fiscal years ended, or the dates, as the context requires, November 30, 2007, November 24, 2006 and November 25, 2005, respectively. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Use of Estimates

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles that require management to make certain estimates and assumptions. The most important of these estimates and assumptions relate to fair value measurements, the accounting for goodwill and identifiable intangible assets and the provision for potential losses that may arise from litigation and regulatory proceedings and tax audits. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

Revenue Recognition

Investment Banking. Underwriting revenues and fees from mergers and acquisitions and other financial advisory assignments are recognized in the consolidated statements of earnings 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 financial advisory transactions are recorded as non-compensation expenses, net of client reimbursements.

Financial Instruments. Total financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value are reflected in the consolidated statements of financial condition on a trade-date basis. Related unrealized gains or losses are generally recognized in Trading and principal investments in the consolidated statements of earnings. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Instruments that the firm owns (long positions) are marked to bid prices, and instruments that the firm has sold, but not yet purchased (short positions), are marked to offer prices. Fair value measurements are not adjusted for transaction costs.

The firm adopted SFAS No. 157, Fair Value Measurements, as of the beginning of 2007. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Basis of Fair Value Measurement

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2	Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;
Level 3	Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. See Recent Accounting Developments for a discussion of the impact of adopting SFAS No. 157.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In determining fair value, the firm separates its Financial instruments owned, at fair value and its Financial instruments sold, but not yet purchased, at fair value into two categories: cash instruments and derivative contracts.

Cash Instruments. The firm s cash instruments are generally classified within level 1 or level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, many other sovereign government obligations, active listed equities and most money market securities. Such instruments are generally classified within level 1 of the fair value hierarchy. The firm does not adjust the quoted price for such instruments, even in situations where the firm holds a large position and a sale could reasonably impact the quoted price.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, most mortgage products, certain corporate bank and bridge loans, less liquid listed equities, state, municipal and provincial obligations, most physical commodities and certain loan commitments. Such instruments are generally classified within level 2 of the fair value hierarchy.

Certain cash instruments are classified within level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price transparency. Such instruments include private equity and real estate fund investments, certain corporate bank and bridge loans, less liquid mortgage whole loans, distressed debt instruments and certain loan commitments. The transaction price is initially used as the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so that the model value at inception equals the transaction price. This valuation is adjusted only when changes to inputs and assumptions are corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows.

For positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management s best estimate is used.

Derivative Contracts. Derivative contracts can be exchange-traded or over-the-counter (OTC). Exchange-traded derivatives typically fall within level 1 or level 2 of the fair value hierarchy depending on whether they are deemed to be actively traded or not. The firm generally values exchange-traded derivatives within portfolios using models which calibrate to market clearing levels and eliminate timing differences between the closing price of the exchange-traded derivatives and their underlying cash instruments. In such cases, exchange-traded derivatives are classified within level 2 of the fair value hierarchy.

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Where models are used, the selection of a particular model to value an OTC derivative depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. The firm generally

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgment. Such instruments are typically classified within level 2 of the fair value hierarchy.

Certain OTC derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. Such instruments are classified within level 3 of the fair value hierarchy. Where the firm does not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, transaction price is initially used as the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so that the model value at inception equals the transaction price. The valuations of these less liquid OTC derivatives are typically based on level 1 and/or level 2 inputs that can be observed in the market, as well as unobservable level 3 inputs. Subsequent to initial recognition, the firm updates the level 1 and level 2 inputs to reflect observable market changes, with resulting gains and losses reflected within level 3. Level 3 inputs are only changed when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker or dealer quotations, or other 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.

When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management s best estimate is used.

Collateralized Agreements and Financings. Collateralized agreements consist of resale agreements and securities borrowed. Collateralized financings consist of repurchase agreements, securities loaned and other secured financings. Interest on collateralized agreements and collateralized financings is recognized in Interest income or Interest expense, respectively, over the life of the transaction.

Resale and Repurchase Agreements. Financial instruments purchased under agreements to resell and financial instruments sold under agreements to repurchase, principally U.S. government, federal agency and investment-grade sovereign obligations, represent collateralized financing transactions. The firm receives financial instruments purchased under agreements to resell, makes delivery of financial instruments sold under agreements to repurchase, monitors the market value of these financial instruments on a daily basis and delivers or obtains additional collateral as appropriate. Resale and repurchase agreements are carried in the consolidated statements of financial condition at fair value as allowed by SFAS No. 159. Prior to the adoption of SFAS No. 159, these transactions were recorded at contractual amounts plus accrued interest. Resale and repurchase agreements are generally valued based on inputs with reasonable levels of price transparency and are classified within level 2 of the fair value hierarchy. Resale and repurchase agreements 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, or FIN No. 39, Offsetting of Amounts Related to Certain Contracts, are satisfied.

Securities Borrowed and Loaned. Securities borrowed and loaned are generally collateralized by cash, securities or letters of credit. The firm receives securities borrowed, makes delivery of securities loaned,

monitors the market value of securities borrowed and

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

loaned, and delivers or obtains additional collateral as appropriate. Securities borrowed and loaned within Securities Services, relating to both customer activities and, to a lesser extent, certain firm financing activities, are recorded based on the amount of cash collateral advanced or received plus accrued interest. As these arrangements are generally transacted on-demand, they exhibit little, if any, sensitivity to changes in interest rates. Securities borrowed and loaned within Trading and Principal Investments, which are related to the firm s matched book and certain firm financing activities, are recorded at fair value as allowed by SFAS No. 159. Prior to the adoption of SFAS No. 159, these transactions were recorded based on the amount of cash collateral advanced or received plus accrued interest. These securities borrowed and loaned transactions are generally valued based on inputs with reasonable levels of price transparency and are classified within level 2 of the fair value hierarchy.

Other Secured Financings. In addition to repurchase agreements and securities loaned, the firm funds assets through the use of other secured financing arrangements and pledges financial instruments and other assets as collateral in these transactions. SFAS No. 159 has been adopted for those financings for which the use of fair value would eliminate non-economic volatility in earnings from using different measurement attributes (i.e., assets recorded at fair value with related nonrecourse financings recorded based on the amount of cash received plus accrued interest), primarily transfers accounted for as financings rather than sales under SFAS No. 140 and debt raised through the firm s William Street program. These other secured financing transactions are generally valued based on inputs with reasonable levels of price transparency and are classified within level 2 of the fair value hierarchy. Other secured financings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest. See Note 3 for further information regarding other secured financings.

Hybrid Financial Instruments. Hybrid financial instruments are instruments that contain bifurcatable embedded derivatives under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and do not require settlement by physical delivery of non-financial assets (e.g., physical commodities). If the firm elects to bifurcate the embedded derivative, it is accounted for at fair value and the host contract is accounted for at amortized cost, adjusted for the effective portion of any fair value hedge accounting relationships. If the firm does not elect to bifurcate, the entire hybrid financial instrument is accounted for at fair value under SFAS No. 155, Accounting for Certain Hybrid Financial
Instruments an amendment of FASB Statements No. 133 and 140. The primary reasons for electing the fair value option for hybrid financial instruments are mitigating volatility in earnings from using different measurement attributes, simplification and cost-benefit considerations. See Notes 3 and 4 for additional information about hybrid financial instruments.

Transfers of Financial Assets. 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 collateralized financings, with the related interest expense recognized in net revenues over the life of the transaction.

Power Generation. Power generation revenues associated with the firm s consolidated power generation facilities are included in Trading and principal investments in the consolidated statements of earnings when power is delivered. These revenues were $421 million, $553 million and $496 million for the years ended November 2007, November 2006 and November 2005, respectively. Direct employee costs associated with the firm s consolidated power

generation facilities of $97 million, $78 million and $70 million for the years ended November 2007, November 2006 and November 2005, respectively, are included in Compensation and benefits. The other direct costs associated with

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

these power generation facilities and related contractual assets are included in Cost of power generation.

Commissions. Commission revenues from executing and clearing client transactions on stock, options and futures markets worldwide are recognized in Trading and principal investments in the consolidated statements of earnings on a trade-date basis.

Insurance Activities. Revenues from variable annuity and life insurance contracts, and from providing reinsurance of such contracts, generally consist of fees assessed on contract holder account balances for mortality charges, policy administration and surrender charges. These fees are recognized within Trading and principal investments in the consolidated statements of earnings in the period that services are provided.

Interest credited to variable annuity and life insurance account balances and changes in reserves are recognized in Other expenses in the consolidated statements of earnings.

Premiums earned for providing property catastrophe reinsurance are recognized within Trading and principal investments in the consolidated statements of earnings over the coverage period, net of premiums ceded for the cost of reinsurance. Expenses for liabilities related to property catastrophe reinsurance claims, including estimates of claims that have been incurred but not reported, are recognized within Other expenses 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 of override 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.

Asset Management. Management fees are recognized over the period that the related service is provided based upon average net asset values. In certain circumstances, the firm is also entitled to receive incentive fees based on a percentage of a fund s return or when the return on assets under management exceeds specified benchmark returns or other performance targets. Incentive fees are generally based on investment performance over a 12-month period and are subject to adjustment prior to the end of the measurement period. 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.

Share-Based Compensation

In the first quarter of 2006, the firm adopted SFAS No. 123-R, Share-Based Payment, which is a revision to SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123-R focuses primarily on accounting for transactions in which an entity obtains employee services in exchange for share-based payments. Under SFAS No. 123-R, the cost of employee services received in exchange for a share-based award is generally measured based on the grant-date fair value of the award. Under SFAS No. 123-R, share-based awards that do not require future service (i.e., vested awards, including awards granted to retirement-eligible employees) are expensed immediately.

Share-based employee awards that require future service are amortized over the relevant service period. The firm adopted SFAS No. 123-R under the modified prospective adoption method. Under that method of adoption, the provisions of SFAS No. 123-R are generally applied only to share-based awards granted subsequent

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to adoption. Share-based awards held by employees that were retirement-eligible on the date of adoption of SFAS No. 123-R must continue to be amortized over the stated service period of the award (and accelerated if the employee actually retires). SFAS No. 123-R requires expected forfeitures to be included in determining share-based employee compensation expense.

The firm pays cash dividend equivalents on outstanding restricted stock units. Dividend equivalents paid on restricted stock units accounted for under SFAS No. 123 and SFAS No. 123-R are charged to retained earnings. SFAS No. 123-R requires dividend equivalents paid on restricted stock units expected to be forfeited to be included in compensation expense. Prior to the adoption of SFAS No. 123-R, dividend equivalents paid on restricted stock units that were later forfeited by employees were reclassified to compensation expense from retained earnings. The tax benefit related to dividend equivalents paid on restricted stock units is accounted for as a reduction of income tax expense (see Recent Accounting Developments for a discussion of Emerging Issues Task Force (EITF) Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards).

In certain cases, primarily related to the death of an employee or conflicted employment (as outlined in the applicable award agreements), the firm may cash settle share-based compensation awards. For awards accounted for as equity instruments, Additional paid-in capital is adjusted to the extent of the difference between the current value of the award and the grant-date value of the award.

Goodwill

Goodwill is the cost of acquired companies in excess of the fair value of identifiable net assets at acquisition date. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is tested at least annually for impairment. An impairment loss is triggered if the estimated fair value of an operating segment, which is a component one level below the firm s three business segments, 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, specialist rights and the value of business acquired (VOBA) and deferred acquisition costs (DAC) in the firm s insurance subsidiaries, are amortized over their estimated useful lives in accordance with SFAS No. 142. 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 sum of the estimated undiscounted cash flows relating to the asset or asset group is 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.

Substantially all property and equipment are depreciated on a straight-line basis over the useful life of the asset. Leasehold improvements are amortized on a straight-line basis over the useful life of the improvement or the term of the lease, whichever is shorter. Certain costs of software developed or obtained for internal use are capitalized and amortized on a straight-line basis over the useful life of the software.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property, leasehold improvements and equipment 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. 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 sum of the expected undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

The firm s operating leases include space held in excess of current requirements. Rent expense relating to space held for growth is included in Occupancy in the consolidated statements of earnings. In accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, the firm records a liability, based on the fair value of the remaining lease rentals reduced by any potential or existing sublease rentals, for leases where the firm has ceased using the space and management has concluded that the firm will not derive any future economic benefits. Costs to terminate a lease before the end of its term are recognized and measured at fair value upon termination.

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 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 and taxes, in the consolidated statements of comprehensive income. The firm seeks to reduce its net investment exposure to fluctuations in foreign exchange rates through the use of foreign currency forward contracts and foreign currency-denominated debt. For foreign currency forward contracts, 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. For foreign currency-denominated debt, hedge effectiveness is assessed based on changes in spot rates. Foreign currency remeasurement gains or losses on transactions in nonfunctional currencies are included in the consolidated statements of earnings.

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. Tax provisions are computed in accordance with SFAS No. 109, Accounting for Income Taxes. Contingent liabilities related to income taxes are recorded when the criteria for loss recognition under SFAS No. 5, Accounting for Contingencies, as amended, have been met (see Recent Accounting Developments below for a discussion of the impact of FIN No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109, on SFAS No. 109).

Earnings Per Common Share (EPS)

Basic EPS is calculated by dividing net earnings applicable to common shareholders 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 to

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

restricted stock units for which future service is required as a condition to the delivery of the underlying common stock.

Cash and Cash Equivalents

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

Recent Accounting Developments

FIN No. 48. In June 2006, the FASB issued FIN No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109. FIN No. 48 requires that the firm determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets this recognition threshold, the position is measured to determine the amount of benefit to be recognized in the financial statements. The firm will adopt the provisions of FIN No. 48 in the first quarter of 2008. Adoption of FIN No. 48 will not have a material effect on the firm s financial condition, results of operations or cash flows.

SFAS No. 157. In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under SFAS No. 157, fair value measurements are not adjusted for transaction costs.

SFAS No. 157 nullifies the guidance included in 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, that prohibited the recognition of a day one gain or loss on derivative contracts (and hybrid financial instruments measured at fair value under SFAS No. 155) where the firm was unable to verify all of the significant model inputs to observable market data and/or verify the model to market transactions. However, SFAS No. 157 requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model.

In addition, SFAS No. 157 prohibits the recognition of block discounts for large holdings of unrestricted financial instruments where quoted prices are readily and regularly available for an identical asset or liability in an active market.

The provisions of SFAS No. 157 are to be applied prospectively, except changes in fair value measurements that result from the initial application of SFAS No. 157 to existing derivative financial instruments measured under EITF Issue No. 02-3, existing hybrid financial instruments measured at fair value and block discounts, all of which are to be recorded as an adjustment to beginning retained earnings in the year of adoption.

The firm adopted SFAS No. 157 as of the beginning of 2007. The transition adjustment to beginning retained earnings was a gain of $51 million, net of tax. For the first quarter of 2007, the effect of the nullification of EITF Issue No. 02-3 and the removal of liquidity discounts for actively traded positions was not material. In addition, under SFAS No. 157, gains on principal investments are recorded in the absence of substantial third-party transactions if

market evidence is sufficient. In the first quarter of 2007, the firm recorded approximately $500 million of such gains as a result of adopting SFAS No. 157.

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SFAS No. 158. In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132-R. SFAS No. 158 requires an entity to recognize in its statement of financial condition the funded status of its defined benefit pension and postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation. SFAS No. 158 also requires an entity to recognize changes in the funded status of a defined benefit pension and postretirement plan within accumulated other comprehensive income, net of tax, to the extent such changes are not recognized in earnings as components of periodic net benefit cost. SFAS No. 158 is effective as of the end of the fiscal year ending after December 15, 2006. The firm adopted SFAS No. 158 as of the end of 2007. The adjustment to accumulated other comprehensive loss for the initial application of SFAS No. 158 was $194 million, net of tax.

SFAS No. 159. In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which gives entities the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not accounted for at fair value under other accounting standards. The election to use the fair value option is available at specified election dates, such as when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. Additionally, SFAS No. 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings.

The firm adopted SFAS No. 159 as of the beginning of 2007 and elected to apply the fair value option to the following financial assets and liabilities existing at the time of adoption:

- certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper;
- certain other secured financings, primarily transfers accounted for as financings rather than sales under SFAS No. 140 and debt raised through the firm s William Street program;
- certain unsecured long-term borrowings, including prepaid physical commodity transactions;
- resale and repurchase agreements;
- securities borrowed and loaned within Trading and Principal Investments, consisting of the firm s matched book and certain firm financing activities;
- securities held by Goldman Sachs Bank USA (GS Bank USA), which were previously accounted for as available-for-sale; and
- receivables from customers and counterparties arising from transfers accounted for as secured loans rather than purchases under SFAS No. 140.

The transition adjustment to beginning retained earnings related to the adoption of SFAS No. 159 was a loss of $45 million, net of tax, substantially all of which related to applying the fair value option to prepaid physical commodity transactions.

Subsequent to the adoption of SFAS No. 159, the firm has elected to apply the fair value option (i) to new positions within the above categories, (ii) to corporate loans, corporate loan commitments and certificates of deposit issued by GS Bank USA and (iii) generally to investments where the firm would otherwise apply the equity method of accounting. In certain cases, the firm may continue to apply the equity method of accounting to those investments which are strategic in nature or closely related to the firm s principal business activities, where the firm has a significant degree of involvement in the cash flows or operations of the investee, and/or where cost-benefit considerations are less significant.

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The primary reasons for electing the fair value option are mitigating volatility in earnings from using different measurement attributes, simplification and cost-benefit considerations.

SOP No. 07-1 and FSP FIN No. 46-R-7. In June 2007, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) No. 07-1, Clarification of the Scope of the Audit and Accounting Guide Audits of Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies. SOP No. 07-1 clarifies when an entity may apply the provisions of the Audit and Accounting Guide for Investment Companies (the Guide). In May 2007, the FASB issued FSP FIN No. 46-R-7, Application of FIN 46-R to Investment Companies, which amends FIN No. 46-R to make permanent the temporary deferral of the application of FIN No. 46-R to entities within the scope of the revised Guide under SOP No. 07-1. FSP FIN No. 46-R-7 is effective upon adoption of SOP No. 07-1. In November 2007, the FASB issued Proposed FSP SOP No. 07-1-a, The Effective Date of AICPA Statement of Position 07-1, which proposes to indefinitely defer the effective date for SOP No. 07-01 and, consequently, FSP FIN No. 46-R-7.

EITF Issue No. 06-11. In June 2007, the EITF reached consensus on Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF Issue No. 06-11 requires that the tax benefit related to dividend equivalents paid on restricted stock units, which are expected to vest, be recorded as an increase to additional paid-in capital. The firm currently accounts for this tax benefit as a reduction to income tax expense. EITF Issue No. 06-11 is to be applied prospectively for tax benefits on dividends declared in fiscal years beginning after December 15, 2007, and the firm expects to adopt the provisions of EITF Issue No. 06-11 beginning in the first quarter of 2009. The firm is currently evaluating the impact of adopting EITF Issue No. 06-11 on its financial condition, results of operations and cash flows.

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Note 3. Financial Instruments

Fair Value of Financial Instruments

The following table sets forth the firm s financial instruments owned, at fair value, including those pledged as collateral, and financial instruments sold, but not yet purchased, at fair value. At any point in time, the firm may use cash instruments as well as derivatives to manage a long or short risk position.

	As of November			
	2007		2006	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
Commercial paper, certificates of deposit, time deposits and other money market instruments	$ 8,985 (1)	$	$ 14,723 (1)	$
U.S. government, federal agency and sovereign obligations	70,774	58,637	68,071	51,200
Mortgage and other asset-backed loans and securities	54,073 (2)		41,017	253
Bank loans	49,154	3,563	28,196	1,154
Corporate debt securities and other debt obligations	39,219	8,280	29,806	7,050
Equities and convertible debentures	122,205	45,130	83,282	30,441
Physical commodities	2,571	35	1,923	211
Derivative contracts	105,614 (3)	99,378 (5)	67,543 (3)	65,496 (5)
Total	$ 452,595 (4)	$ 215,023	$ 334,561 (4)	$ 155,805

(1) Includes $6.17 billion and $6.93 billion as of November 2007 and November 2006, respectively, of money market instruments held by William Street Funding Corporation to support the William Street credit extension program (see Note 6 for further information regarding the William Street program).

(2) Includes $7.64 billion of mortgage whole loans that were transferred to securitization vehicles where such transfers were accounted for as secured financings rather than sales under SFAS No. 140. The firm distributed to investors the securities that were issued by the securitization vehicles and therefore does not bear economic exposure to the underlying mortgage whole loans.

(3) Net of cash received pursuant to credit support agreements of $59.05 billion and $24.06 billion as of November 2007 and November 2006, respectively.

(4) Includes $1.17 billion of securities held within the firm s insurance subsidiaries which are accounted for as available-for-sale under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities as of November 2007. Includes $9.95 billion of securities held within GS Bank USA and the firm s insurance subsidiaries which were accounted for as available-for-sale as of November 2006.

(5) Net of cash paid pursuant to credit support agreements of $27.76 billion and $16.00 billion as of November 2007 and November 2006, respectively.

Fair Value Hierarchy

The following tables set forth by level within the fair value hierarchy Financial instruments owned, at fair value, Financial instruments sold, but not yet purchased, at fair value and financial assets and liabilities accounted for at fair value under SFAS No. 155 and SFAS No. 159 as of November 2007 (see Note 2 for further information on the fair value hierarchy). As required by SFAS No. 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Total financial assets at fair value classified within level 3 were $69.15 billion or 6% of Total assets on the consolidated statement of financial condition as of November 2007. This includes $14.44 billion of financial assets at fair value classified within level 3 for which the firm does not bear

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economic exposure. Excluding assets for which the firm does not bear economic exposure, level 3 assets were 5% of Total assets as of November 2007.

	Assets at Fair Value as of November 2007				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
			(in millions)		
Commercial paper, certificates of deposit, time deposits and other money market instruments	$ 6,237	$ 2,748	$	$	$ 8,985
U.S. government, federal agency and sovereign obligations	37,966	32,808			70,774
Mortgage and other asset-backed loans and securities		38,073	16,000		54,073
Bank loans		35,820	13,334		49,154
Corporate debt securities and other debt obligations	915	32,193	6,111		39,219
Equities and convertible debentures	68,727	35,472	18,006 [6]		122,205
Physical commodities		2,571			2,571
Cash instruments	113,845	179,685	53,451		346,981
Derivative contracts	286	153,065	15,700	(63,437) [7]	105,614
Financial instruments owned, at fair value	114,131	332,750	69,151	(63,437)	452,595
Securities segregated for regulatory and other purposes	24,078 [4]	69,940 [5]			94,018
Receivables from customers and counterparties [1]		1,950			1,950
Securities borrowed [2]		83,277			83,277
Financial instruments purchased under agreements to resell, at fair value		85,717			85,717
Total assets at fair value	$ 138,209	$ 573,634	$ 69,151	$ (63,437)	$ 717,557

Level 3 assets for which the firm does not bear economic exposure [3]	(14,437)
Level 3 assets for which the firm bears economic exposure	$ 54,714

(1) Consists of transfers accounted for as secured loans rather than purchases under SFAS No. 140 and prepaid variable share forwards.

(2) Reflects securities borrowed within Trading and Principal Investments. Excludes securities borrowed within Securities Services, which are accounted for based on the amount of cash collateral advanced plus accrued interest.

(3) Consists of level 3 assets which are financed by nonrecourse debt, attributable to minority investors or attributable to employee interests in certain consolidated funds.

(4) Consists of U.S. Treasury securities and money market instruments as well as insurance separate account assets measured at fair value under AICPA SOP 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts.

(5) Principally consists of securities borrowed and resale agreements. The underlying securities have been segregated to satisfy certain regulatory requirements.

(6) Consists of private equity and real estate fund investments.

(7) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

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	Liabilities at Fair Value as of November 2007				
	Level 1	Level 2	Level 3	Netting and Collateral	Total
			(in millions)		
U.S. government, federal agency and sovereign obligations	$ 57,714	$ 923	$	$	$ 58,637
Bank loans		3,525	38		3,563
Corporate debt securities and other debt obligations		7,764	516		8,280
Equities and convertible debentures	44,076	1,054			45,130
Physical commodities		35			35
Cash instruments	101,790	13,301	554		115,645
Derivative contracts	212	117,794	13,644	(32,272) [6]	99,378
Financial instruments sold, but not yet purchased, at fair value	102,002	131,095	14,198	(32,272)	215,023
Unsecured short-term borrowings [1]		44,060	4,271		48,331
Bank deposits [2]		463			463
Securities loaned [3]		5,449			5,449
Financial instruments sold under agreements to repurchase, at fair value		159,178			159,178
Other secured financings [4]		33,581			33,581
Unsecured long-term borrowings [5]		15,161	767		15,928
Total liabilities at fair value	$ 102,002	$ 388,987	$ 19,236	$ (32,272)	$ 477,953

(1) Consists of promissory notes, commercial paper and hybrid financial instruments.

(2) Consists of certificates of deposit issued by GS Bank USA.

(3) Reflects securities loaned within Trading and Principal Investments. Excludes securities loaned within Securities Services, which are accounted for based on the amount of cash collateral received plus accrued interest.

(4) Primarily includes transfers accounted for as financings rather than sales under SFAS No. 140 and debt raised through the firm s William Street program.

(5) Primarily includes hybrid financial instruments and prepaid physical commodity transactions.

(6) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

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Level 3 Gains and Losses

The table below sets forth a summary of changes in the fair value of the firm s level 3 financial assets and liabilities for the year ended November 2007. The table reflects gains and losses for the full year for all financial assets and liabilities categorized as level 3 as of November 2007. The table does not include gains or losses that were reported in level 3 in prior periods for financial assets and liabilities that were transferred out of level 3 prior to November 2007. As reflected in the table below, the net unrealized gain on level 3 financial assets and liabilities was $1.31 billion for the year ended November 2007. This net unrealized gain should be considered in the context of the factors discussed below.

Cash Instruments

The net unrealized loss on level 3 cash instruments was $2.59 billion for the year ended November 2007 (which included $2.29 billion of unrealized losses on assets and $294 million of unrealized losses on liabilities), primarily consisting of unrealized losses on subprime residential mortgage loans and securities as well as non-investment-grade loan commitments, partially offset by unrealized gains on principal investments. Level 3 cash instruments are frequently hedged with instruments classified in level 1 and level 2, and accordingly, gains or losses that have been reported in level 3 are frequently offset by gains or losses attributable to instruments classified in level 1 or level 2 or by gains or losses on derivative contracts classified in level 3 of the fair value hierarchy.

Derivative Contracts

The net unrealized gain on level 3 derivative contracts was $4.54 billion for the year ended November 2007. Level 3 gains and losses on derivative contracts should be considered in the context of the following factors:

A derivative contract with level 1 and/or level 2 inputs is classified as a level 3 financial instrument in its entirety if it has at least one significant level 3 input.

If there is one significant level 3 input, the entire gain or loss from adjusting only observable inputs (i.e., level 1 and level 2) is still classified as level 3.

Gains or losses that have been reported in level 3 resulting from changes in level 1 or level 2 inputs are frequently offset by gains or losses attributable to instruments classified in level 1 or level 2 or by cash instruments reported in level 3 of the fair value hierarchy.

The unrealized gains referenced above principally resulted from changes in level 2 inputs, as opposed to changes in level 3 inputs.

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	Level 3 Financial Assets and Liabilities Year Ended November 2007					
	Cash Instruments - Assets	Cash Instruments - Liabilities	Derivative Contracts - Net	Unsecured Short-Term Borrowings	Unsecured Long-Term Borrowings	Total Gains
	(in millions)					
Balance, beginning of year	$ 29,905	$ (223)	$ 580	$ (3,253)	$ (135)	N/A
Realized gains/(losses)	2,232 [1]	(9) [2]	1,713 [2]	167 [2]	(7) [2]	$ 4,096
Unrealized gains/(losses) relating to instruments still held at the reporting date	(2,292) [1]	(294) [2]	4,543 [2][3]	(666) [2]	22 [2]	$ 1,313
Purchases, issuances and settlements	22,561	(30)	(1,365)	(1,559)	(567)	N/A
Transfers in and/or out of level 3	1,045	2	(3,415)	1,040	(80)	N/A
Balance, end of period	$ 53,451	$ (554)	$ 2,056	$ (4,271)	$ (767)	N/A

[1] The aggregate amounts include approximately $(1.77) billion and $1.71 billion reported in Trading and principal investments and Interest income, respectively, in the consolidated statements of earnings.

[2] Substantially all is reported in Trading and principal investments in the consolidated statements of earnings.

[3] Principally resulted from changes in level 2 inputs.

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As of November 2007, the changes in the fair value of receivables (including securities borrowed and resale agreements) for which the fair value option was elected that were attributable to changes in instrument-specific credit spreads were not material. During 2007, the firm recognized gains of $216 million attributable to the observable impact of the market s widening of the firm s own credit spread on liabilities for which the fair value option was elected. The firm calculates the impact of its own credit spread on liabilities carried at fair value by discounting future cash flows at a rate which incorporates the firm s observable credit spreads. As of November 2007, the difference between the fair value and the aggregate contractual principal amount of both long-term receivables and long-term debt instruments (principal and non-principal protected) for which the fair value option was elected was not material.

The following table sets forth the gains and (losses) included in earnings for the year ended November 2007 related to financial assets and liabilities for which the firm has elected to apply the fair value option under SFAS No. 155 and SFAS No. 159. The table does not reflect the impact to the firm s earnings of adopting SFAS No. 159 because a significant amount of these gains and losses would have also been recognized under previously issued generally accepted accounting principles. In addition, instruments for which the firm has elected the fair value option are economically hedged with instruments accounted for at fair value under other generally accepted accounting principles that are not reflected in the table below.

	Year Ended November 2007 (in millions)
Unsecured long-term borrowings	$ (1,979)
Other secured financings [1]	1,896
Unsecured short-term borrowings	(1,064)
Financial instruments owned, at fair value [2]	(43)
Other [3]	18
Total [4]	$ (1,172)

(1) Includes gains of $2.08 billion related to financings recorded as a result of certain mortgage securitizations that are accounted for as secured financings rather than sales under SFAS No. 140. Changes in the fair value of the secured financings are equally offset by changes in the fair value of the related mortgage whole loans, which are included within the firm s Financial instruments owned, at fair value in the consolidated statement of financial condition.

(2) Consists of investments where the firm would otherwise have applied the equity method of accounting as well as securities held in GS Bank USA (previously accounted for as available-for-sale).

(3) Consists of resale and repurchase agreements and securities borrowed and loaned within Trading and Principal Investments and certificates of deposit issued by GS Bank USA.

(4) Reported within Trading and principal investments within the consolidated statements of earnings. The amounts exclude contractual interest, which is included in Interest Income and Interest Expense, for all instruments other than hybrid financial instruments.

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Credit Concentrations

Credit concentrations may arise from trading, investing, underwriting and securities borrowing activities and may be impacted by changes in economic, industry or political factors. The firm seeks to mitigate credit risk by actively monitoring exposures and obtaining collateral as deemed appropriate. While the firm s activities expose it to many different industries and counterparties, the firm routinely executes a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment funds and other institutional clients, resulting in significant credit concentration with respect to this industry. In the ordinary course of business, the firm may also be subject to a concentration of credit risk to a particular counterparty, borrower or issuer.

As of November 2007 and November 2006, the firm held $45.75 billion (4% of total assets) and $46.20 billion (6% of total assets), respectively, of U.S. government and federal agency obligations (including securities guaranteed by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation) included in Financial instruments owned, at fair value and Cash and securities segregated for regulatory and other purposes in the consolidated statements of financial condition. As of November 2007 and November 2006, the firm held $31.65 billion (3% of total assets) and $23.64 billion (3% of total assets), respectively, of other sovereign obligations, principally consisting of securities issued by the governments of Japan and the United Kingdom. In addition, as of November 2007 and November 2006, $144.92 billion and $104.76 billion of the firm s financial instruments purchased under agreements to resell and securities borrowed, respectively, were collateralized by U.S. government and federal agency obligations. As of November 2007 and 2006, $41.26 billion and $38.22 billion of the firm s financial instruments purchased under agreements to resell and securities borrowed, respectively, were collateralized by other sovereign obligations. As of November 2007 and November 2006, the firm did not have credit exposure to any other counterparty that exceeded 2% 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 the assets to be delivered under the contract are readily convertible into cash.

The firm enters into derivative transactions to facilitate client transactions, to take proprietary positions and as a means of risk management. Risk exposures are managed through diversification, by controlling position sizes and by entering into offsetting positions. For example, the firm may manage the risk related to a portfolio of common stock by entering into an offsetting position in a related equity-index futures contract.

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The firm applies hedge accounting under SFAS No. 133 to certain derivative contracts. The firm uses these derivatives to manage certain interest rate and currency exposures, including the firm s net investment in non-U.S. operations. The firm designates certain interest rate swap contracts as fair value hedges. These interest rate swap contracts hedge changes in the relevant benchmark interest rate (e.g., London Interbank Offered Rate (LIBOR)), effectively converting a substantial portion of the firm s unsecured long-term and certain unsecured short-term borrowings into floating rate obligations. See Note 2 for information regarding the firm s accounting policy for foreign currency forward contracts used to hedge its net investment in non-U.S. operations.

The firm applies a long-haul method to substantially all of its hedge accounting relationships to perform an ongoing assessment of the effectiveness of these relationships in achieving offsetting changes in fair value or offsetting cash flows attributable to the risk being hedged. The firm utilizes a dollar-offset method, which compares the change in the fair value of the hedging instrument to the change in the fair value of the hedged item, excluding the effect of the passage of time, to prospectively and retrospectively assess hedge effectiveness. The firm s prospective dollar-offset assessment utilizes scenario analyses to test hedge effectiveness via simulations of numerous parallel and slope shifts of the relevant yield curve. Parallel shifts change the interest rate of all maturities by identical amounts. Slope shifts change the curvature of the yield curve. For both the prospective assessment, in response to each of the simulated yield curve shifts, and the retrospective assessment, a hedging relationship is deemed to be effective if the fair value of the hedging instrument and the hedged item change inversely within a range of 80% to 125%.

For fair value hedges, gains or losses on derivative transactions are recognized in Interest expense in the consolidated statements of earnings. The change in fair value of the hedged item attributable to the risk being hedged is reported as an adjustment to its carrying value and is subsequently amortized into interest expense over its remaining life. Gains or losses related to hedge ineffectiveness for all hedges are generally included in Interest expense. These gains or losses and the component of gains or losses on derivative transactions excluded from the assessment of hedge effectiveness (e.g., the effect of the passage of time on fair value hedges of the firm s borrowings) were not material to the firm s results of operations for the years ended November 2007, November 2006 and November 2005. Gains and losses on derivatives used for trading purposes are included in Trading and principal investments in the consolidated statements of earnings.

The fair value of the firm s derivative contracts is reflected net of cash paid or received pursuant to credit support agreements and is 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			
	2007		2006	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
Forward settlement contracts	$ 17,447	$ 20,799	$ 11,751	$ 14,335
Swap agreements	54,428	39,271	28,012	22,471
Option contracts	33,739	39,308	27,780	28,690

Total	$ 105,614	$ 99,378	$ 67,543	$ 65,496

The fair value of derivatives accounted for as qualifying hedges under SFAS No. 133 consisted of $5.12 billion and $2.66 billion in assets as of November 2007 and November 2006, respectively, and $354 million and $551 million in liabilities as of November 2007 and November 2006, respectively.

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The firm also has embedded derivatives that have been bifurcated from related borrowings under SFAS No. 133. Such derivatives, which are classified in unsecured short-term and unsecured long-term borrowings, had a carrying value of $463 million and $1.13 billion (excluding the debt host contract) as of November 2007 and November 2006, respectively. See Notes 4 and 5 for further information regarding the firm s unsecured borrowings.

Securitization Activities

The firm securitizes commercial and residential mortgages, home equity and auto 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, primarily in the form of senior or subordinated securities, including residual interests. Retained interests are accounted for at fair value and are included in Total financial instruments owned, at fair value in the consolidated statements of financial condition.

During the year ended November 2007, the firm securitized $81.40 billion of financial assets ($24.95 billion of residential mortgages, $19.50 billion of commercial mortgages and $36.95 billion of other financial assets, primarily in connection with collateralized debt and loan obligations (CDOs and CLOs)). During the year ended November 2006, the firm securitized $103.92 billion of financial assets ($67.73 billion of residential mortgages, $12.78 billion of commercial mortgages and $23.41 billion of other financial assets, primarily in connection with CDOs and CLOs). Cash flows received on retained interests were approximately $705 million and $801 million for the years ended November 2007 and November 2006, respectively.

As of November 2007 and November 2006, the firm held $4.57 billion and $7.08 billion of retained interests, respectively, from these securitization activities, including $2.72 billion and $5.18 billion, respectively, held in QSPEs.

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The following table sets forth the weighted average key economic assumptions used in measuring the fair value of the firm s retained interests and the sensitivity of this fair value to immediate adverse changes of 10% and 20% in those assumptions:

	As of November 2007 Type of Retained Interests			As of November 2006 Type of Retained Interests		
	Mortgage-Backed	CDOs and CLOs [3]	Corporate Debt	Mortgage-Backed	CDOs and CLOs [3]	Corporate Debt [4]
	($ in millions)					
Fair value of retained interests	$ 3,378	$ 1,188	$	$ 4,013	$ 1,973	$ 1,097
Weighted average life (years)	6.6	2.7		6.0	7.0	2.2
Constant prepayment rate	15.1%	11.9%	N/A	21.2%	24.5%	N/A
Impact of 10% adverse change	$ (50)	$ (43)	$	$ (121)	$ (2)	$
Impact of 20% adverse change	(91)	(98)		(221)	(6)	
Anticipated credit losses [1]	4.3%	N/A	N/A	2.0%	N/A	N/A
Impact of 10% adverse change [2]	$ (45)	$	$	$ (81)	$	$
Impact of 20% adverse change [2]	(72)			(155)		
Discount rate	8.4%	23.1%	N/A	9.4%	6.9%	3.9%
Impact of 10% adverse change	$ (89)	$ (46)	$	$ (136)	$ (38)	$ (9)
Impact of 20% adverse change	(170)	(92)		(266)	(74)	(17)

(1) Anticipated credit losses are computed only on positions for which expected credit loss is a key assumption in the determination of fair value or positions for which expected credit loss is not reflected within the discount rate.

(2) The impacts of adverse change take into account credit mitigants incorporated in the retained interests, including over-collateralization and subordination provisions.

(3) Includes $905 million and $1.26 billion as of November 2007 and November 2006, respectively, of retained interests related to transfers of securitized assets that were accounted for as secured financings rather than sales under SFAS No. 140.

(4) Includes retained interests in 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 mitigate risks inherent in these retained interests. Changes in fair value based on an 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 residential mortgage QSPEs purchased in connection with secondary market-making activities. These purchased interests approximated $6 billion and $8 billion as of November 2007 and November 2006, respectively.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of November 2007 and November 2006, the firm held mortgage servicing rights with a fair value of $93 million and $62 million, respectively, substantially all of which were retained in connection with residential mortgage securitizations. These servicing assets represent the firm s right to receive a future stream of cash flows associated with the firm s obligation to service residential mortgages. The fair value of mortgage servicing rights will fluctuate in response to changes in certain economic variables, such as interest rates, loan prepayment assumptions and default rates. The firm determines the fair value of mortgage servicing rights by using valuation models that incorporate these variables in quantifying anticipated cash flows related to servicing activities.

Variable Interest Entities (VIEs)

The firm, in the ordinary course of business, retains interests in VIEs in connection with its securitization activities. The firm also purchases and sells variable interests in VIEs, which primarily issue mortgage-backed and other asset-backed securities, CDOs and CLOs, in connection with its market-making activities and makes investments in and loans to VIEs that hold performing and nonperforming debt, equity, real estate, power-related and other assets. In addition, the firm utilizes VIEs to provide investors with principal-protected notes, credit-linked notes and asset-repackaged notes designed to meet their objectives.

VIEs generally purchase assets by issuing debt and equity instruments. In certain instances, the firm provides guarantees to VIEs or holders of variable interests in 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 VIEs include senior and subordinated debt; loan commitments; 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, CDOs and CLOs. The firm s exposure to the obligations of VIEs is generally limited to its interests in these entities.

The following tables set forth total assets in nonconsolidated VIEs in which the firm holds significant variable interests and the firm s maximum exposure to loss associated with these variable interests. The firm has aggregated nonconsolidated VIEs based on principal business activity, as reflected in the first column. The nature of the firm s variable interests can take different forms, as described in the columns under maximum exposure to loss.

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These tables do not give effect to the benefit of any offsetting financial instruments that are held to mitigate risks related to the firm s interests in nonconsolidated VIEs.

	As of November 2007					
		Maximum Exposure to Loss in Nonconsolidated VIEs [1]				
	VIE Assets	Purchased and Retained Interests	Commitments and Guarantees	Derivatives	Loans and Investments	Total
	(in millions)					
Mortgage CDOs [2]	$ 18,914	$ 1,011	$	$ 10,089	$	$ 11,100
Corporate CDOs and CLOs [3]	10,750	411		2,218		2,629
Real estate, credit-related and other investing [4]	17,272		107	12	3,141	3,260
Municipal bond securitizations	1,413		1,413			1,413
Other mortgage-backed	3,881	719				719
Other asset-backed	3,771			1,579		1,579
Power-related	438	2	37		16	55
Principal-protected notes [5]	5,698			5,186		5,186
Total	$ 62,137	$ 2,143	$ 1,557	$ 19,084	$ 3,157	$ 25,941

	As of November 2006					
		Maximum Exposure to Loss in Nonconsolidated VIEs [1]				
	VIE Assets	Purchased and Retained Interests	Commitments and Guarantees	Derivatives	Loans and Investments	Total
	(in millions)					
Mortgage CDOs [2]	$ 26,225	$ 2,172	$	$ 7,119	$	$ 9,291
Corporate CDOs and CLOs [3]	11,385	234		2,663		2,897
Real estate, credit-related and other investing [4]	16,300		113	8	2,088	2,209
Municipal bond securitizations	1,182		1,182			1,182
Other mortgage-backed	8,143	477				477
Other asset-backed	96			66		66
Power-related	3,422	10	73		597	680
Principal-protected notes [5]	4,363			3,437		3,437

Total	$ 71,116	$ 2,893	$ 1,368	$ 13,293	$ 2,685	$ 20,239

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

(2) Derivatives related to mortgage CDOs primarily consist of written protection on investment-grade, short-term collateral held by VIEs that have issued CDOs.

(3) Derivatives related to corporate CDOs and CLOs primarily consist of total return swaps on CDOs and CLOs. The firm has generally transferred the risks related to the underlying securities through derivatives with non-VIEs.

(4) The firm obtains interests in these VIEs in connection with making proprietary investments in real estate, distressed loans and other types of debt, mezzanine instruments and equities.

(5) Derivatives related to principal-protected notes consist of out-of-the-money written put options that provide principal protection to clients invested in various fund products, with risk to the firm mitigated through portfolio rebalancing.

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The following table sets forth the firm s total assets and maximum exposure to loss associated with its significant variable interests in consolidated VIEs where the firm does not hold a majority voting interest. The firm has aggregated consolidated VIEs based on principal business activity, as reflected in the first column.

The table does not give effect to the benefit of any offsetting financial instruments that are held to mitigate risks related to the firm s interests in consolidated VIEs.

	As of November 2007		As of November 2006	
	VIE Assets [1]	Maximum Exposure to Loss [2]	VIE Assets [1]	Maximum Exposure to Loss [2]
	(in millions)			
Real estate, credit-related and other investing	$ 2,118	$ 525	$ 3,077	$ 1,368
Municipal bond securitizations	1,959	1,959	2,715	2,715
CDOs, mortgage-backed and other asset-backed	604	109	1,537	20
Foreign exchange and commodities	300	329	433	340
Principal-protected notes	1,119	1,118	894	774
Total	$ 6,100	$ 4,040	$ 8,656	$ 5,217

(1) Consolidated VIE assets include assets financed on a nonrecourse basis.

(2) Such amounts do not represent the anticipated losses in connection with these transactions.

Collateralized Transactions

The firm receives financial instruments as collateral, primarily in connection with resale agreements, securities borrowed, derivative transactions and customer margin loans. Such financial instruments may include obligations of the U.S. government, federal agencies, sovereigns and corporations, as well as equities and convertibles.

In many cases, the firm is permitted to deliver or repledge these financial instruments in connection with entering into repurchase agreements, securities lending agreements and other secured financings, collateralizing derivative transactions and meeting firm or customer settlement requirements. As of November 2007 and November 2006, the fair value of financial instruments received as collateral by the firm that it was permitted to deliver or repledge was $891.05 billion and $746.08 billion, respectively, of which the firm delivered or repledged $785.62 billion and $639.87 billion, respectively.

The firm also pledges assets that it owns to counterparties who may or may not have the right to deliver or repledge them. Financial instruments owned and pledged to counterparties that have the right to deliver or repledge are reported

as Financial instruments owned and pledged as collateral, at fair value in the consolidated statements of financial condition and were $46.14 billion and $36.00 billion as of November 2007 and November 2006, respectively. Financial instruments owned and pledged in connection with repurchase agreements, securities lending agreements and other secured financings to counterparties that did not have the right to sell or repledge are included in Financial instruments owned, at fair value in the consolidated statements of financial condition and were $156.92 billion and $134.31 billion as of November 2007 and November 2006, respectively. Other assets (primarily real estate and cash) owned and pledged in connection with other secured financings to counterparties that did not have the right to sell or repledge were $5.86 billion and $5.34 billion as of November 2007 and November 2006, respectively.

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In addition to repurchase agreements and securities lending agreements, the firm obtains secured funding through the use of other arrangements. Other secured financings include arrangements that are nonrecourse, that is, only the subsidiary that executed the arrangement or a subsidiary guaranteeing the arrangement is obligated to repay the financing. Other secured financings consist of liabilities related to the firm s William Street program, consolidated variable interest entities, collateralized central bank financings, transfers of financial assets that are accounted for as financings rather than sales under SFAS No. 140 (primarily pledged bank loans and mortgage whole loans) and other structured financing arrangements.

Other secured financings are set forth in the table below:

	As of November	
	2007	2006
	(in millions)	
Other secured financings (short-term) [1][2]	$ 32,410	$ 24,290
Other secured financings (long-term):		
2008		5,535
2009	2,903	877
2010	2,301	1,894
2011	2,427	5,105
2012	4,973	1,928
2013-thereafter	20,696	10,795
Total other secured financings (long-term) [3][4]	33,300	26,134
Total other secured financings [5]	$ 65,710	$ 50,424

(1) As of November 2007, consists of U.S. dollar-denominated financings of $18.47 billion with a weighted average interest rate of 5.32% and non-U.S. dollar-denominated financings of $13.94 billion with a weighted average interest rate of 0.91%, after giving effect to hedging activities. As of November 2006, consists of U.S. dollar-denominated financings of $14.28 billion with a weighted average interest rate of 5.22% and non-U.S. dollar-denominated financings of $10.01 billion with a weighted average interest rate of 2.00%, after giving effect to hedging activities. The weighted average interest rates as of November 2007 and November 2006 excluded financial instruments accounted for at fair value under SFAS No. 155 or SFAS No. 159.

(2) Includes other secured financings maturing within one year of the financial statement date and other secured financings that are redeemable within one year of the financial statement date at the option of the holder.

(3)

As of November 2007, consists of U.S. dollar-denominated financings of $22.13 billion with a weighted average interest rate of 5.73% and non-U.S. dollar-denominated financings of $11.17 billion with a weighted average interest rate of 4.28%, after giving effect to hedging activities. As of November 2006, consists of U.S. dollar-denominated financings of $16.97 billion with a weighted average interest rate of 5.61% and non-U.S. dollar-denominated financings of $9.16 billion with a weighted average interest rate of 3.81%, after giving effect to hedging activities.

(4) Secured long-term financings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates. Secured long-term financings that are redeemable prior to maturity at the option of the holder are reflected at the dates such options become exercisable.

(5) As of November 2007, $61.34 billion of these financings were collateralized by financial instruments and $4.37 billion by other assets (primarily real estate and cash). As of November 2006, $47.22 billion of these financings were collateralized by financial instruments and $3.20 billion by other assets. Other secured financings include $25.37 billion and $19.79 billion of nonrecourse obligations as of November 2007 and November 2006, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Unsecured Short-Term Borrowings

The firm obtains unsecured short-term borrowings primarily through the issuance of promissory notes, commercial paper and hybrid financial instruments. As of November 2007 and November 2006, these borrowings were $71.56 billion and $47.90 billion, respectively. Such amounts include the portion of unsecured long-term borrowings maturing within one year of the financial statement date and unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holder. The firm accounts for promissory notes, commercial paper and certain hybrid financial instruments at fair value under SFAS No. 155 or SFAS No. 159. Short-term borrowings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest, and such amounts approximate fair value due to the short-term nature of the obligations.

Unsecured short-term borrowings are set forth below:

	As of November	
	2007	2006
	(in millions)	
Promissory notes	$ 13,251	$ 13,811
Commercial paper	4,343	1,489
Current portion of unsecured long-term borrowings	22,740	14,115
Hybrid financial instruments	22,318	14,060
Other short-term borrowings	8,905	4,429
Total [1]	$ 71,557	$ 47,904

[1] The weighted average interest rates for these borrowings, after giving effect to hedging activities, were 5.05% and 5.16% as of November 2007 and November 2006, respectively. The weighted average interest rates as of November 2007 and November 2006 excluded financial instruments accounted for at fair value under SFAS No. 155 or SFAS No. 159.

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Note 5. Unsecured Long-Term Borrowings

The firm s unsecured long-term borrowings extend through 2043 and consist principally of senior borrowings. As of November 2007 and November 2006, these borrowings were $164.17 billion and $122.84 billion, respectively.

Unsecured long-term borrowings are set forth below:

	As of November	
	2007	2006
	(in millions)	
Fixed rate obligations [1]		
U.S. dollar	$ 55,281	$ 41,719
Non-U.S. dollar	29,139	22,854
Floating rate obligations [2]		
U.S. dollar	47,308	38,342
Non-U.S. dollar	32,446	19,927
Total	$ 164,174	$ 122,842

(1) As of November 2007 and November 2006, interest rates on U.S. dollar fixed rate obligations ranged from 3.88% to 10.04% and from 3.88% to 12.00%, respectively. As of November 2007 and November 2006, interest rates on non-U.S. dollar fixed rate obligations ranged from 0.67% to 8.88% and from 0.31% to 8.88%, respectively.

(2) Floating interest rates generally are based on LIBOR or the federal funds target rate. Equity-linked and indexed instruments are included in floating rate obligations.

Unsecured long-term borrowings by maturity date are set forth below:

	As of November					
	2007 [1][2]			2006 [1][2]		
	U.S. Dollar	Non-U.S. Dollar	Total	U.S. Dollar	Non-U.S. Dollar	Total
	(in millions)					
2008	$	$	$	$ 14,848	$ 3,038	$ 17,886
2009	20,204	2,978	23,182	12,398	2,978	15,376
2010	7,989	5,714	13,703	5,034	4,945	9,979

2011	5,848	4,839	10,687	5,675	4,389	10,064
2012	14,913	3,695	18,608	4,500	2,098	6,598
2013-thereafter	53,635	44,359	97,994	37,606	25,333	62,939
Total	$ 102,589	$ 61,585	$ 164,174	$ 80,061	$ 42,781	$ 122,842

(1) Unsecured long-term borrowings maturing within one year of the financial statement date and certain unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holder are included as unsecured short-term borrowings in the consolidated statements of financial condition.

(2) Unsecured long-term borrowings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates. Unsecured long-term borrowings that are redeemable prior to maturity at the option of the holder are reflected at the dates such options become exercisable.

The firm enters into derivative contracts, such as interest rate futures contracts, interest rate swap agreements, currency swap agreements, commodity contracts and equity-linked and indexed contracts, to effectively convert a substantial portion of its unsecured long-term borrowings into U.S. dollar-based floating rate obligations. Accordingly, the carrying value of unsecured long-term borrowings approximated fair value as of November 2007 and November 2006.

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The effective weighted average interest rates for unsecured long-term borrowings are set forth below:

	As of November			
	2007		2006	
	Amount	Rate	Amount	Rate
	($ in millions)			
Fixed rate obligations	$ 3,787	5.28%	$ 1,997	6.13%
Floating rate obligations [1][2]	160,387	5.68	120,845	5.75
Total	$ 164,174	5.67	$ 122,842	5.75

(1) Includes fixed rate obligations that have been converted into floating rate obligations through derivative contracts.

(2) The weighted average interest rates as of November 2007 and November 2006 excluded financial instruments accounted for at fair value under SFAS No. 155 or SFAS No. 159.

Subordinated Borrowings

Unsecured long-term borrowings include subordinated borrowings with outstanding principal amounts of $16.32 billion and $7.51 billion as of November 2007 and November 2006, respectively, as set forth below.

Subordinated Notes. As of November 2007, the firm had $11.23 billion of subordinated notes outstanding with maturities ranging from fiscal 2009 to 2037. The effective weighted average interest rate on these subordinated notes was 5.75%, after giving effect to derivative contracts used to convert fixed rate obligations into floating rate obligations. As of November 2006, the firm had $4.67 billion of subordinated notes outstanding with maturities ranging from 2007 to 2036 and with an effective weighted average interest rate of 6.24%. These notes are junior in right of payment to all of the firm s senior indebtedness.

Junior Subordinated Debt Issued to a Trust in Connection with Trust Preferred Securities. The firm issued $2.84 billion of junior subordinated debentures in its first quarter of 2004 to Goldman Sachs Capital I (the Trust), a Delaware statutory trust that, in turn, issued $2.75 billion of guaranteed preferred beneficial interests to third parties and $85 million of common beneficial interests to the firm and invested the proceeds from the sale in junior subordinated debentures issued by the firm. The Trust is a wholly owned finance subsidiary of the firm for regulatory and legal purposes but is not consolidated for accounting purposes.

The firm pays interest semiannually on these debentures at an annual rate of 6.345% and the debentures mature on February 15, 2034. The coupon rate and the payment dates applicable to the beneficial interests are the same as the interest rate and payment dates applicable to the debentures. The firm has the right, from time to time, to defer payment of interest on the debentures, and, therefore, cause payment on the Trust s preferred beneficial interests to be

deferred, in each case up to ten consecutive semiannual periods. During any such extension period, the firm will not be permitted to, among other things, pay dividends on or make certain repurchases of its common stock. The Trust is not permitted to pay any distributions on the common beneficial interests held by the firm unless all dividends payable on the preferred beneficial interests have been paid in full. These debentures are junior in right of payment to all of the firm s senior indebtedness and all of the firm s subordinated borrowings, other than the junior subordinated debt issued in connection with the Normal Automatic Preferred Enhanced Capital Securities (see discussion below).

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

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Junior Subordinated Debt Issued to Trusts in Connection with Fixed-to-Floating and Floating Rate Normal Automatic Preferred Enhanced Capital Securities. In the second quarter of 2007, the firm issued a total of $2.25 billion of remarketable junior subordinated notes to Goldman Sachs Capital II and Goldman Sachs Capital III (the Trusts), Delaware statutory trusts that, in turn, issued $2.25 billion of guaranteed perpetual Automatic Preferred Enhanced Capital Securities (APEX) to third parties and a de minimis amount of common securities to the firm. The firm also entered into contracts with the Trusts to sell $2.25 billion of perpetual non-cumulative preferred stock to be issued by the firm (the stock purchase contracts). The Trusts are wholly owned finance subsidiaries of the firm for regulatory and legal purposes but are not consolidated for accounting purposes.

The firm pays interest semiannually on $1.75 billion of junior subordinated notes issued to Goldman Sachs Capital II at a fixed annual rate of 5.59% and the notes mature on June 1, 2043. The firm pays interest quarterly on $500 million of junior subordinated notes issued to Goldman Sachs Capital III at a rate per annum equal to three-month LIBOR plus .57% and the notes mature on September 1, 2043. In addition, the firm makes contract payments at a rate of .20% per annum on the stock purchase contracts held by the Trusts. The firm has the right to defer payments on the junior subordinated notes and the stock purchase contracts, subject to limitations, and therefore cause payment on the APEX to be deferred. During any such extension period, the firm will not be permitted to, among other things, pay dividends on or make certain repurchases of its common or preferred stock. The junior subordinated notes are junior in right of payment to all of the firm s senior indebtedness and all of the firm s other subordinated borrowings.

In connection with the APEX issuance, the firm covenanted in favor of certain of its debtholders, who are initially the holders of the firm s 6.345% Junior Subordinated Debentures due February 15, 2034, that, subject to certain exceptions, the firm would not redeem or purchase (i) the firm s junior subordinated debt issued to the APEX trusts prior to the applicable stock purchase date or (ii) APEX or shares of the firm s Series E or Series F Preferred Stock prior to the date that is ten years after the applicable stock purchase date, unless the applicable redemption or purchase price does not exceed a maximum amount determined by reference to the aggregate amount of net cash proceeds that the firm has received from the sale of qualifying equity securities during the 180 day period preceding the redemption or purchase.

The firm has accounted for the stock purchase contracts as equity instruments under EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock, and, accordingly, recorded the cost of the stock purchase contracts as a reduction to additional paid-in capital. See Note 7 for information on the preferred stock that the firm will issue in connection with the stock purchase contracts.

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Note 6. Commitments, Contingencies and Guarantees

Commitments

Forward Starting Collateralized Agreements and Financings. The firm had forward starting resale agreements and securities borrowing agreements of $28.14 billion and $18.29 billion as of November 2007 and November 2006, respectively. The firm had forward starting repurchase agreements and securities lending agreements of $15.39 billion and $17.15 billion as of November 2007 and November 2006, respectively.

Commitments to Extend Credit. In connection with its lending activities, the firm had outstanding commitments to extend credit of $82.75 billion and $100.48 billion as of November 2007 and November 2006, respectively. The firm s commitments to extend credit are agreements to lend to counterparties that have fixed termination dates and are contingent on the satisfaction of all conditions to borrowing set forth in the contract. Since these commitments may expire unused or be reduced or cancelled at the counterparty s request, the total commitment amount does not necessarily reflect the actual future cash flow requirements. The firm accounts for these commitments at fair value. To the extent that the firm recognizes losses on these commitments, such losses are recorded within the firm s Trading and Principal Investments segment net of any related underwriting fees.

The following table summarizes the firm s commitments to extend credit as of November 2007 and November 2006:

	Year Ended November	
	2007	2006
	(in millions)	
Commercial lending commitments		
Investment-grade	$ 11,719	$ 7,604
Non-investment-grade	41,930	57,017
William Street program	24,488	18,831
Warehouse financing	4,610	17,026
Total commitments to extend credit	$ 82,747	$ 100,478

Commercial lending commitments. The firm extends commercial lending commitments primarily in connection with contingent acquisition financing and other types of corporate lending as well as commercial real estate financing. The total commitment amount does not necessarily reflect the actual future cash flow requirements, as the firm often syndicates all or substantial portions of these commitments, the commitments may expire unused, or the commitments may be cancelled or reduced at the request of the counterparty. In addition, commitments that are extended for contingent acquisition financing are often intended to be short-term in nature, as borrowers often seek to replace them with other funding sources. Included within the non-investment-grade amount as of November 2007 was $26.09 billion of exposure to leveraged lending capital market transactions, $3.50 billion related to commercial real estate transactions and $12.34 billion

arising from other unfunded credit facilities. Included within the non-investment-grade amount as of November 2006 was $39.68 billion of exposure to leveraged lending capital market transactions, $12.11 billion related to commercial real estate transactions and $5.23 billion arising from other unfunded credit facilities.

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William Street program. Substantially all of the commitments provided under the William Street credit extension program are to investment-grade corporate borrowers. Commitments under the program are extended by William Street Commitment Corporation (Commitment Corp.), a consolidated wholly owned subsidiary of Group Inc. whose assets and liabilities are legally separated from other assets and liabilities of the firm, William Street Credit Corporation, GS Bank USA, Goldman Sachs Credit Partners L.P. or other consolidated wholly owned subsidiaries of Group Inc. The commitments extended by Commitment Corp. are supported, in part, by funding raised by William Street Funding Corporation (Funding Corp.), another consolidated wholly owned subsidiary of Group Inc. whose assets and liabilities are also legally separated from other assets and liabilities of the firm. 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 respect to most of the William Street commitments, Sumitomo Mitsui Financial Group, Inc. (SMFG) provides the firm with credit loss protection that is generally limited to 95% of the first loss the firm realizes on approved loan commitments, up to a maximum of $1.00 billion. In addition, subject to the satisfaction of certain conditions, upon the firm s request, SMFG will provide protection for 70% of the second loss on such commitments, up to a maximum of $1.13 billion. The firm also uses other financial instruments to mitigate credit risks related to certain William Street commitments not covered by SMFG.

Warehouse financing. The firm provides financing for the warehousing of financial assets to be securitized. These financings are expected to be repaid from the proceeds of the related securitizations for which the firm may or may not act as underwriter. These arrangements are secured by the warehoused assets, primarily consisting of corporate bank loans and commercial mortgages as of November 2007 and residential mortgages and mortgage-backed securities, corporate bank loans and commercial mortgages as of November 2006. In connection with its warehouse financing activities, the firm had loans of $44 million collateralized by subprime mortgages as of November 2007.

Letters of Credit. 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 $8.75 billion and $5.73 billion as of November 2007 and November 2006, respectively.

Investment Commitments. In connection with its merchant banking and other investing activities, the firm invests in private equity, real estate and other assets directly and through funds that it raises and manages. In connection with these activities, the firm had commitments to invest up to $17.76 billion and $8.24 billion as of November 2007 and November 2006, respectively, including $12.32 billion and $4.41 billion, respectively, of commitments to invest in funds managed by the firm.

Construction-Related Commitments. As of November 2007 and November 2006, the firm had construction-related commitments of $769 million and $1.63 billion, respectively, including outstanding commitments of $642 million and $500 million as of November 2007 and November 2006, respectively, related to the firm s new world headquarters in New York City, which is expected to cost between $2.3 billion and $2.5 billion. The firm is partially financing this construction project with tax-exempt Liberty Bonds. The firm borrowed approximately $1.40 billion and approximately $250 million in 2005 and 2007, respectively, through the issuance of Liberty Bonds.

Underwriting Commitments. As of November 2007 and November 2006, the firm had commitments to purchase $88 million and $2.62 billion, respectively, of securities in connection with its underwriting activities.

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Other. The firm had other purchase commitments of $420 million and $393 million as of November 2007 and November 2006, respectively.

In addition, the firm entered into an agreement in 2007 to acquire Litton Loan Servicing LP (Litton), the mortgage servicing unit of Credit-Based Asset Servicing and Securitization LLC (C-BASS). The transaction closed in December 2007 at a purchase price of $428 million, plus the repayment of $916 million of outstanding Litton debt obligations.

Leases. The firm has contractual obligations under long-term noncancelable lease agreements, principally for office space, expiring on various dates through 2069. 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 are set forth below:

	(in millions)
Minimum rental payments	
2008	$ 450
2009	478
2010	372
2011	313
2012	255
2013-thereafter	2,022
Total	$ 3,890

Rent charged to operating expense is set forth below:

Net rent expense	
2005	$ 359
2006	404
2007	412

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. Given the inherent difficulty of predicting the outcome of the firm s litigation and regulatory matters, particularly in cases or proceedings in which substantial or indeterminate damages or fines are sought, the firm cannot estimate losses or ranges of losses for cases or proceedings where there is only a reasonable possibility that a loss may be incurred.

In connection with its insurance business, the firm is contingently liable to provide guaranteed minimum death and income benefits to certain contract holders and has established a reserve related to $10.84 billion and $8.04 billion of contract holder account balances as of November 2007 and November 2006, respectively, for such benefits. The weighted average attained age of these contract holders was 67 years and 70 years as of November 2007 and November 2006, respectively. The net amount at risk, representing guaranteed minimum death and income benefits in excess of contract holder account balances, was $1.04 billion and $1.27 billion as of November 2007 and November 2006, respectively. See Note 10 for more information on the firm s insurance liabilities.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Guarantees

The firm enters into various derivative contracts that meet the definition of a guarantee under FIN No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. Such derivative contracts include credit default and total return 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 bank end users and certain other users. Accordingly, the firm has not included such contracts in the tables below.

The firm, in its capacity as an agency lender, indemnifies most of its 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 the ordinary course of business, the firm provides other financial guarantees of the obligations of third parties (e.g., performance bonds, standby letters of credit and other guarantees to enable clients to complete transactions and merchant banking fund-related guarantees). These guarantees represent obligations to make payments to beneficiaries if the guaranteed party fails to fulfill its obligation under a contractual arrangement with that beneficiary.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables set forth certain information about the firm s derivative contracts that meet the definition of a guarantee and certain other guarantees as of November 2007 and November 2006:

	As of November 2007 Maximum Payout/Notional Amount by Period of Expiration [1]				
	2008	2009-2010	2011-2012	2013-Thereafter	Total
	(in millions)				
Derivatives [2]	$ 580,769	$ 492,563	$ 457,511	$ 514,498	$ 2,045,341
Securities lending indemnifications [3]	26,673				26,673
Performance bonds [4]	2,046				2,046
Other financial guarantees [5]	381	121	258	46	806

	As of November 2006 Maximum Payout/Notional Amount by Period of Expiration [1]				
	2007	2008-2009	2010-2011	2012-Thereafter	Total
	(in millions)				
Derivatives [2]	$ 379,256	$ 428,258	$ 460,088	$ 399,449	$ 1,667,051
Securities lending indemnifications [3]	19,023				19,023
Performance bonds					
Other financial guarantees [5]	592	99	76	86	853

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

(2) The aggregate carrying value of these derivatives as of November 2007 was a liability of $33.10 billion. The aggregate carrying value of these derivatives as of November 2006 was an asset of $1.12 billion, consisting of contracts with an asset value of $11.06 billion and contracts with a liability value of $9.94 billion. The carrying value excludes the effect of a legal right of setoff that may exist under an enforceable netting agreement. These derivative contracts are risk managed together with derivative contracts that are not considered guarantees under FIN No. 45, and therefore, these amounts do not reflect the firm s overall risk related to its derivative activities.

(3) Collateral held by the lenders in connection with securities lending indemnifications was $27.49 billion and $19.70 billion as of November 2007 and November 2006, respectively.

(4) Excludes collateral of $2.05 billion related to these obligations.

(5)

The carrying value of these guarantees was a liability of $43 million and $15 million as of November 2007 and November 2006, respectively.

The firm has established trusts, including Goldman Sachs Capital I, II and III, and other entities for the limited purpose of issuing securities to third parties, lending the proceeds to the firm and entering into contractual arrangements with the firm and third parties related to this purpose. (See Note 5 for information regarding the transactions involving Goldman Sachs Capital I, II and III.) The firm effectively provides for the full and unconditional guarantee of the securities issued by these entities, which are not consolidated for accounting purposes. Timely payment by the firm of amounts due to these entities under the borrowing, preferred stock and related contractual arrangements will be sufficient to cover payments due on the securities issued by these entities. Management believes that it is unlikely that any circumstances will occur, such as nonperformance on the part of paying agents or other service providers, that would make it necessary for the firm to make payments related to these entities other than those required under the terms of the borrowing, preferred stock and related contractual arrangements and in connection with certain expenses incurred by these entities.

THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In the ordinary course of 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 sub-custodians 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 agrees 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. In connection with joint venture investments, the firm may issue loan guarantees under which it may be liable in the event of fraud, misappropriation, environmental liabilities and certain other matters involving the borrower. 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 any material payments under these arrangements, and no liabilities related to these guarantees and indemnifications have been recognized in the consolidated statements of financial condition as of November 2007 and November 2006.

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 ordinary 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 and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no liabilities related to these arrangements have been recognized in the consolidated statements of financial condition as of November 2007 and November 2006.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Shareholders Equity

Dividends declared per common share were $1.40 in 2007, $1.30 in 2006, and $1.00 in 2005. On December 17, 2007, the Board of Directors of Group Inc. (the Board) declared a dividend of $0.35 per common share to be paid on February 28, 2008, to common shareholders of record on January 29, 2008.

During 2007 and 2006, the firm repurchased 41.2 million and 50.2 million shares of its common stock at a total cost of $8.96 billion and $7.82 billion, respectively. The average price paid per share for repurchased shares was $217.29 and $155.64 for the years ended November 2007 and November 2006, respectively. In addition, to satisfy minimum statutory employee tax withholding requirements related to the delivery of common stock underlying restricted stock units, the firm cancelled 4.7 million and 3.0 million of restricted stock units with a total value of $929 million and $375 million in 2007 and 2006, respectively.

The firm s share repurchase program is intended to help maintain the appropriate level of common equity and to substantially offset increases in share count over time resulting from employee share-based compensation. The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by the firm s current and projected capital positions (i.e., comparisons of the firm s desired level of capital to its actual level of capital) but which may also be influenced by general market conditions and the prevailing price and trading volumes of the firm s common stock.

As of November 2007, the firm had 124,000 shares of perpetual non-cumulative preferred stock issued and outstanding in four series as set forth in the following table:

Series	Shares Issued	Shares Authorized	Dividend Rate	Earliest Redemption Date	Redemption Value (in millions)
A	30,000	50,000	3 month LIBOR + 0.75%, with floor of 3.75% per annum	April 25, 2010	$ 750
B	32,000	50,000	6.20% per annum	October 31, 2010	800
C	8,000	25,000	3 month LIBOR + 0.75%, with floor of 4% per annum	October 31, 2010	200
D	54,000	60,000	3 month LIBOR + 0.67%, with floor of 4% per annum	May 24, 2011	1,350
	124,000	185,000			$ 3,100

Each share of preferred stock issued and outstanding has a par value of $0.01, has a liquidation preference of $25,000, is represented by 1,000 depositary shares and is redeemable at the firm s option at a redemption price equal to $25,000 plus declared and unpaid dividends. Dividends on each series of preferred stock, if declared, are payable quarterly in arrears. The firm s ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, its common stock is subject to certain restrictions in the event that the firm fails to pay or set aside full dividends on the preferred stock

for the latest completed dividend period. All series of preferred stock are pari passu and have a preference over the firm s common stock upon liquidation.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In the second quarter of 2007, the Board authorized 17,500.1 shares of perpetual Non-Cumulative Preferred Stock, Series E and 5,000.1 shares of perpetual Non-Cumulative Preferred Stock, Series F in connection with the APEX issuance (see Note 5 for further information on the APEX issuance). Under the stock purchase contracts, the firm will issue on the relevant stock purchase dates (on or before June 1, 2013 and September 1, 2013 for Series E and Series F preferred stock, respectively) one share of Series E and Series F preferred stock to Goldman Sachs Capital II and III, respectively, for each $100,000 principal amount of subordinated notes held by these trusts. When issued, each share of Series E and Series F preferred stock will have a par value of $0.01 and a liquidation preference of $100,000 per share. Dividends on Series E preferred stock, if declared, will be payable semiannually at a fixed annual rate of 5.79% if the stock is issued prior to June 1, 2012 and quarterly thereafter, at a rate per annum equal to the greater of (i) three-month LIBOR plus .77% and (ii) 4%. Dividends on Series F preferred stock, if declared, will be payable quarterly at a rate per annum equal to three-month LIBOR plus .77% if the stock is issued prior to September 1, 2012 and quarterly thereafter, at a rate per annum equal to the greater of (i) three-month LIBOR plus .77% and (ii) 4%. The preferred stock may be redeemed at the option of the firm on the stock purchase dates or any day thereafter, subject to the approval of the Securities and Exchange Commission (SEC) and certain covenant restrictions governing the firm s ability to redeem or purchase the preferred stock without issuing common stock or other instruments with equity-like characteristics.

Dividends declared per preferred share were $1,563.51, $1,550.00, $1,563.51 and $1,543.06 for Series A, Series B, Series C and Series D preferred stock, respectively, in 2007. Dividends declared per preferred share were $1,434.79, $1,593.06, $1,465.19 and $709.10 for Series A, Series B, Series C and Series D preferred stock, respectively, in 2006. In addition, on December 17, 2007, the Board declared dividends per preferred share of $351.84, $387.50, $351.84 and $346.84 for Series A, Series B, Series C and Series D preferred stock, respectively, to be paid on February 11, 2008 to preferred shareholders of record on January 27, 2008.

The following table sets forth the firm s accumulated other comprehensive income/(loss) by type:

	As of November	
	2007	**2006**
	(in millions)	
Adjustment from adoption of SFAS No. 158, net of tax	$ (194)	$
Currency translation adjustment, net of tax	68	29
Minimum pension liability adjustment, net of tax		(38)
Net gains on cash flow hedges, net of tax		2
Net unrealized gains on available-for-sale securities, net of tax	8 [1]	28
Total accumulated other comprehensive income, net of tax	$ (118)	$ 21

[1] Consists of net unrealized gains of $9 million on available-for-sale securities held by investees accounted for under the equity method and net unrealized losses of $1 million on available-for-sale securities held by the

firm s insurance subsidiaries.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8. Earnings Per Common Share

The computations of basic and diluted earnings per common share are set forth below:

	Year Ended November		
	2007	2006	2005
	(in millions, except per share amounts)		
Numerator for basic and diluted EPS net earnings applicable to common shareholders	$11,407	$ 9,398	$ 5,609
Denominator for basic EPS weighted average number of common shares	433.0	449.0	478.1
Effect of dilutive securities			
Restricted stock units	13.6	13.6	9.9
Stock options	14.6	14.8	12.2
Dilutive potential common shares	28.2	28.4	22.1
Denominator for diluted EPS weighted average number of common shares and dilutive potential common shares [1]	461.2	477.4	500.2
Basic EPS	$26.34	$ 20.93	$ 11.73
Diluted EPS	24.73	19.69	11.21

[1] The diluted EPS computations do not include the anti-dilutive effect of the following options:

	Year Ended November		
	2007	2006	2005
	(in millions)		
Number of anti-dilutive options, end of period			1

Note 9. Goodwill and Identifiable Intangible Assets

Goodwill

The following table sets forth the carrying value of the firm s goodwill by operating segment, which is included in Other assets in the consolidated statements of financial condition:

	As of November	
	2007	2006
	(in millions)	
Investment Banking		
Financial Advisory	$	$
Underwriting	125	125
Trading and Principal Investments		
FICC	123	136
Equities [1]	2,381	2,381
Principal Investments	11	4
Asset Management and Securities Services		
Asset Management [2]	564	421
Securities Services	117	117
Total	$ 3,321	$ 3,184

[1] Primarily related to SLK LLC (SLK).

[2] Primarily related to The Ayco Company, L.P. (Ayco). The increase in goodwill from November 2006 relates to the firm s acquisition of Macquarie IMM Investment Management.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Identifiable Intangible Assets

The following table sets forth the gross carrying amount, accumulated amortization and net carrying amount of the firm s identifiable intangible assets:

		As of November	
		2007	**2006**
		(in millions)	
Customer lists [1]	Gross carrying amount	$ 1,086	$ 1,034
	Accumulated amortization	(354)	(297)
	Net carrying amount	$ 732	$ 737
New York Stock Exchange (NYSE)	Gross carrying amount	$ 714	$ 714
	Accumulated amortization	(212)	(172)
specialist rights	Net carrying amount	$ 502	$ 542
Insurance-related assets [2]	Gross carrying amount	$ 461	$ 396
	Accumulated amortization	(89)	(34)
	Net carrying amount	$ 372	$ 362
Exchange-traded fund (ETF)	Gross carrying amount	$ 138	$ 138
	Accumulated amortization	(38)	(33)
specialist rights	Net carrying amount	$ 100	$ 105
Power contracts [3]	Gross carrying amount	$ 33	$ 750
	Accumulated amortization	(13)	(83)
	Net carrying amount	$ 20	$ 667
Other [4]	Gross carrying amount	$ 327	$ 335
	Accumulated amortization	(282)	(246)
	Net carrying amount	$ 45	$ 89

Total	Gross carrying amount	$ 2,759	$ 3,367
	Accumulated amortization	(988)	(865)
	Net carrying amount	$ 1,771	$ 2,502

(1) Primarily includes the firm s clearance and execution and NASDAQ customer lists related to SLK and financial counseling customer lists related to Ayco.

(2) Consists of VOBA and DAC. VOBA represents the present value of estimated future gross profits of the variable annuity and life insurance business. DAC results from commissions paid by the firm to the primary insurer (ceding company) on life and annuity reinsurance agreements as compensation to place the business with the firm and to cover the ceding company s acquisition expenses. VOBA and DAC are amortized over the estimated life of the underlying contracts based on estimated gross profits, and amortization is adjusted based on actual experience. The weighted average remaining amortization period for VOBA and DAC is seven years as of November 2007.

(3) The reduction in power contracts from November 2006 is due to the sale of the majority of the firm s ownership interests in 14 power generation facilities during 2007.

(4) Primarily includes marketing and technology-related assets.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

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Substantially all of the firm s identifiable intangible assets are considered to have finite lives and are amortized over their estimated useful lives. The weighted average remaining life of the firm s identifiable intangibles is approximately 12 years.

Amortization expense associated with identifiable intangible assets was $251 million, $246 million and $165 million for the years ended November 2007, November 2006 and November 2005, respectively. Amortization expense associated with the firm s consolidated power generation facilities is reported within Cost of power generation in the consolidated statements of earnings.

The estimated future amortization for existing identifiable intangible assets through 2012 is set forth below:

	(in millions)
2008	$ 186
2009	164
2010	149
2011	140
2012	131

Note 10. Other Assets and Other Liabilities

Other Assets

Other assets are generally less liquid, nonfinancial assets. The following table sets forth the firm s other assets by type:

	As of November	
	2007	**2006**
	(in millions)	
Property, leasehold improvements and equipment [1]	$ 8,975	$ 6,990
Goodwill and identifiable intangible assets [2]	5,092	5,686
Income tax-related assets	4,177	3,427
Equity-method investments [3]	2,014	2,764
Miscellaneous receivables and other	3,809	3,009
Total	$ 24,067	$ 21,876

[1] Net of accumulated depreciation and amortization of $5.88 billion and $5.06 billion as of November 2007 and November 2006, respectively.

(2) See Note 9 for further information regarding the firm s goodwill and identifiable intangible assets.

(3) Excludes investments of $2.25 billion accounted for at fair value under SFAS No. 159 as of November 2007, which are included in Financial instruments owned, at fair value in the consolidated statements of financial condition.

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Other Liabilities

The following table sets forth the firm s other liabilities and accrued expenses by type:

	As of November	
	2007	**2006**
	(in millions)	
Compensation and benefits	$ 11,816	$ 9,165
Insurance-related liabilities [1]	10,344	11,471
Minority interest [2]	7,265	2,069
Income tax-related liabilities	2,546	2,639
Employee interests in consolidated funds	2,187	2,690
Accrued expenses and other payables	4,749	3,832
Total	$ 38,907	$ 31,866

[1] Insurance-related liabilities are set forth in the table below:

	As of November	
	2007	**2006**
	(in millions)	
Separate account liabilities	$ 7,039	$ 7,957
Liabilities for future benefits and unpaid claims	2,142	2,123
Contract holder account balances	937	1,134
Reserves for guaranteed minimum death and income benefits	226	257
Total insurance-related liabilities	$ 10,344	$ 11,471

Separate account liabilities are offset by separate account assets, representing segregated contract holder funds under variable annuity and life insurance contracts. Separate account assets are included in Cash and securities segregated for regulatory and other purposes in the consolidated statements of financial condition.

Liabilities for future benefits and unpaid claims include liabilities arising from reinsurance provided by the firm to other insurers. The firm had a receivable for $1.30 billion and $1.33 billion as of November 2007 and November 2006, respectively, related to such reinsurance contracts, which is reported in Receivables from customers and counterparties in the consolidated statements of financial condition. In addition, the firm has ceded risks to reinsurers related to certain of its liabilities for future benefits and unpaid claims and had a receivable of $785 million and

$786 million as of November 2007 and November 2006, respectively, related to such reinsurance contracts, which is reported in Receivables from customers and counterparties in the consolidated statements of financial condition. Contracts to cede risks to reinsurers do not relieve the firm from its obligations to contract holders.

Reserves for guaranteed minimum death and income benefits represent a liability for the expected value of guaranteed benefits in excess of projected annuity account balances. These reserves are computed in accordance with AICPA SOP 03-1 and are based on total payments expected to be made less total fees expected to be assessed over the life of the contract.

(2) Includes $5.95 billion and $619 million related to consolidated investment funds as of November 2007 and November 2006, respectively.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11. Employee Benefit Plans

The firm sponsors various pension plans and certain other postretirement benefit plans, primarily healthcare and life insurance. The firm also provides certain benefits to former or inactive employees prior to retirement.

Defined Benefit Pension Plans and Postretirement Plans

Employees of certain non-U.S. subsidiaries participate in various defined benefit pension plans. These plans generally provide benefits based on years of credited service and a percentage of the employee s eligible compensation. The firm maintains a defined benefit pension plan for substantially all U.K. employees. The firm expects to close the U.K. pension plan to new participants during the first half of 2008, but will continue to accrue benefits for existing participants.

The firm also maintains a defined benefit pension plan for substantially all U.S. employees hired prior to November 1, 2003. As of November 2004, this plan has been closed to new participants and no further benefits will be accrued to existing participants. In addition, the firm has unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees and their dependents covered under these programs.

On November 30, 2007, the firm adopted SFAS No. 158 which requires an entity to recognize in its statement of financial condition the funded status of its defined benefit pension and postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation. Upon adoption, SFAS No. 158 requires an entity to recognize previously unrecognized actuarial gains and losses, prior service costs, and transition obligations and assets within Accumulated other comprehensive income/(loss) in the consolidated statements of changes in shareholders equity. Additional minimum pension liabilities are derecognized upon adoption of the new standard.

As a result of adopting SFAS No. 158, the firm recorded increases of $59 million and $253 million to Other assets and Other liabilities and accrued expenses, respectively, and a $194 million loss, net of taxes, within Accumulated other comprehensive income/(loss).

The accumulated other comprehensive loss at November 30, 2007 includes actuarial losses, prior service costs, and transition assets of $269 million, $37 million, and $(9) million, pre-tax, respectively, of which $8 million, $13 million and $(2) million, pre-tax, respectively, will be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2008.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table provides a summary of the changes in the plans benefit obligations and the fair value of assets for November 2007 and November 2006 and a statement of the funded status of the plans as of November 2007 and November 2006:

	As of or for the Year Ended November					
	2007			2006		
	U.S. Pension	Non-U.S. Pension	Post-retirement	U.S. Pension	Non-U.S. Pension	Post-retirement
	(in millions)					
Benefit obligation						
Balance, beginning of year	$ 395	$ 673	$ 372	$ 393	$ 486	$ 277
Service cost		78	21		58	19
Interest cost	22	34	23	21	25	19
Plan amendments		(1)			1	48
Actuarial loss	(11)	(79)	36	(13)	38	17
Benefits paid	(7)	(1)	(7)	(6)	(4)	(8)
Effect of foreign exchange rates		44			69	
Balance, end of year	$ 399	$ 748	$ 445	$ 395	$ 673	$ 372
Fair value of plan assets						
Balance, beginning of year	$ 423	$ 506	$	$ 354	$ 392	$
Actual return on plan assets	34	36		55	58	
Firm contributions		38	7	20	4	8
Employee contributions		1			1	
Benefits paid	(7)	(1)	(7)	(6)	(3)	(8)
Effect of foreign exchange rates		34			54	
Balance, end of year	$ 450	$ 614	$	$ 423	$ 506	$
Prepaid/(accrued) benefit cost						
Funded status	$ 51	$ (134)	$ (445)	$ 28	$ (167)	$ (372)
Unrecognized loss				77	159	101
Unrecognized transition (asset)/obligation				(17)	5	1
Unrecognized prior service cost					5	46
Adjustment to recognize additional minimum liability				(10)	(46)	
Prepaid/(accrued) benefit cost	$ 51	$ (134)	$ (445)	$ 78	$ (44)	$ (224)
Amounts recognized in the Statements of Financial Condition consist of:						

Other assets	$ 51	$	$	$ 99	$	$
Other liabilities and accrued expenses		(134)	(445)	(21)	(44)	(224)
Net amounts recognized	$ 51	$ (134)	$ (445)	$ 78	$ (44)	$ (224)

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The accumulated benefit obligation for all defined benefit pension plans was $1.05 billion and $944 million as of November 2007 and November 2006, respectively.

For plans in which the accumulated benefit obligation exceeded plan assets, the aggregate projected benefit obligation and accumulated benefit obligation was $722 million and $636 million, respectively, as of November 2007, and $771 million and $647 million, respectively, as of November 2006. The fair value of plan assets for each of these plans was $590 million and $583 million as of November 2007 and November 2006, respectively.

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

	Year Ended November		
	2007	2006	2005
	(in millions)		
U.S. pension			
Service cost	$	$	$
Interest cost	22	21	19
Expected return on plan assets	(32)	(26)	(27)
Net amortization	1	7	6
Total	$ (9)	$ 2	$ (2)
Non-U.S. pension			
Service cost	$ 78	$ 58	$ 44
Interest cost	34	25	20
Expected return on plan assets	(36)	(29)	(23)
Net amortization	10	11	12
Other [1]			(17)
Total	$ 86	$ 65	$ 36
Postretirement			
Service cost	$ 21	$ 19	$ 23
Interest cost	23	19	13
Net amortization	19	18	4
Total	$ 63	$ 56	$ 40

[1] Represents a benefit as a result of the termination of a Japanese pension plan.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The weighted average assumptions used to develop the actuarial present value of the projected benefit obligation and net periodic pension cost 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		
	2007	2006	2005
Defined benefit pension plans			
U.S. pension projected benefit obligation			
Discount rate	6.00%	5.50%	5.25%
Rate of increase in future compensation levels	N/A	N/A	N/A
U.S. pension net periodic benefit cost			
Discount rate	5.50	5.25	5.50
Rate of increase in future compensation levels	N/A	N/A	N/A
Expected long-term rate of return on plan assets	7.50	7.50	7.50
Non-U.S. pension projected benefit obligation			
Discount rate	5.91	4.85	4.81
Rate of increase in future compensation levels	5.38	4.98	4.75
Non-U.S. pension net periodic benefit cost			
Discount rate	4.85	4.81	4.63
Rate of increase in future compensation levels	4.98	4.75	4.49
Expected long-term rate of return on plan assets	6.84	6.93	6.35
Postretirement plans benefit obligation			
Discount rate	6.00%	5.50%	5.25%
Rate of increase in future compensation levels	5.00	5.00	5.00
Postretirement plans net periodic benefit cost			
Discount rate	5.50	5.25	5.50
Rate of increase in future compensation levels	5.00	5.00	5.00

Generally, the firm determined the discount rates for its defined benefit plans by referencing indices for long-term, high-quality bonds and ensuring that the discount rate does not exceed the yield reported for those indices after adjustment for the duration of the plans liabilities.

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 10.02% was assumed for the year ending November 2008. The rate was assumed to decrease ratably to 5.00% for the year ending November 2015 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	
	2007	2006	2007	2006
	(in millions)			
Service plus interest costs	$ 12	$ 9	$ (9)	$ (7)
Obligation	94	79	(72)	(62)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the composition of plan assets for the U.S. and non-U.S. defined benefit pension plans by asset category:

	As of November			
	2007		2006	
	U.S. Pension	Non-U.S. Pension	U.S. Pension	Non-U.S. Pension
Equity securities	63%	45%	64%	61%
Debt securities	23	8	22	8
Other	14	47	14	31
Total	100%	100%	100%	100%

The investment approach of the firm s U.S. and major non-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 programs. The plans employ a total return on investment approach, whereby a mix, which is broadly similar to the actual asset allocation as of November 2007, 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 expects to contribute a minimum of $133 million to its pension plans and $9 million to its postretirement plans in 2008.

The following table sets forth benefits projected to be paid from the firm s U.S. and non-U.S. defined benefit pension and postretirement plans (net of Medicare subsidy receipts) and reflects expected future service costs, where appropriate:

	U.S. Pension	Non-U.S. Pension	Post-retirement
		(in millions)	
2008	$ 8	$ 7	$ 9
2009	9	7	12
2010	9	8	14
2011	10	8	15
2012	11	8	16
2013-2017	74	41	103

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 $258 million, $230 million and $305 million for the years ended November 2007, November 2006 and November 2005, respectively.

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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, awards with performance conditions and other share-based awards. In the second quarter of 2003, the Amended SIP was approved by the firm s shareholders, effective for grants after April 1, 2003.

The total number of shares of common stock that may be issued under the Amended SIP through 2008 may not exceed 250 million shares and, in each 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 year, increased by the number of shares available for awards in previous years but not covered by awards granted in such years. As of November 2007 and November 2006, 160.6 million and 180.0 million shares, respectively, were available for grant under the Amended SIP.

Other Compensation Arrangements

The firm has deferred compensation plans for eligible employees. In general, under the plans, participants are able to defer payment of a portion of their cash year-end compensation. During the deferral period, participants are able to nominally invest their deferrals in certain alternatives available under the plans. Generally, under current tax law, participants are not subject to income tax on amounts deferred or on any notional investment earnings until the returns are distributed, and the firm is not entitled to a corresponding tax deduction until the amounts are distributed. The firm has recognized compensation expense for the amounts deferred under these plans. As of November 2007 and November 2006, $281 million and $245 million, respectively, related to these plans was included in Other liabilities and accrued expenses in the consolidated statements of financial condition.

The firm has a discount stock program through which eligible senior executives may acquire restricted stock units at an effective 25% discount. The 25% discount is effected by an additional grant of restricted stock units equal to one-third of the number of restricted stock units purchased by qualifying participants. The purchased restricted stock units are 100% vested when granted, but the shares underlying them are not able to be sold or transferred (other than to satisfy tax obligations) before the third anniversary of the grant date. The shares underlying the restricted stock units that are granted in order to effect the 25% discount will generally vest in equal installments on the second and third anniversaries following the grant date and will not be transferable before the third anniversary of the grant date. Compensation expense related to these restricted stock units is recognized over the vesting period. The total value of restricted stock units granted in 2007 and 2006 in order to effect the 25% discount was $66 million and $72 million, respectively.

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Restricted Stock Units

The firm issued restricted stock units to employees under the Amended SIP, primarily in connection with year-end compensation and acquisitions. Restricted stock units are valued based on the closing price of the underlying shares at the date of grant. Year-end restricted stock units generally vest as outlined in the applicable restricted stock unit agreements and deliver shortly after the third anniversary of the grant date. All employee restricted stock unit agreements provide that vesting is accelerated in certain circumstances, such as upon retirement, death and extended absence. Of the total restricted stock units outstanding as of November 2007 and November 2006, (i) 22.0 million units and 26.4 million units, respectively, required future service as a condition to the delivery of the underlying shares of common stock and (ii) 51.6 million units and 38.9 million units, respectively, did not require future service. In all cases, delivery of the underlying shares of common stock is conditioned on the grantees satisfying certain vesting and other requirements outlined in the award agreements. When delivering the underlying shares to employees, the firm generally issues new shares of common stock. The activity related to these restricted stock units is set forth below:

	Restricted Stock Units Outstanding		Weighted Average Grant-Date Fair Value of Restricted Stock Units Outstanding	
	Future Service Required	No Future Service Required	Future Service Required	No Future Service Required
Outstanding, November 2006 [1]	26,380,372	38,918,141	$ 138.83	$ 138.22
Granted [2][3][4]	7,968,028	13,870,644	224.40	223.97
Forfeited	(816,924)	(282,019)	145.30	135.46
Delivered [5]		(12,447,338)		103.49
Vested [4]	(11,506,129)	11,506,129	116.95	116.95
Outstanding, November 2007	22,025,347	51,565,557	$ 180.98	$ 164.94

(1) Includes restricted stock units granted to employees during the year ended November 2007 as part of compensation for 2006.

(2) Includes restricted stock units granted to employees subsequent to November 2007 as part of compensation for 2007.

(3) The weighted average grant-date fair value of restricted stock units granted during the years ended November 2007, November 2006 and November 2005 was $224.13, $196.99 and $129.03, respectively.

(4)

The aggregate fair value of awards vested during the years ended November 2007, November 2006 and November 2005 was $5.63 billion, $4.40 billion and $2.05 billion, respectively.

(5) Includes restricted stock units that were cash settled.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Options

Stock options granted to employees generally vest as outlined in the applicable stock option agreement and first become exercisable on or after the third anniversary of the grant date. Year-end stock options for 2007 and 2006 become exercisable in January 2011 and January 2010, respectively, and expire on November 24, 2017 and November 25, 2016, respectively. Shares received on exercise prior to January 2013 for year-end 2007 options and January 2011 for year-end 2006 options can not be sold, transferred or otherwise disposed of until January 2013 and January 2011, respectively. 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 under certain circumstances in accordance with the terms of the Amended SIP and the applicable stock option agreement. The dilutive effect of the firm s outstanding stock options is included in Average common shares outstanding Diluted on the consolidated statements of earnings.

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

	Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)	Weighted Average Remaining Life (years)
Outstanding, November 2006 [1]	45,647,096	$ 93.12		
Granted [2]	3,549,856	204.16		
Exercised	(9,918,538)	79.54		
Forfeited	(48,785)	75.08		
Outstanding, November 2007	39,229,629	$ 106.63	$ 4,708	5.05
Exercisable, November 2007	29,613,029	$ 83.05	$ 4,252	3.75

[1] Includes stock options granted to employees during the year ended November 2007 as part of compensation for 2006.

[2] Includes stock options granted to employees subsequent to November 2007 as part of compensation for 2007.

The total intrinsic value of options exercised during the years ended November 2007, November 2006 and November 2005 was $1.32 billion, $1.52 billion and $766 million, respectively.

The options outstanding as of November 2007 are set forth below:

Exercise Price		Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (years)
$ 45.00	$ 59.99	2,943,014	$ 52.98	1.50
60.00	74.99			
75.00	89.99	13,537,137	81.03	3.94
90.00	104.99	13,132,878	91.86	4.07
105.00	119.99			
120.00	134.99	3,128,972	131.64	8.00
135.00	194.99			
195.00	209.99	6,487,628	202.20	9.55
Outstanding, November 2007		39,229,629 [(1)]		

[(1)] Includes stock options granted to employees subsequent to November 2007 as part of compensation for 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The weighted average fair value of options granted for 2007, 2006 and 2005 was $51.04, $49.96 and $32.91 per option, respectively. Fair value was estimated as of the grant date based on a Black-Scholes option-pricing model principally using the following weighted average assumptions:

	Year Ended November		
	2007	**2006**	**2005**
Risk-free interest rate	4.0%	4.6%	4.5%
Expected volatility	35.0	27.5	30.0
Dividend yield	0.7	0.7	0.9
Expected life	7.5 years	7.5 years	7.5 years

The common stock underlying the options granted in 2007, 2006 and 2005 is subject to transfer restrictions for a period of 2 years, 1 year and 1 year, respectively, from the date the options become exercisable. The value of the common stock underlying the options granted in 2007, 2006 and 2005 reflects a liquidity discount of 24.0%, 17.5% and 17.5%, respectively, as a result of these transfer restrictions. The liquidity discount was based on the firm s pre-determined written liquidity discount policies. The 7.5 years expected life of the options reflects the estimated impact of these sales restrictions on the life of the awards.

The following table sets forth share-based compensation and the related tax benefit:

	Year Ended November		
	2007	**2006**	**2005**
	(in millions)		
Share-based compensation	$ 4,549	$ 3,669	$ 1,758
Excess tax benefit related to options exercised	469	542	268
Excess tax benefit related to share-based compensation [1]	908	653	272

[1] Represents the tax benefit, recognized in additional paid-in capital, on stock options exercised and the delivery of common stock underlying restricted stock units.

As of November 2007, there was $2.75 billion of total unrecognized compensation cost related to nonvested share-based compensation arrangements. This cost is expected to be recognized over a weighted average period of 2.15 years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13. Transactions with Affiliated Funds

The firm has formed numerous nonconsolidated investment funds with third-party investors. The firm generally acts as the investment manager for these funds and, as such, is entitled to receive management fees and, in certain cases, advisory fees, incentive fees or overrides from these funds. These fees amounted to $3.62 billion, $3.37 billion and $2.08 billion for the years ended November 2007, November 2006 and November 2005, respectively. As of November 2007 and November 2006, the fees receivable from these funds were $596 million and $362 million, respectively. Additionally, the firm may invest alongside the third-party investors in certain funds. The aggregate carrying value of the firm s interests in these funds was $12.90 billion and $3.94 billion as of November 2007 and November 2006, respectively. In the ordinary course of business, the firm may also engage in other activities with these funds, including, among others, securities lending, trade execution, trading, custody and acquisition and bridge financing. See Note 6 for the firm s commitments related to these funds.

Note 14. Income Taxes

The components of the net tax expense reflected in the consolidated statements of earnings are set forth below:

	Year Ended November		
	2007	2006	2005
	(in millions)		
Current taxes			
U.S. federal	$ 2,934	$ 3,736	$ 1,504
State and local	388	627	213
Non-U.S.	2,554	2,165	1,380
Total current tax expense	5,876	6,528	3,097
Deferred taxes			
U.S. federal	118	(635)	3
State and local	100	(262)	(4)
Non-U.S.	(89)	(608)	(449)
Total deferred tax (benefit)/expense	129	(1,505)	(450)
Net tax expense	$ 6,005	$ 5,023	$ 2,647

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	As of November	
	2007	2006
	(in millions)	
Deferred tax assets		
Compensation and benefits	$ 3,869	$ 2,763
Other, net	997	1,104
	4,866	3,867
Valuation allowance [1]	(112)	(81)
Total deferred tax assets	4,754	3,786
Deferred tax liabilities		
Depreciation and amortization	1,208	1,040
Unrealized gains	1,279	367
Total deferred tax liabilities	$ 2,487	$ 1,407

[1] Relates primarily to the ability to utilize losses in various tax jurisdictions.

The firm permanently reinvests eligible earnings of certain foreign subsidiaries and, accordingly, does not accrue any U.S. income taxes that would arise if such earnings were repatriated. As of November 2007, this policy resulted in an unrecognized net deferred tax liability of $350 million attributable to reinvested earnings of $4.97 billion.

During 2007, the valuation allowance was increased by $31 million, primarily due to an increase in deferred tax assets relating to net operating losses considered more likely than not to expire unused. Net operating loss carryforwards were $2.12 billion and $1.78 billion as of November 2007 and November 2006, respectively.

The firm had federal net operating loss carryforwards, primarily resulting from acquisitions, of $139 million and $203 million as of November 2007 and November 2006, respectively. The firm recorded a related net deferred income tax asset of $44 million and $69 million as of November 2007 and November 2006, respectively. These carryforwards are subject to annual limitations on utilization and will begin to expire in 2011.

The firm had state and local net operating loss carryforwards, primarily resulting from acquisitions, of $1.62 billion and $1.52 billion as of November 2007 and November 2006, respectively. The firm recorded a related net deferred income tax asset of $21 million and $31 million as of November 2007 and November 2006, respectively. These carryforwards are subject to annual limitations on utilization and will begin to expire in 2012.

The firm had foreign net operating loss carryforwards of $306 million and $50 million as of November 2007 and November 2006, respectively. The firm recorded a related net deferred income tax asset of $84 million and $13 million as of November 2007 and November 2006, respectively. These carryforwards are subject to limitation on utilization and can be carried forward indefinitely.

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The firm is subject to examination by the U.S. Internal Revenue Service (IRS) and other taxing authorities in jurisdictions where the firm has significant business operations, such as the United Kingdom, Japan, Korea and various states, such as New York. During fiscal 2007, the IRS substantially concluded its examination of fiscal years 2003 and 2004 and the firm does not expect that potential additional assessments from this examination will be material to its results of operations. The firm expects the IRS examination of the firm s 2005 and 2006 fiscal years will begin during 2008. Tax reserves have been established, which the firm believes are adequate in relation to the potential for additional assessments. The resolution of tax matters is not expected to have a material effect on the firm s financial condition but may be material to the firm s operating results for a particular period, depending, in part, upon the operating results for that period and the firm s effective tax rate for that period.

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		
	2007	**2006**	**2005**
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	1.8	1.6	1.6
Tax credits	(0.5)	(0.6)	(1.6)
Foreign operations	(1.6)	(1.3)	(1.2)
Tax-exempt income, including dividends	(0.4)	(0.4)	(0.6)
Other	(0.2)	0.2 [(1)]	(1.2)
Effective income tax rate	34.1%	34.5%	32.0%

[(1)] Primarily includes the effect of audit settlements.

Tax benefits of approximately $908 million in November 2007, $653 million in November 2006 and $272 million in November 2005, related to the delivery of common stock underlying 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.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

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Note 15. Regulation

The firm is regulated by the U.S. Securities and Exchange Commission as a Consolidated Supervised Entity (CSE). As such, it is subject to group-wide supervision and examination by the SEC and to minimum capital standards on a consolidated basis. As of November 2007 and November 2006, the firm was in compliance with the CSE capital standards.

The firm s principal U.S. regulated subsidiaries include Goldman, Sachs & Co. (GS&Co.) and Goldman Sachs Execution & Clearing, L.P. (GSEC). GS&Co. and GSEC are registered U.S. broker-dealers and futures commission merchants subject to Rule 15c3-1 of the SEC and Rule 1.17 of the Commodity Futures Trading Commission, which specify uniform minimum net capital requirements, as defined, for their registrants, and also require that a significant part of the registrants assets be kept in relatively liquid form. GS&Co. and GSEC have elected to compute their minimum capital requirements in accordance with the Alternative Net Capital Requirement as permitted by Rule 15c3-1. As of November 2007 and November 2006, GS&Co. and GSEC had net capital in excess of their minimum capital requirements. In addition to its alternative minimum net capital requirements, GS&Co. is also required to hold tentative net capital in excess of $1 billion and net capital in excess of $500 million in accordance with the market and credit risk standards of Appendix E of Rule 15c3-1. GS&Co. is also required to notify the SEC in the event that its tentative net capital is less than $5 billion. As of November 2007 and November 2006, GS&Co. had tentative net capital and net capital in excess of both the minimum and the notification requirements.

GS Bank USA, a wholly owned industrial bank, is regulated by the Federal Deposit Insurance Corporation and the State of Utah Department of Financial Institutions and is subject to minimum capital requirements. As of November 2007, GS Bank USA was in compliance with all regulatory capital requirements. Substantially all of the firm s bank deposits as of November 2007 consisted of U.S. dollar-denominated savings accounts at GS Bank USA. Savings accounts at GS Bank USA have no stated maturity and can be withdrawn upon short notice. The weighted average interest rates for savings deposits were 4.71% and 5.17% as of November 2007 and November 2006, respectively. The carrying value of savings deposits approximated fair value as of November 2007 and November 2006.

The firm has U.S. insurance subsidiaries that are subject to state insurance regulation and oversight in the states in which they are domiciled and in the other states in which they are licensed. In addition, certain of the firm s insurance subsidiaries are regulated by the Bermuda Registrar of Companies. The firm s insurance subsidiaries were in compliance with all regulatory capital requirements as of November 2007 and November 2006.

The firm s principal non-U.S. regulated subsidiaries include Goldman Sachs International (GSI) and Goldman Sachs Japan Co., Ltd. (GSJCL). GSI, the firm s regulated U.K. broker-dealer, is subject to the capital requirements of the U.K. s Financial Services Authority. GSJCL, the firm s regulated Japanese broker-dealer, is subject to the capital requirements of Japan s Financial Services Agency. As of November 2007 and November 2006, GSI and GSJCL were in compliance with their local capital adequacy requirements. Certain other non-U.S. subsidiaries of the firm are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of November 2007 and November 2006, these subsidiaries were in compliance with their local capital adequacy requirements.

The regulatory requirements referred to above restrict Group Inc. s ability to withdraw capital from its regulated subsidiaries. As of November 2007, approximately $18.10 billion of net assets of regulated subsidiaries were restricted as to the payment of dividends to Group Inc.

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16. Business Segments

In reporting to management, the firm s operating results are categorized into the following three business segments: Investment Banking, Trading and Principal Investments, and Asset Management and Securities Services.

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 and benefits expenses within the firm s segments reflect, among other factors, the overall performance of the firm as well as the performance of individual business units. 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 business segments. Due to the integrated nature of these 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 pre-tax earnings.

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

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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 the Year Ended November		
		2007	2006	2005
		(in millions)		
Investment Banking	Net revenues	$ 7,555	$ 5,629	$ 3,671
	Operating expenses	4,985	4,062	3,258
	Pre-tax earnings	$ 2,570	$ 1,567	$ 413
	Segment assets	$ 5,526	$ 4,967	$ 4,869
Trading and Principal Investments	Net revenues	$ 31,226	$ 25,562	$ 16,818
	Operating expenses	17,998	14,962	10,600
	Pre-tax earnings	$ 13,228	$ 10,600	$ 6,218
	Segment assets	$ 744,647	$ 566,499	$ 505,536
Asset Management and Securities Services	Net revenues	$ 7,206	$ 6,474	$ 4,749
	Operating expenses	5,363	4,036	3,070
	Pre-tax earnings	$ 1,843	$ 2,438	$ 1,679
	Segment assets	$ 369,623	$ 266,735	$ 196,399
Total	Net revenues [1]	$ 45,987	$ 37,665	$ 25,238
	Operating expenses [2]	28,383	23,105	16,965
	Pre-tax earnings [3]	$ 17,604	$ 14,560	$ 8,273
	Total assets	$ 1,119,796	$ 838,201	$ 706,804

[1] Net revenues include net interest as set forth in the table below:

Year Ended November

	2007	2006	2005
		(in millions)	
Investment Banking	$	$ 16	$ 72
Trading and Principal Investments	1,512	1,535	1,366
Asset Management and Securities Services	2,475	1,947	1,659
Total net interest	$ 3,987	$ 3,498	$ 3,097

(2) Operating expenses include net provisions for a number of litigation and regulatory proceedings of $37 million, $45 million and $37 million for the years ended November 2007, November 2006 and November 2005, respectively, that have not been allocated to the firm s segments.

(3) Pre-tax earnings include total depreciation and amortization as set forth in the table below:

	Year Ended November		
	2007	2006	2005
		(in millions)	
Investment Banking	$ 137	$ 119	$ 143
Trading and Principal Investments	845	725	565
Asset Management and Securities Services	185	151	146
Total depreciation and amortization	$ 1,167	$ 995	$ 854

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THE GOLDMAN SACHS GROUP, INC. and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. Since a significant portion of the firm s activities require cross-border coordination in order to facilitate the needs of the firm s clients, the methodology for allocating the firm s profitability to geographic regions is dependent on the judgment of management.

Geographic results are generally allocated as follows:

Investment Banking: location of the client and investment banking team.

Fixed Income, Currency and Commodities, and Equities: location of the trading desk.

Principal Investments: location of the investment.

Asset Management: location of the sales team.

Securities Services: location of the primary market for the underlying security.

The following table sets forth the total net revenues and pre-tax earnings of the firm and its consolidated subsidiaries by geographic region allocated on the methodology described above, as well as the percentage of total net revenues and total pre-tax earnings for each geographic region:

	Year Ended November					
	2007		2006		2005	
	($ in millions)					
Net revenues						
Americas [1]	$ 23,412	51%	$ 20,361	54%	$ 14,639	58%
EMEA [2]	13,538	29	9,354	25	6,063	24
Asia	9,037	20	7,950	21	4,536	18
Total net revenues	$ 45,987	100%	$ 37,665	100%	$ 25,238	100%
Pre-tax earnings						
Americas [1]	$ 7,673	43%	$ 7,515	52%	$ 4,977	60%
EMEA [2]	5,458	31	3,075	21	1,457	17
Asia	4,510	26	4,015	27	1,876	23
Corporate [3]	(37)		(45)		(37)	
Total pre-tax earnings	$ 17,604	100%	$ 14,560	100%	$ 8,273	100%

(1) Substantially all relates to U.S. results.

(2) EMEA (Europe, Middle East and Africa).

(3) Consists of net provisions for a number of litigation and regulatory proceedings.

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SUPPLEMENTAL FINANCIAL INFORMATION

Quarterly Results (unaudited)

The following represents the firm s unaudited quarterly results for 2007 and 2006. These quarterly results were prepared in accordance with 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.

	2007 Quarter			
	First	Second	Third	Fourth
	(in millions, except per share data)			
Total revenues	$ 22,280	$ 20,351	$ 23,803	$ 21,534
Interest expense	9,550	10,169	11,469	10,793
Revenues, net of interest expense	12,730	10,182	12,334	10,741
Operating expenses [1]	7,871	6,751	8,075	5,686
Pre-tax earnings	4,859	3,431	4,259	5,055
Provision for taxes	1,662	1,098	1,405	1,840
Net earnings	3,197	2,333	2,854	3,215
Preferred stock dividend	49	46	48	49
Net earnings applicable to common shareholders	$ 3,148	$ 2,287	$ 2,806	$ 3,166
Earnings per common share				
Basic	$ 7.08	$ 5.25	$ 6.54	$ 7.49
Diluted	6.67	4.93	6.13	7.01
Dividends declared and paid per common share	0.35	0.35	0.35	0.35

	2006 Quarter			
	First	Second	Third	Fourth
	(in millions, except per share data)			
Total revenues	$ 17,246	$ 18,002	$ 15,979	$ 18,126
Interest expense	6,813	7,761	8,395	8,719
Revenues, net of interest expense	10,433	10,241	7,584	9,407
Operating expenses [1]	6,744	6,717	5,222	4,422
Pre-tax earnings	3,689	3,524	2,362	4,985
Provision for taxes	1,210	1,212	768	1,833

Net earnings	2,479	2,312	1,594	3,152
Preferred stock dividend	26	26	39	48
Net earnings applicable to common shareholders	$ 2,453	$ 2,286	$ 1,555	$ 3,104
Earnings per common share				
Basic	$ 5.36	$ 5.08	$ 3.46	$ 7.06
Diluted	5.08	4.78	3.26	6.59
Dividends declared and paid per common share	0.25	0.35	0.35	0.35

(1) The timing and magnitude of changes in the firm s bonus accruals can have a significant effect on results in a given quarter.

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SUPPLEMENTAL FINANCIAL INFORMATION

Common Stock Price Range

The following table sets forth, for the quarters indicated, the high and low sales prices per share of the firm s common stock.

	Sales Price					
	2007		2006		2005	
	High	Low	High	Low	High	Low
First quarter	$ 222.75	$ 191.50	$ 146.35	$ 124.23	$ 113.93	$ 101.79
Second quarter	232.41	189.85	169.31	139.18	114.25	95.16
Third quarter	233.97	157.38	157.00	136.79	114.87	94.75
Fourth quarter	250.70	175.00	203.35	145.66	134.99	108.86

As of January 18, 2008, there were 7,784 holders of record of the firm s common stock.

On January 18, 2008, the last reported sales price for the firm s common stock on the New York Stock Exchange was $187.21 per share.

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SUPPLEMENTAL FINANCIAL INFORMATION

Selected Financial Data

	As of or for the Year Ended November				
	2007	2006	2005	2004	2003
Income statement data (in millions)					
Total revenues	$ 87,968	$ 69,353	$ 43,391	$ 29,839	$ 23,623
Interest expense	41,981	31,688	18,153	8,888	7,600
Revenues, net of interest expense	45,987	37,665	25,238	20,951	16,023
Compensation and benefits	20,190	16,457	11,758	9,681	7,515
Other operating expenses	8,193	6,648	5,207	4,594	4,063
Pre-tax earnings	$ 17,604	$ 14,560	$ 8,273	$ 6,676	$ 4,445
Balance sheet data (in millions)					
Total assets	$ 1,119,796	$ 838,201	$ 706,804	$ 531,379	$ 403,799
Other secured financings (long-term)	33,300	26,134	15,669	12,087	6,043
Unsecured long-term borrowings	164,174	122,842	84,338	68,609	51,439
Total liabilities	1,076,996	802,415	678,802	506,300	382,167
Total shareholders equity	42,800	35,786	28,002	25,079	21,632
Common share data (in millions, except per share amounts)					
Earnings per common share					
Basic	$ 26.34	$ 20.93	$ 11.73	$ 9.30	$ 6.15
Diluted	24.73	19.69	11.21	8.92	5.87
Dividends declared and paid per common share	1.40	1.30	1.00	1.00	0.74
Book value per common share [1]	90.43	72.62	57.02	50.77	43.60
Average common shares outstanding					
Basic	433.0	449.0	478.1	489.5	488.4
Diluted	461.2	477.4	500.2	510.5	511.9
Selected data (unaudited)					
Employees					
United States	17,383	15,477	14,466	13,846	13,189
Non-U.S.	13,139	10,990	9,157	7,890	7,170
Total employees	30,522	26,467	23,623	21,736	20,359
Assets under management (in billions) [2]					
Asset class					

Alternative investments [3]	$ 151	$ 145	$ 110	$ 95	$ 68
Equity	255	215	167	133	104
Fixed income	256	198	154	134	112
Total non-money market assets	662	558	431	362	284
Money markets	206	118	101	90	89
Total assets under management	$ 868	$ 676	$ 532	$ 452	$ 373

(1) Book value per common share is based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 439.0 million, 450.1 million, 460.4 million, 494.0 million and 496.1 million as of November 2007, November 2006, November 2005, November 2004 and November 2003, respectively.

(2) Substantially all assets under management are valued as of calendar month-end.

(3) Primarily includes hedge funds, private equity, real estate, currencies, commodities and asset allocation strategies.

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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 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management s Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm are set forth in Part II, Item 8 of the Annual Report on Form 10-K.

Item 9B. Other Information

Not applicable.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information relating to our executive officers is included on pages 42 to 43 of the Annual Report on Form 10-K. Information relating to our directors, including our audit committee and audit committee financial experts and the procedures by which shareholders can recommend director nominees, and our executive officers will be in our definitive Proxy Statement for our 2008 Annual Meeting of Shareholders to be held on April 10, 2008, which will be filed within 120 days of the end of our fiscal year ended November 30, 2007 (the 2008 Proxy Statement) and is incorporated herein by reference. Information relating to our Code of Business Conduct and Ethics that applies to our senior financial officers, as defined in the Code, is included in Part I, Item 1 of the Annual Report on Form 10-K.

Item 11. Executive Compensation

Information relating to our executive officer and director compensation will be in the 2008 Proxy Statement and 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 our common stock and information relating to the security ownership of our management will be in the 2008 Proxy Statement and is incorporated herein by reference.

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The following table provides information generally as of November 30, 2007, the last day of fiscal 2007 (but taking into consideration equity-based awards granted on December 19, 2007 in respect of fiscal 2007 performance or as part of the firm s Discount Stock Program), regarding securities to be issued on exercise of stock options, and securities remaining available for issuance under our equity compensation plans that were in effect during fiscal 2007.

	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]	39,229,629 [2]	$106.63 [2]	227,452,035 [3]
Equity compensation plans not approved by security holders	None			
Total		39,229,629 [2]		227,452,035 [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 (the 1999 Plan), which was approved by our shareholders immediately prior to our initial public offering in May 1999 and under which no additional awards have been granted since approval of the SIP.

[2] Includes options that are subject to vesting and other conditions.

[3] Of these shares, 72,092,339 shares may be issued pursuant to outstanding restricted stock units, including 71,982,173 shares granted under the SIP and 110,166 shares granted under the 1999 Plan; 268,404 shares may be issued pursuant to outstanding performance-based units granted under the SIP.

[4] Represents shares remaining to be issued under the SIP (227,341,869 shares) and the 1999 Plan (110,166 shares). 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 our 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 that were available for awards in previous fiscal years but were not, at the date of determination, covered by awards granted in previous years.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions and director independence will be in the 2008 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information regarding principal accountant fees and services will be in the 2008 Proxy Statement and is incorporated herein by reference.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this Report:

1. Consolidated Financial Statements

The consolidated financial statements required to be filed in the Annual Report on Form 10-K are listed on page F-1 hereof and in Part II, Item 8 hereof.

2. Financial Statement Schedule

The financial statement schedule required in the Annual Report on Form 10-K is listed on page F-1 hereof. The required schedule appears on pages F-2 through F-11 hereof.

3. Exhibits

2.1	Plan of Incorporation (incorporated by reference to the corresponding exhibit to the Registrant s registration statement on Form S-1 (No. 333-74449)).
3.1	Restated Certificate of Incorporation 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 May 25, 2007).
3.2	Amended and Restated By-Laws of The Goldman Sachs Group, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K, filed December 12, 2006).
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 (incorporated by reference to Exhibit 4.2 to the Registrant s Annual Report on Form 10-K for the fiscal year ended November 28, 2003).
4.3	Warrant Indenture, dated as of February 14, 2006, between The Goldman Sachs Group, Inc. and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.34 to the Registrant s Post-Effective Amendment No. 3 to Form S-3, filed on March 1, 2006).
4.4	Senior Debt Indenture, dated as of December 4, 2007, among GS Finance Corp., as issuer, The Goldman Sachs Group, Inc., as guarantor, and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.69 to the Registrant s Post-Effective Amendment No. 10 to Form S-3, filed on December 4, 2007). *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 Amended and Restated Restricted Partner Compensation Plan (incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the period ended February 24, 2006).

10.4 Form of Employment Agreement for pre-IPO Participating Managing Directors (incorporated by reference to Exhibit 10.19 to the Registrant s registration statement on Form S-1 (No. 333-75213)).

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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 Option Agreement (Discretionary Options) (incorporated by reference to Exhibit 10.24 to the Registrant s registration statement on Form S-1 (No. 333-75213)).
10.7	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)).
10.8	Amended and Restated Shareholders Agreement, dated June 22, 2004, among The Goldman Sachs Group, Inc. and various parties (incorporated by reference to Exhibit M to Amendment No. 54 to Schedule 13D, filed June 23, 2004, relating to the Registrant s common stock).
10.9	Instrument of Indemnification (incorporated by reference to Exhibit 10.27 to the Registrant s registration statement on Form S-1 (No. 333-75213)).
10.10	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).
10.11	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)).
10.12	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).
10.13	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).
10.14	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).
10.15	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).
10.16	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).
10.17	Supplemental Registration Rights Instrument, dated as of December 21, 2001 (incorporated by reference to Exhibit 4.4 to the Registrant s registration statement on Form S-3 (No. 333-74006)).
10.18	Supplemental Registration Rights Instrument, dated as of December 20, 2002 (incorporated by reference to Exhibit 4.4 to the Registrant s registration statement on Form S-3 (No. 333-101093)).
10.19	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).
10.20	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).
10.21	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).

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10.22	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).
10.23	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).
10.24	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).
10.25	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)).
10.26	Letter, dated March 31, 2004, from The Goldman Sachs Group, Inc. to Ms. Lois D. Juliber (incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the period ended May 28, 2004).
10.27	Letter, dated April 6, 2005, from The Goldman Sachs Group, Inc. to Mr. Stephen Friedman (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K, filed April 8, 2005).
10.28	Form of Amendment, dated November 27, 2004, to Agreement Relating to Noncompetition and Other Covenants, dated May 7, 1999 (incorporated by reference to Exhibit 10.32 to the Registrant s Annual Report on Form 10-K for the fiscal year ended November 26, 2004).
10.29	Form of RSU Award Agreement for PMD Discount Stock Program (subject to transfer restrictions).
10.30	Form of RSU Award Agreement for PMD Discount Stock Program (not subject to transfer restrictions).
10.31	Form of RSU Award Agreement for PMD Discount Stock Program (subject to transfer restrictions) (French alternative award).
10.32	Form of RSU Award Agreement for PMD Discount Stock Program (not subject to transfer restrictions) (French alternative award).
10.33	Form of RSU Award Agreement for PMD Discount Stock Program (U.K. employee benefit trusts).
10.34	Form of Year-End Restricted Stock Award.
10.35	Form of Year-End Restricted Stock Award in Connection with Outstanding RSU Awards.
10.36	The Goldman Sachs Group, Inc. Non-Qualified Deferred Compensation Plan for U.S. Participating Managing Directors.
10.37	The Goldman Sachs Group, Inc. Non-Qualified Deferred Compensation Plan for U.S. Extended Managing Directors and Other Select Employees.
10.38	The Goldman Sachs Group, Inc. Non-Qualified Deferred Compensation Plan for U.K. Participating Managing Directors (incorporated by reference to Exhibit 10.34 to the Registrant s Annual Report on Form 10-K for the fiscal year ended November 25, 2005).
10.39	The Goldman Sachs Group, Inc. Non-Qualified Deferred Compensation for U.K. Extended Managing Directors and Other Select U.K. Employees (incorporated by reference to Exhibit 10.38 to the Registrant s Annual Report on Form 10-K for the fiscal year ended November 26, 2004).
10.40	Form of Year-End Option Award Agreement.
10.41	Form of Year-End RSU Award Agreement (fully vested upon grant).
10.42	Form of Year-End RSU Award Agreement (not fully vested upon grant).
10.43	Form of Year-End RSU Award Agreement (French alternative award).

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10.44	Amendments to 2005 and 2006 Year-End RSU and Option Award Agreements.
10.45	Form of Non-Employee Director Option Award Agreement.
10.46	Form of Non-Employee Director RSU Award Agreement .
10.47	Description of Non-Employee Director Compensation.
10.48	Form of One-Time RSU Award Agreement (incorporated by reference to Exhibit 10.43 to the Registrant s Annual Report on Form 10-K for the fiscal year ended November 24, 2006).
10.49	Ground Lease, dated August 23, 2005, between Battery Park City Authority d/b/a/ Hugh L. Carey Battery Park City Authority, as Landlord, and Goldman Sachs Headquarters LLC, as Tenant (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K, filed August 26, 2005).
10.50	General Guarantee Agreement, dated January 30, 2006, made by The Goldman Sachs Group, Inc. (incorporated by reference to Exhibit 10.45 to the Registrant s Annual Report on Form 10-K for the fiscal year ended November 25, 2005).
10.51	Letter, dated November 10, 2006, from The Goldman Sachs Group, Inc. to Mr. Rajat K. Gupta (incorporated by reference to Exhibit 99.1 to the Registrant s Current Report on Form 8-K, filed November 13, 2006).
10.52	Goldman, Sachs & Co. Executive Life Insurance Policy and Certificate with Metropolitan Life Insurance Company for Participating Managing Directors (incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the period ended August 25, 2006).
10.53	Form of Goldman, Sachs & Co. Executive Life Insurance Policy with Pacific Life & Annuity Company for Participating Managing Directors, including policy specifications and form of restriction on Policy Owner s Rights (incorporated by reference to Exhibit 10.2 to the Registrant s Quarterly Report on Form 10-Q for the period ended August 25, 2006).
10.54	Form of Signature Card for Equity Awards.
10.55	Form of Employment Agreement for post-IPO Participating Managing Directors (incorporated by reference to Exhibit 10.50 to the Registrant s Annual Report on Form 10-K for the fiscal year ended November 24, 2006).
10.56	Form of Second Amendment, dated November 25, 2006, to Agreement Relating to Noncompetition and Other Covenants, dated May 7, 1999, as amended effective November 27, 2004 (incorporated by reference to Exhibit 10.51 to the Registrant s Annual Report on Form 10-K for the fiscal year ended November 24, 2006).
10.57	Description of Goldman Sachs Gives program.
12.1	Statement re: computation of ratios of earnings to fixed charges and ratios of earnings to combined fixed charges and preferred stock dividends.
21.1	List of significant subsidiaries of The Goldman Sachs Group, Inc.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Powers of Attorney (included on signature page).
31.1	Rule 13a-14(a) Certifications.
32.1	Section 1350 Certifications.
99.1	Report of Independent Registered Public Accounting Firm on Selected Financial Data.

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

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THE GOLDMAN SACHS GROUP, INC.

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Schedules not listed are omitted because of the absence of the conditions under which they are required or because the information is in the consolidated financial statements and notes thereto.

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SCHEDULE I

THE GOLDMAN SACHS GROUP, INC.
(PARENT COMPANY ONLY)

CONDENSED NONCONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended November		
	2007	**2006**	**2005**
	(in millions)		
Revenues			
Equity in earnings of subsidiaries	$ 10,999	$ 9,877	$ 4,763
Principal investments	1,871	1,789	1,927
Interest income	10,556	9,931	5,351
Total revenues	23,426	21,597	12,041
Interest expense	10,421	9,460	5,069
Revenues, net of interest expense	13,005	12,137	6,972
Operating expenses			
Compensation and benefits	780	407	348
Other expenses	90	15	74
Total operating expenses	870	422	422
Pre-tax earnings	12,135	11,715	6,550
Provision for taxes	536	2,178	924
Net earnings	11,599	9,537	5,626
Preferred stock dividends	192	139	17
Net earnings applicable to common shareholders	$ 11,407	$ 9,398	$ 5,609

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

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SCHEDULE I

THE GOLDMAN SACHS GROUP, INC.
(PARENT COMPANY ONLY)

CONDENSED NONCONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	As of November	
	2007	**2006**
	(in millions, except share and per share amounts)	
Assets		
Cash and cash equivalents	$ 62	$ 5
Cash segregated for margin purposes	3,221	1,965
Receivables from subsidiaries	9,827	7,468
Loans to subsidiaries	129,074	97,985
Subordinated loans to subsidiaries	34,094	35,187
Investments in subsidiaries	39,997	32,582
Financial instruments owned, at fair value	35,614	17,741
Other assets	7,292	4,843
Total assets	$ 259,181	$ 197,776
Liabilities and shareholders equity		
Unsecured short-term borrowings:		
With third parties (includes $28,689 and $1,173 at fair value as of November 2007 and November 2006, respectively)	$ 46,577	$ 32,632
With subsidiaries	5,137	1,539
Total unsecured short-term borrowings, including the current portion of unsecured long-term borrowings	51,714	34,171
Payables to subsidiaries	392	209
Secured short-term financings ($380 at fair value as of November 2006)		380
Financial instruments sold, but not yet purchased, at fair value	1,971	1,885
Other liabilities and accrued expenses	5,038	3,027
Unsecured long-term borrowings:		
With third parties (includes $10,292 and $7,214 at fair value as of November 2007 and November 2006, respectively)	156,997	119,043
With subsidiaries	269	3,275
Total unsecured long-term borrowings	157,266	122,318
Total liabilities	216,381	161,990
Commitments, contingencies and guarantees		

Shareholders equity		
Preferred stock, par value $0.01 per share; 150,000,000 shares authorized, 124,000 shares issued and outstanding as of both November 2007 and November 2006, with liquidation preference of $25,000 per share	3,100	3,100
Common stock, par value $0.01 per share; 4,000,000,000 shares authorized, 618,707,032 and 599,697,200 shares issued as of November 2007 and November 2006, respectively, and 390,682,013 and 412,666,084 shares outstanding as of November 2007 and November 2006, respectively	6	6
Restricted stock units and employee stock options	9,302	6,290
Nonvoting common stock, par value $0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	22,027	19,731
Retained earnings	38,642	27,868
Accumulated other comprehensive income/(loss)	(118)	21
Common stock held in treasury, at cost, par value $0.01 per share; 228,025,019 and 187,031,116 shares as of November 2007 and November 2006, respectively	(30,159)	(21,230)
Total shareholders equity	42,800	35,786
Total liabilities and shareholders equity	$ 259,181	$ 197,776

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

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SCHEDULE I

THE GOLDMAN SACHS GROUP, INC.
(PARENT COMPANY ONLY)

CONDENSED NONCONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended November		
	2007	2006	2005
		(in millions)	
Cash flows from operating activities			
Net earnings	$ 11,599	$ 9,537	$ 5,626
Non-cash items included in net earnings			
Undistributed earnings of subsidiaries	(6,764)	(4,840)	(4,293)
Depreciation and amortization	11	7	43
Deferred income taxes	877	228	464
Share-based compensation	459	451	177
Changes in operating assets and liabilities			
Net receivables from subsidiaries	2,396	1,883	(1,020)
Financial instruments owned, at fair value	(17,795)	(7,763)	(661)
Financial instruments sold, but not yet purchased, at fair value	86	(85)	1,832
Other, net	5,448	4,187	(899)
Net cash provided by/(used for) operating activities	(3,683)	3,605	1,269
Cash flows from investing activities			
Purchase of property, leasehold improvements and equipment	(29)		(162)
Proceeds from sales of property, leasehold improvements and equipment	11	30	
Issuance of short-term loans to subsidiaries, net of repayments	(22,668)	(12,953)	(13,248)
Issuance of term loans to subsidiaries	(48,299)	(12,362)	(12,015)
Repayment of term loans by subsidiaries	41,143	3,967	7,540
Dividends received	56	324	470
Capital distributions from/(contributions to) subsidiaries, net	(226)	(2,537)	1,943
Net cash used for investing activities	(30,012)	(23,531)	(15,472)
Cash flows from financing activities			
Unsecured short-term borrowings, net	3,255	(6,621)	1,118
Secured short-term financings, net	(380)	380	
Proceeds from issuance of unsecured long-term borrowings	53,041	44,043	31,382
Repayment of unsecured long-term borrowings, including the current portion	(13,984)	(12,590)	(13,579)
Common stock repurchased	(8,956)	(7,817)	(7,108)
Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units	(831)	(754)	(511)
Proceeds from issuance of common stock	791	1,613	1,143
Proceeds from issuance of preferred stock, net of issuance costs		1,349	1,719

Excess tax benefit related to share-based compensation	817	464	
Cash settlement of share-based compensation	(1)	(137)	
Net cash provided by financing activities	33,752	19,930	14,164
Net increase/(decrease) in cash and cash equivalents	57	4	(39)
Cash and cash equivalents, beginning of year	5	1	40
Cash and cash equivalents, end of year	$ 62	$ 5	$ 1

SUPPLEMENTAL DISCLOSURES:

Cash payments for third-party interest, net of capitalized interest, were $7.78 billion, $6.11 billion and $3.69 billion for the years ended November 2007, November 2006 and November 2005, respectively.

Cash payments for income taxes, net of refunds, were $3.27 billion, $2.86 billion and $1.52 billion for the years ended November 2007, November 2006 and November 2005, respectively.

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

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SCHEDULE I

THE GOLDMAN SACHS GROUP, INC.
(PARENT COMPANY ONLY)

NOTES TO CONDENSED NONCONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Basis of Presentation

The condensed nonconsolidated financial statements of The Goldman Sachs Group, Inc. (the parent company), a Delaware corporation, 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 included in Part II, Item 8 of the Annual Report on Form 10-K. These condensed nonconsolidated financial statements reflect the results of operations, financial condition and cash flows for the parent company only. Investments in subsidiaries are accounted for using the equity method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. For investments, other than investments in subsidiaries, acquired subsequent to the firm s adoption of Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, at the beginning of 2007, the parent company generally has elected to apply the fair value option in accounting for such investments. See Notes 2 and 3 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for information regarding the firm s accounting under SFAS No. 159.

Unless otherwise stated herein, all references to November 2007, November 2006 and November 2005 refer to the parent company s fiscal years ended, or the dates, as the context requires, November 30, 2007, November 24, 2006 and November 25, 2005, respectively. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

The parent company s significant accounting policies are identical to those used by the firm, to the extent applicable to the parent company s activities. For further information regarding the firm s significant accounting policies, refer to Note 2 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K.

Use of Estimates

These condensed nonconsolidated financial statements have been prepared in accordance with generally accepted accounting principles that require management to make certain estimates and assumptions. The most important of these estimates and assumptions relate to fair value measurements, the accounting for goodwill and identifiable intangible assets and the provision for potential losses that may arise from litigation and regulatory proceedings and tax audits. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

Financing of Subsidiaries

Substantially all of the firm s unsecured funding is raised by the parent company. The parent company then lends the necessary funds to its subsidiaries, some of which are regulated, to meet their asset financing and capital requirements. In addition, the parent company provides its regulated subsidiaries with the necessary capital to meet their regulatory requirements. Such funding is included in Loans to subsidiaries and Subordinated loans to subsidiaries in the condensed nonconsolidated statements of financial condition. Intercompany exposure is managed by requiring senior

and subordinated intercompany loans to have maturities equal to or shorter than the maturities of the

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THE GOLDMAN SACHS GROUP, INC.
(PARENT COMPANY ONLY)

NOTES TO CONDENSED NONCONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 the subsidiaries pledge collateral at loan value 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 equity capital and included in Investments in subsidiaries in the condensed nonconsolidated statements of financial condition.

The parent company enters into derivative contracts with subsidiaries to hedge its net investment in non-U.S. operations and to manage the interest rate and currency exposure on its unsecured long-term borrowings and certain unsecured short-term borrowings. To manage exposure on its borrowings, the parent company uses derivatives to effectively convert a substantial portion of its unsecured long-term borrowings into U.S. dollar-based floating rate obligations. The parent company applies fair value hedge accounting to derivative contracts that hedge the benchmark interest rate (i.e., London Interbank Offered Rate (LIBOR)) on its fixed rate unsecured long-term borrowings. Derivative balances with subsidiaries, included in Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value in the condensed nonconsolidated statements of financial condition, were $15.10 billion and $620 million, and $6.16 billion and $347 million, as of November 2007 and November 2006, respectively.

Interest income is largely generated from loans made to subsidiaries.

The parent company also allocates substantially all rental and other costs relating to properties occupied by certain subsidiaries. The parent company additionally allocates the cost of share-based compensation programs to subsidiaries relating to costs associated with employees of those subsidiaries.

Note 2. Unsecured Short-Term Borrowings

The parent company obtains third-party unsecured short-term borrowings primarily through the issuance of promissory notes, commercial paper and hybrid financial instruments. As of November 2007 and November 2006, these borrowings were $46.58 billion and $32.63 billion, respectively. Such amounts include the portion of third-party unsecured long-term borrowings maturing within one year of the financial statement date and third-party unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holder. The parent company accounts for promissory notes, commercial paper and certain hybrid financial instruments at fair value under SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB statements No. 133 and 140, or SFAS No. 159. See Notes 2 and 3 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for information regarding the firm s accounting under SFAS No. 155 and SFAS No. 159. Third-party short-term borrowings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest, and such amounts approximate fair value due to the short-term nature of the obligations.

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THE GOLDMAN SACHS GROUP, INC.
(PARENT COMPANY ONLY)

NOTES TO CONDENSED NONCONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unsecured short-term borrowings with third parties are set forth below:

	As of November	
	2007	2006
	(in millions)	
Promissory notes	$ 13,251	$ 13,811
Commercial paper	3,505	943
Current portion of unsecured long-term borrowings	21,410	13,755
Hybrid financial instruments	2,090	2,275
Other short-term borrowings	6,321	1,848
Total [1]	$ 46,577	$ 32,632

[1] The weighted average interest rates for these borrowings, after giving effect to hedging activities, were 5.30% and 5.36% as of November 2007 and November 2006, respectively. The weighted average interest rates as of November 2007 and November 2006 excluded financial instruments accounted for at fair value under SFAS No. 155 or SFAS No. 159.

In addition, the parent company may obtain unsecured short-term borrowings from certain subsidiaries. As of November 2007 and November 2006, such amounts were $5.14 billion and $1.54 billion, respectively, and included in Unsecured short-term borrowings With subsidiaries in the condensed nonconsolidated statements of financial condition.

Note 3. Unsecured Long-Term Borrowings

The parent company s third-party unsecured long-term borrowings extend through 2043 and consist principally of senior borrowings. As of November 2007 and November 2006, these borrowings were $157.00 billion and $119.04 billion, respectively. The parent company accounts for certain of these unsecured long-term borrowings at fair value under SFAS No. 155 or SFAS No. 159 and applies fair value hedge accounting to certain of these unsecured long-term borrowings under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. See Notes 2 and 3 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for information regarding the firm s accounting under SFAS No. 133, SFAS No. 155 and SFAS No. 159.

Unsecured long-term borrowings with third parties are set forth below:

	As of November	
	2007	2006

	(in millions)	
Fixed rate obligations [1]		
U.S. dollar	$ 53,694	$ 40,008
Non-U.S. dollar	29,043	22,739
Floating rate obligations [2]		
U.S. dollar	42,156	36,472
Non-U.S. dollar	32,104	19,824
Total	$ 156,997	$ 119,043

(1) As of November 2007 and November 2006, interest rates on U.S. dollar fixed rate obligations ranged from 3.88% to 10.04% and from 3.88% to 12.00%, respectively. As of both November 2007 and November 2006, interest rates on non-U.S. dollar fixed rate obligations ranged from 0.67% to 8.88%.

(2) Floating interest rates generally are based on LIBOR or the federal funds target rate. Equity-linked and indexed instruments are included in floating rate obligations.

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THE GOLDMAN SACHS GROUP, INC.
(PARENT COMPANY ONLY)

NOTES TO CONDENSED NONCONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unsecured long-term borrowings with third parties by maturity date are set forth below:

	As of November					
	2007 [1][2]			2006 [1][2]		
	U.S. Dollar	Non-U.S. Dollar	Total	U.S. Dollar	Non-U.S. Dollar	Total
	(in millions)					
2008	$	$	$	$ 14,645	$ 2,742	$ 17,387
2009	20,334	3,011	23,345	12,435	2,914	15,349
2010	8,094	5,592	13,686	5,064	4,843	9,907
2011	5,828	4,856	10,684	5,703	4,420	10,123
2012	14,909	3,657	18,566	4,491	2,076	6,567
2013-thereafter	46,685	44,031	90,716	34,142	25,568	59,710
Total	$ 95,850	$ 61,147	$ 156,997	$ 76,480	$ 42,563	$ 119,043

(1) Unsecured long-term borrowings maturing within one year of the financial statement date and certain unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holder are included as unsecured short-term borrowings in the condensed nonconsolidated statements of financial condition.

(2) Unsecured long-term borrowings that are repayable prior to maturity at the option of the parent company are reflected at their contractual maturity dates. Unsecured long-term borrowings that are redeemable prior to maturity at the option of the holder are reflected at the dates such options become exercisable.

The parent company enters into derivative contracts with subsidiaries, such as interest rate futures contracts, interest rate swap agreements, currency swap agreements, commodity contracts and equity-linked and indexed contracts, to effectively convert a substantial portion of its third-party unsecured long-term borrowings into U.S. dollar-based floating rate obligations. Accordingly, the carrying value of these unsecured long-term borrowings approximated fair value as of November 2007 and November 2006.

The effective weighted average interest rates for unsecured long-term borrowings with third parties are set forth below:

	As of November			
	2007		2006	
	Amount	Rate	Amount	Rate

	($ in millions)			
Fixed rate obligations	$ 1,858	5.69%	$ 137	8.98%
Floating rate obligations [1][2]	155,139	5.69	118,906	5.73
Total	$ 156,997	5.69	$ 119,043	5.73

(1) Includes fixed rate obligations that have been converted into floating rate obligations through derivative contracts.

(2) The weighted average interest rates as of November 2007 and November 2006 excluded financial instruments accounted for at fair value under SFAS No. 155 or SFAS No. 159.

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THE GOLDMAN SACHS GROUP, INC.
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NOTES TO CONDENSED NONCONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unsecured long-term borrowings with subsidiaries are set forth below:

	As of November	
	2007	**2006**
	(in millions)	
Fixed rate obligations [1]		
U.S. dollar	$ 53	$ 735
Non-U.S. dollar	216	713
Floating rate obligations [2]		
U.S. dollar		1,500
Non-U.S. dollar		327
Total	$ 269	$ 3,275

(1) As of November 2007 the interest rate on U.S. dollar fixed rate obligations was 4.68% and as of November 2006 ranged from 4.68% to 5.78%. As of November 2007 the interest rate on non-U.S. dollar fixed rate obligations was 6.00% and as of November 2006 ranged from 5.44% to 6.00%.

(2) Floating interest rates generally are based on LIBOR or the federal funds target rate. Equity-linked and indexed instruments are included in floating rate obligations.

Unsecured long-term borrowings with subsidiaries by maturity date are set forth below:

	As of November					
	2007 [1]			**2006 [1]**		
	U.S. Dollar	**Non-U.S. Dollar**	**Total**	**U.S. Dollar**	**Non-U.S. Dollar**	**Total**
	(in millions)					
2008	$	$	$	$	$ 299	$ 299
2009		216	216		194	194
2010	53		53	53	547	600
2011				2,182		2,182
2012-thereafter						
Total	$ 53	$ 216	$ 269	$ 2,235	$ 1,040	$ 3,275

(1) Unsecured long-term borrowings maturing within one year of the financial statement date and certain unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holder are included as unsecured short-term borrowings in the condensed nonconsolidated statements of financial condition.

Subordinated Borrowings

Unsecured long-term borrowings with third parties include subordinated borrowings with outstanding principal amounts of $16.00 billion and $7.34 billion as of November 2007 and November 2006, respectively, as set forth below.

Subordinated Notes. As of November 2007, the parent company had $10.91 billion of subordinated notes outstanding with maturities ranging from fiscal 2009 to 2037. The effective weighted average interest rate on these subordinated notes was 5.74%, after giving effect to derivative contracts used to convert fixed rate obligations into floating rate obligations. As of November 2006, the parent company had $4.50 billion of subordinated notes outstanding with maturities ranging from 2008 to 2036 and with an effective weighted average interest rate of 5.45%. These notes are junior in right of payment to all of the parent company s senior indebtedness.

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THE GOLDMAN SACHS GROUP, INC.
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NOTES TO CONDENSED NONCONSOLIDATED FINANCIAL STATEMENTS (Continued)

Junior Subordinated Debt Issued to a Trust in Connection with Trust Preferred Securities. The parent company issued $2.84 billion of junior subordinated debentures in its first quarter of 2004 to Goldman Sachs Capital I (the Trust). Refer to Note 5 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for information on junior subordinated debentures issued by the parent company to the Trust.

Junior Subordinated Debt Issued to Trusts in Connection with Fixed-to-Floating and Floating Rate Normal Automatic Preferred Enhanced Capital Securities. In the second quarter of 2007, the parent company issued a total of $2.25 billion of remarketable junior subordinated notes to Goldman Sachs Capital II and Goldman Sachs Capital III (the Trusts). Refer to Note 5 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for information on junior subordinated debentures issued by the parent company to the Trusts.

Note 4. Commitments, Contingencies and Guarantees

Commitments

Letters of Credit. The parent company provides letters of credit issued by various banks to counterparties in lieu of securities or cash to satisfy various collateral requirements. Letters of credit outstanding were $222 million and $171 million as of November 2007 and November 2006, respectively.

Investment Commitments. In connection with the firm s merchant banking and other investing activities, the parent company invests in private equity, real estate and other assets directly and through funds that the firm raises and manages. In connection with these activities, the parent company had commitments to invest up to $12.90 billion and $6.34 billion as of November 2007 and November 2006, respectively, including $12.32 billion and $4.39 billion, respectively, of commitments to invest in funds managed by the firm.

Construction-Related Commitments. As of both November 2007 and November 2006, the parent company had construction-related commitments of $2 million.

Leases. The parent company has contractual 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, which are generally reimbursed by subsidiaries, are set forth below:

	(in millions)
Minimum rental payments	
2008	$ 119
2009	146
2010	70
2011	56
2012	54
2013-thereafter	548

Total	$	993

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THE GOLDMAN SACHS GROUP, INC.
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NOTES TO CONDENSED NONCONSOLIDATED FINANCIAL STATEMENTS (Continued)

Contingencies

Refer to Note 6 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for information on contingencies.

Guarantees

The parent company has guaranteed the payment obligations of Goldman, Sachs & Co., its principal U.S. broker-dealer subsidiary (other than nonrecourse payment obligations). In addition, the parent company guarantees many of the obligations of its other consolidated subsidiaries on a transaction-by-transaction basis, as negotiated with the counterparty. The parent company is unable to develop an estimate of the maximum payout under its subsidiary guarantees; however, because these guaranteed obligations are also obligations of consolidated subsidiaries and included in the consolidated statements of financial condition or disclosed in Note 6 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K, the parent company s liabilities as guarantor are not separately disclosed herein.

The following tables set forth certain information about the parent company s guarantees as of November 2007 and November 2006:

	As of November 2007 Maximum Payout/Notional Amount by Period of Expiration[1]				
	2008	2009 - 2010	2011 - 2012	2013 - Thereafter	Total
	(in millions)				
Other financial guarantees [2]	$ 198	$ 11	$ 113	$ 46	$ 368

	As of November 2006 Maximum Payout/Notional Amount by Period of Expiration[1]				
	2007	2008 - 2009	2010 - 2011	2012 - Thereafter	Total
	(in millions)				
Other financial guarantees [2]	$ 35	$ 71	$ 76	$ 86	$ 268

[1] Such amounts do not represent the anticipated losses in connection with these contracts.

(2) The carrying value of these guarantees was a liability of $3 million and $4 million as of November 2007 and November 2006, respectively.

Refer to Note 6 to the consolidated financial statements in Part II, Item 8 of the Annual Report on Form 10-K for further information regarding the parent company s guarantees.

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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: January 28, 2008

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POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Lloyd C. Blankfein, Gary D. Cohn, Jon Winkelried, 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 the 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.

Signature	Capacity	Date
/s/ Lloyd C. Blankfein Lloyd C. Blankfein	Director, Chairman and Chief Executive Officer (Principal Executive Officer)	January 28, 2008
/s/ John H. Bryan John H. Bryan	Director	January 28, 2008
/s/ Gary D. Cohn Gary D. Cohn	Director	January 28, 2008
/s/ Claes Dahlbäck Claes Dahlbäck	Director	January 28, 2008
/s/ Stephen Friedman Stephen Friedman	Director	January 28, 2008
/s/ William W. George William W. George	Director	January 28, 2008

/s/ Rajat K. Gupta	Director	January 28, 2008
Rajat K. Gupta		
/s/ James A. Johnson	Director	January 28, 2008
James A. Johnson		
/s/ Lois D. Juliber	Director	January 28, 2008
Lois D. Juliber		
/s/ Edward M. Liddy	Director	January 28, 2008
Edward M. Liddy		
/s/ Ruth J. Simmons	Director	January 28, 2008
Ruth J. Simmons		

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Signature	Capacity	Date
/s/ Jon Winkelried Jon Winkelried	Director	January 28, 2008
/s/ David A. Viniar David A. Viniar	Chief Financial Officer (Principal Financial Officer)	January 28, 2008
/s/ Sarah E. Smith Sarah E. Smith	Principal Accounting Officer	January 28, 2008