

GOLDMAN SACHS INTERNATIONAL

(unlimited company)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2009

GOLDMAN SACHS INTERNATIONAL

(unlimited company)

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the 57 week period ended 31 December 2009.

1. Principal activities

Goldman Sachs International ('the company' or 'GSI') provides a wide-range of financial services to clients located worldwide and undertakes trading and principal investing. The company is regulated by the Financial Services Authority ('the FSA'). The company primarily operates in a US Dollar environment as part of The Goldman Sachs Group, Inc. ('the group'). Accordingly, the company's functional currency is US Dollars and these financial statements have been prepared in that currency.

2. Review of business and future developments

During the period, GSI changed its accounting reference date to 31 December to be consistent with the group's year end which was changed to 31 December 2009. Accordingly, the accounting reference period has been extended to 57 weeks ending 31 December 2009 and the financial statements have been drawn up for the 57 week period ended 31 December 2009. Comparative information has been presented for the 52 week period ended 28 November 2008.

The profit and loss account for the period is set out on page 8. Trading profit was US\$11,219 million for the period (52 week period ended 28 November 2008: US\$8,790 million). The results for the company show a pre-tax profit of US\$4,816 million for the period (52 week period ended 28 November 2008: US\$7,177 million). GSI has total assets of US\$755 billion (28 November 2008: US\$1,373 billion). Details of the company's business segments are given in note 5 to the financial statements. During the period, the company donated \$93 million to charity.

Investment Banking results primarily reflect the improved performance in the underwriting business, particularly equity underwriting.

Trading and Principal Investments reflect particularly strong results in Fixed Income, Currency and Commodities ('FICC') as well as Equities. The increase in FICC reflects particularly strong performances in credit products and interest rate products, reflecting strength in the client franchise. The increase in Equities reflects higher net revenue in derivatives and improved results from the client franchise. During the period, Equities operated in an environment characterised by an increase in global equity prices, favourable market opportunities and a significant decline in volatility levels.

Asset Management and Securities Services results reflected the impact of lower assets under management primarily due to market depreciation during the start of the period and lower customer balances mainly from lower hedge fund industry assets and reduced leverage.

Administrative expenses increased to US\$6,191 million for the period (52 week period ended 28 November 2008: US\$899 million) mainly due to an increase in compensation costs including a charge of US\$1.8 billion (52 week period ended 28 November 2008: credit of US\$2.9 billion) relating to the mark-to-market of equity-based compensation awarded in prior periods charged by the group.

Interest payable decreased to US\$216 million for the period (52 week period ended 28 November 2008: US\$720 million), mainly due to a decrease in subordinated debt from US\$9,113 million to US\$5,333 million.

The company has a pension deficit of US\$157 million as at 31 December 2009 (28 November 2008: surplus of US\$129 million). During the period, the effect of tightening credit spreads on the discount factor as well as higher expected future levels of inflation gave rise to a deficit at the period end.

GOLDMAN SACHS INTERNATIONAL
(unlimited company)

REPORT OF THE DIRECTORS (CONTINUED)

2. Review of business and future developments (continued)

Business environment

The company's financial performance is highly dependent on the environment in which its businesses operate. During 2009, a number of major economies experienced a recession. Business activity across a wide range of industries and regions was greatly reduced, reflecting a reduction in consumer spending and low levels of liquidity across credit markets. In addition, unemployment continued to rise in 2009. However, economic conditions became generally more favourable during the second half of the period as real gross domestic product growth turned positive in most major economies and growth in emerging markets improved. In addition, global equity and credit markets were characterised by increasing asset prices, lower volatility and improved liquidity during the last nine months of the period.

Following the period end, the UK Government introduced, through the Finance Bill 2010, a one-off tax in respect of certain bonuses payable by banks and banking groups. At the balance sheet date, there were uncertainties as to the implementation and scope of the initial proposals and it was not possible to conclude that the tax was virtually certain to be enacted as initially drafted. The bank payroll tax will be payable and recognised in the profit and loss account in the year ended 31 December 2010. In addition, refer to the post balance sheet events section (note 29), below.

Strategy

The Goldman Sachs Group, Inc. is a bank holding company and a financial holding company regulated by the Board of Governors of the Federal Reserve System (Federal Reserve Board). It is also 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.

As part of the group, GSI seeks to be the advisor of choice for its clients and a leading participant in the global financial markets. GSI's strategy, consistent with that of the group, is to grow its three core businesses, Investment Banking, Trading and Principal Investments, and Asset Management and Securities Services, in markets throughout the world.

Principal risks and uncertainties

GSI faces a variety of risks that are substantial and inherent in its businesses including economic and market conditions, liquidity, credit quality, operational infrastructure and technology risks. Consequently, the company does not produce predictable earnings. The key business risks affecting the company are set out below.

Economic and market conditions

Our businesses are materially affected by conditions in the global financial markets and economic conditions generally and these conditions may change suddenly and dramatically. Unfavourable or uncertain economic and market conditions have adversely affected, and may in the future adversely affect, our businesses and profitability.

Liquidity

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 amongst market participants that we are experiencing greater liquidity risk. Furthermore, 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.

GOLDMAN SACHS INTERNATIONAL
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REPORT OF THE DIRECTORS (CONTINUED)

2. Review of business and future developments (continued)

Credit quality

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. A failure of a significant market participant, or even concerns about a default by such an institution, could lead to significant liquidity problems, losses or defaults by other institutions.

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 use those securities or obligations for liquidity purposes. 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.

Operational infrastructure

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. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses.

We also face the risk of operational failure or termination or capacity constraints of any of the clearing agents, exchanges, clearing houses or other financial intermediaries that 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. Any such failure or termination could adversely affect our ability to effect transactions, service our clients and manage our exposure to risk.

Despite the resiliency plans and facilities that 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 GSI 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 the company or such third parties, or as a result of events with a broader impact on the cities where those buildings are located.

Technology

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 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.

GOLDMAN SACHS INTERNATIONAL
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REPORT OF THE DIRECTORS (CONTINUED)

2. Review of business and future developments (continued)

Risk management

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 process and other mechanisms. Our trading risk management process seeks to balance our ability to profit from trading positions with our exposure to potential losses. Whilst we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgements 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. In addition, refer to the financial risk management section (note 26), below.

Future outlook

The directors consider that the period end financial position of the company was satisfactory. No significant change in the company's principal business activity is expected.

3. Dividends

A preference dividend of US\$99,483,000 was declared and paid during the period (52 week period ended 28 November 2008: US\$99,483,000), see note 25.

4. Share capital

On 31 March 2009, the company issued 5,764,796 ordinary shares of US\$1 each in return for a cash consideration of US\$150,000,000. These shares were issued in order to increase the company's regulatory capital to support ongoing business activities (see note 23).

5. Exchange rate

The US Dollar / Sterling exchange rate at the balance sheet date was £ / US\$ 1.6154 (28 November 2008: £ / US\$ 1.5374). The average rate for the period was £ / US\$ 1.5616 (52 week period ended 28 November 2008: £ / US\$ 1.8926).

6. Employment of disabled persons

Applications for employment by disabled persons are fully and fairly considered having regard to the aptitudes and abilities of each applicant. Efforts are made to enable any employees who become disabled during employment to continue their careers within The Goldman Sachs Group, Inc. Training, career development and promotion of disabled persons are, to the extent possible, identical to that of other employees who are not disabled.

7. Employee involvement

It is group policy that there should be effective communication with all employees who, subject to practical and commercial considerations, should be consulted on and involved in decisions that affect their current jobs or future prospects. Employees share in performance-based incentive schemes.

GOLDMAN SACHS INTERNATIONAL
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REPORT OF THE DIRECTORS (CONTINUED)

8. Directors

The directors of the company who served throughout the period and to the date of this report, except where noted, were:-

Name	Appointed	Resigned
P. D. Sutherland, Chairman		
S. O. Donohoe		5 February 2009
G. P. Earle		
C. G. French		
R. J. Gnodde		
Lord Griffiths of Fforestfach		
M. S. Sherwood		
M. C. H. Westerman		
Y. Zaoui		

No director had, at the period end, any interest requiring note herein.

9. Financial risk management

The company's risk management objectives and policies, as well as exposures to market risk, credit risk and liquidity risk are described in note 26 to the financial statements.

10. Disclosure of information to auditors

In the case of each of the persons who are directors of the company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditors are unaware; and
- each of the directors has taken all the steps that he ought to have taken as a director to make himself / herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

11. Auditors

Prior to 1 October 2007, the company passed an elective resolution under section 386 of the Companies Act 1985 to dispense with the annual reappointment of auditors. PricewaterhouseCoopers LLP will, accordingly, continue in office as auditors of the company pursuant to section 487(2) of the Companies Act 2006 and paragraph 44 of Schedule 3 to the Companies Act 2006 (Commencement No. 3 Consequential Amendment, Transitional Provisions and Savings) Order 2007.

12. Charitable contributions

During the period, an amount of US\$92,583,387 (52 week period ended 28 November 2008: US\$3,259,674) was donated to charity.

GOLDMAN SACHS INTERNATIONAL
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REPORT OF THE DIRECTORS (CONTINUED)

13. Directors' responsibilities

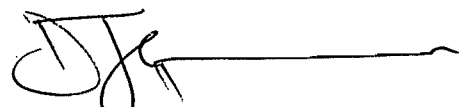
United Kingdom company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

14. Date of authorisation of issue

The financial statements were authorised for issue by the Board of Directors on 23 April 2010.



BY ORDER OF THE BOARD
D. J. GROUNSELL
Secretary
23rd April 2010

**Independent auditors' report to the members of
GOLDMAN SACHS INTERNATIONAL
(unlimited company)**

We have audited the financial statements of Goldman Sachs International for the 57 week period ended 31 December 2009 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the directors' report the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Christopher Rowland (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

23 April 2010

GOLDMAN SACHS INTERNATIONAL
(unlimited company)

PROFIT AND LOSS ACCOUNT
for the 57 week period ended 31 December 2009

	Note	57 week period ended 31 December 2009 US\$'000	52 week period ended 28 November 2008 US\$'000
Trading profit	4, 5	11,218,542	8,789,928
Administrative expenses		(6,191,237)	(899,400)
OPERATING PROFIT	6	5,027,305	7,890,528
Income from shares in group undertakings		-	2,527
Interest payable and similar charges	7	(216,304)	(719,570)
Net finance income	9	4,841	3,217
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		4,815,842	7,176,702
Tax charge on profit on ordinary activities	11	(1,288,592)	(1,800,847)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE FINANCIAL PERIOD	24	3,527,250	5,375,855

The trading and operating profit of the company is derived from continuing operations in the current and prior period.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the 57 week period ended 31 December 2009

	Note	57 week period ended 31 December 2009 US\$'000	52 week period ended 28 November 2008 US\$'000
Profit for the financial period		3,527,250	5,375,855
Actuarial (loss) / gain relating to the pension scheme	9	(300,452)	153,868
UK deferred tax attributable to the actuarial (loss) / gain	19	84,127	(43,083)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE FINANCIAL PERIOD AND SINCE LAST FINANCIAL STATEMENTS		3,310,925	5,486,640


The notes on pages 10 to 35 form an integral part of these financial statements.
Independent Auditors' report – page 7.

GOLDMAN SACHS INTERNATIONAL
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BALANCE SHEET
as at 31 December 2009

	Note	31 December 2009 US\$'000	28 November 2008 US\$'000
FIXED ASSETS			
Tangible assets	12	5,979	10,635
Shares in subsidiary undertakings	13(a)	50	50
Other investments other than loans	13(b)	1,275	1,282
		<u>7,304</u>	<u>11,967</u>
CURRENT ASSETS			
Trading inventory	14	494,868,325	1,071,248,431
Trading inventory pledged as collateral	14	18,547,582	7,512,483
Securities purchased under agreements to resell	15	113,687,284	95,879,870
Debtors	16	114,082,164	180,585,084
Cash at bank and in hand	17	13,506,686	18,261,631
		<u>754,692,041</u>	<u>1,373,487,499</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Trading inventory sold, but not yet purchased	14	(444,041,617)	(1,047,007,511)
Securities sold under agreements to repurchase	18	(67,172,244)	(65,881,016)
Other creditors	20	(216,660,515)	(237,395,411)
		<u>(727,874,376)</u>	<u>(1,350,283,938)</u>
NET CURRENT ASSETS		<u>26,817,665</u>	<u>23,203,561</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		26,824,969	23,215,528
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
	21	(10,191,762)	(10,230,083)
PROVISIONS FOR LIABILITIES AND CHARGES	22	(40,000)	(40,000)
NET ASSETS EXCLUDING PENSION (DEFICIT) / SURPLUS		16,593,207	12,945,445
Pension (deficit) / surplus	9	(157,178)	129,142
NET ASSETS INCLUDING PENSION (DEFICIT) / SURPLUS		<u>16,436,029</u>	<u>13,074,587</u>
CAPITAL AND RESERVES			
Called up share capital	23, 24	511,123	505,358
Share premium account	24	2,885,260	2,741,025
Capital reserve (non-distributable)	24	17,286	17,286
Profit and loss account	24	13,022,360	9,810,918
TOTAL SHAREHOLDERS' FUNDS	24	<u>16,436,029</u>	<u>13,074,587</u>

The financial statements were approved by the Board of Directors on 23 April 2010 and signed on its behalf by:


Glenn Earle
Director

The notes on pages 10 to 35 form an integral part of these financial statements.
Independent Auditors' report – page 7.
Company number: 02263951

GOLDMAN SACHS INTERNATIONAL
(unlimited company)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009

1. ACCOUNTING POLICIES

- (a) **Accounting convention:** These financial statements have been prepared under the historical cost convention (modified as explained in notes 1(o) and 1(p)), the accounting policies set out below and in accordance with applicable United Kingdom law, applicable United Kingdom accounting standards and pronouncements of the Urgent Issues Task Force ('UITF').
- (b) **Consolidation:** The company is a subsidiary undertaking of a company incorporated in Great Britain and has elected not to prepare group accounts in accordance with the dispensation set out in section 400 of the Companies Act 2006.
- (c) **Trading profit:** The operating results for the period include all profits arising from the trading operations of the company, including profits and losses arising both on the purchase and sale of securities. Regular-way settling purchases and sales of securities are accounted for on a trade date basis.
- (d) **Investment banking revenue and corporate finance fees:** Investment banking revenues, corporate finance and advisory fee income are recognised when the relevant parties are contractually bound and as contract activity progresses unless the right to consideration does not arise until occurrence of a critical event, in which case revenue is not recognised until that event occurs.
- (e) **Asset management and incentive fees:** Management fees are recognised over the period that the related service is provided. In certain circumstances, the company is also entitled to receive asset management 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 only recognised once they can be reliably measured at the end of the performance period.
- (f) **Operating leases:** Costs in respect of operating leases are charged on a straight-line basis over the lease term.
- (g) **Short-term employee benefits:** Short-term employee benefits such as wages and salaries are measured on an undiscounted basis and accrued as an expense over the period in which the employee renders the service to the company. Provision is made for discretionary period end compensation, whether to be paid in cash or vested shares, where as a result of group policy and past practice a constructive obligation exists at the balance sheet date.
- (h) **Share-based payments:** The Goldman Sachs Group, Inc. issues awards in the form of restricted stock units ('RSUs') and stock options to the company's employees for services rendered to the company. The cost of equity-based transactions with employees is measured based on the fair value of the equity instruments at the grant date. Non-market based vesting conditions are not taken into account in measuring the fair value of awards, but are reflected by adjusting over time the number of equity awards that are expected to vest. Share-based awards that do not contain vesting conditions are expensed immediately. Share-based employee awards that require future service are amortised over the relevant service period.
- The Goldman Sachs Group, Inc. settles equity awards through the delivery of ordinary shares in The Goldman Sachs Group, Inc. The group pays cash dividend equivalents on outstanding restricted stock units. The company has also entered into a chargeback agreement with The Goldman Sachs Group, Inc. under which it is committed to pay the market value at grant date of those awards to the group at the time of delivery to its employees.
- (i) **Foreign currencies:** Transactions denominated in foreign currencies are translated into US Dollars at rates of exchange ruling on the date the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at rates of exchange ruling at the balance sheet date. Gains and losses on exchange are recognised in operating profit.

GOLDMAN SACHS INTERNATIONAL
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009

1. ACCOUNTING POLICIES (CONTINUED)

(j) **Pension cost:** The company sponsors a hybrid pension plan for the benefit of certain employees. The defined benefit and defined contributions sections of the plan are accounted for as follows:

(i) For the defined benefit section, the amounts charged to operating profit are the current service costs, any past service costs and any gains or losses on settlements and curtailments. They are included as part of staff costs. The interest cost and expected return on assets are shown as a net amount within net finance income. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The defined benefit section is funded, with the assets of the scheme held separately from those of the company, in separate trustee-administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities. Full actuarial valuations are obtained at least triennially and updated at each balance sheet date. The resulting defined benefit asset or liability is presented separately after net assets on the face of the balance sheet.

(ii) For the defined contribution section, the amount charged to the profit and loss account in respect of pension costs is the contributions payable for the period. Differences between contributions payable for the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

(k) **Dividends:** Final equity dividends (including dividends payable on preference shares deemed equity) are recognised in the period that they are approved by the shareholders. Interim equity dividends are recognised in the period that they are paid. Equity dividends are distributed directly from equity.

(l) **Tangible fixed assets:** Tangible fixed assets are stated at cost less accumulated depreciation and provision for any impairment. Depreciation is provided on a straight-line basis over the estimated useful lives at the following annual rates:

	<u>%</u>
Fixtures, fittings and equipment	14-20
Motor vehicles	<u>20</u>

Leasehold improvements are depreciated over the shorter of the useful economic life of the asset or the remaining life of the lease when the asset is brought into use.

(m) **Fixed asset investments:**

(i) Shares in group undertakings, which are intended to be held on a continuing basis in the company's activities, are stated at cost less provision for any impairment.

(ii) Other investments other than loans are stated at amortised cost less provision for any impairment.

(n) **Offsetting financial assets and liabilities:** Financial assets and liabilities are offset and the net amount presented in the balance sheet where the company:

(i) currently has a legally enforceable right to set off the recognised amounts; and

(ii) intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

Where the conditions are not met, financial assets and liabilities are presented on a gross basis in the balance sheet.

GOLDMAN SACHS INTERNATIONAL
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009

1. ACCOUNTING POLICIES (CONTINUED)

- (o) **Financial instruments held for trading:** Trading inventory and trading inventory sold, but not yet purchased consists of financial instruments carried at fair value or amounts that approximate fair value. Financial assets and liabilities within the trading portfolio have been classified as held for trading and are carried at fair value with realised and unrealised gains and losses as well as associated interest and dividend income and expense included in trading profit.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale. In determining fair value, the company separates financial instruments into two categories: cash (i.e. non-derivative) trading instruments and derivative contracts.

The fair values of cash trading instruments are generally obtained from quoted market prices in active markets, broker or dealer price quotations or alternative pricing sources with a reasonable level of price transparency. The types of instruments valued in this manner include sovereign government obligations, investment-grade and high-yield corporate bonds, listed equities and money market securities.

However, certain cash trading instruments trade infrequently and, therefore, have little or no price transparency. Where the company is unable to substantiate the significant valuation inputs and assumptions to corroborate market data, the transaction price is used as management's best estimate for fair value at inception. Accordingly, when a pricing model is used to value such an investment, the model is adjusted so that the model value at inception equals the transaction price. Subsequent to inception, management only changes model inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment of comparable entities, subsequent rounds of financing, recapitalisations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows.

Cash trading instruments owned by the firm ('long positions') are marked to bid prices and instruments sold, but not yet purchased ('short positions') are marked to offer prices. The company does not adjust an active market quoted price for such instruments, even in situations where the firm holds a large position and a sale could reasonably impact the quoted price. For instruments not quoted in an active market, if liquidating a position is reasonably expected to affect its prevailing market price, the valuation is adjusted generally based on market evidence or predetermined policies. In certain circumstances, such as for highly illiquid positions, management's estimates are used to determine this adjustment.

The company's derivative contracts consist of exchange-traded and over-the-counter ('OTC') derivatives. The fair values of the company's exchange-traded derivatives are generally determined from quoted market prices. OTC derivatives are valued using valuation models. The company uses a variety of valuation models including the present value of known or estimated cash flows and option pricing models. The valuation models used to derive the fair values of the company's OTC derivatives require inputs including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. The selection of a 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 company generally uses similar models to value similar instruments. Where possible, the company verifies the values produced by its pricing models to market transactions.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009

1. ACCOUNTING POLICIES (CONTINUED)

(o) Financial instruments held for trading (continued):

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 judgement. For OTC derivatives that trade in less liquid markets with limited pricing information, the determination of fair value is inherently more difficult. Further, complex structures often involve multiple product types, requiring additional complex inputs such as correlations and volatilities. At the inception of an OTC derivative contract, the company values the contract at the model value if the company can verify all of the significant model inputs to observable market data and verify the model to market transactions. When appropriate, valuations are adjusted to reflect various factors such as liquidity, bid / offer spreads and credit considerations. These adjustments are generally based on market evidence or predetermined policies. In certain circumstances, such as for highly illiquid positions, management's estimates are used to determine these adjustments. Where the firm does not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, management believes that transaction price is the best estimate of fair value at inception. 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.

'Day 1 P&L' is the term used to describe the difference between the initial transaction price and the fair value calculated by internal models. Day 1 P&L is released to profit and loss at the earlier of the fair value becoming observable using market parameters, or through reference to similar quoted products, and derecognition of the financial instrument.

The gains or losses resulting from the application of this policy are taken to the profit and loss account. As the trading inventory represents the trading portfolio of the company, the directors are of the opinion that it would not be appropriate to classify it as current asset investments or to provide an analysis of such securities between those listed and unlisted.

- (p) Repurchase and resale agreements and stock borrowing and lending:** Securities purchased under agreements to resell and securities sold under agreements to repurchase are recognised on a trade date basis, treated as collateralised financing transactions and are carried at fair value. Where the collateral is in the form of cash the transaction is recorded on trade date within securities sold under agreements to repurchase or within securities purchased under agreements to resell. If the collateral is in the form of securities the transaction is recorded within securities sold under agreements to repurchase or within securities purchased under agreements to resell when the collateral is subsequently sold.
- (q) Money broker deposits:** Deposits with money brokers and deposits received from money brokers are carried at the amounts of cash collateral advanced and received in connection with the transactions. The company measures the market value of the securities borrowed and loaned against the collateral on a daily basis and obtains or provides additional collateral as appropriate.
- (r) Deferred taxation:** Full provision is made for deferred taxation in respect of all differences in timing between the accounting and tax treatments of income and expenses. The timing differences are recognised as deferred tax liabilities or assets, measured at the average tax rates that are expected to apply in periods in which the timing differences are expected to reverse, based on rates and laws that have been enacted or substantially enacted by the balance sheet date. An asset is not recognised if the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities are not discounted.

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1. ACCOUNTING POLICIES (CONTINUED)

- (s) **Provisions and contingent liabilities:** Provisions are recognised in the financial statements only when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Legal obligations that may arise as a result of proposed new laws are recognised as obligations only when the legislation is virtually certain to be enacted as drafted.

Contingent liabilities are:

- (i) possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events outside the control of the company; or
- (ii) present obligations that have arisen from past events but which are not recognised because either an outflow of economic benefits is not probable or the amount of the obligations cannot be reliably measured.

Contingent liabilities are not recognised in the financial statements, but are disclosed unless the probability of settlement is remote.

2. REPORTING AND DISCLOSURE EXEMPTIONS

a) FRS1 'Cash Flow Statements'

The company is a greater than 90% subsidiary of The Goldman Sachs Group, Inc., and is, therefore, exempt from preparing a cash flow statement as required by FRS1, 'Cash flow statements', as the ultimate parent company accounts are publicly available.

b) FRS8 'Related Party Disclosures'

The company is exempt from disclosing transactions with 100% group undertakings. There were no other related party transactions requiring disclosure.

c) FRS29 (IFRS7) 'Financial Instruments: Disclosures'

The company is exempt from the disclosures required by FRS29 as it is a greater than 90% subsidiary of Goldman Sachs Group Holdings (U.K.) which discloses this information.

3. CHANGES IN ACCOUNTING POLICIES

The company has amended its accounting policy so that repurchase and resale agreements are accounted for and measured at fair value under FRS26 (IAS39), 'Financial Instruments: Measurement', rather than on an accruals basis as the directors believe this more appropriately reflects the impact of these transactions and is consistent with how this activity is managed. There was no material impact on the current period or comparative results following the revision of this accounting policy.

4. TRADING PROFIT

Trading profit has been disclosed instead of turnover as this more meaningfully reflects the nature and results of the company's activities. Trading profit, after charging related expenses, includes the net profit arising from transactions in securities, foreign exchange and other financial instruments, and fees and commissions earned. Related expenses include trading interest and dividends payable less trading interest and dividends receivable.

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5. SEGMENTAL REPORTING

The company's trading profit is categorised into the following three principal segments: Investment Banking, Trading and Principal Investments, and Asset Management and Securities Services.

	57 week period ended 31 December 2009 US\$'000	52 week period ended 28 November 2008 US\$'000
Investment Banking	1,236,706	988,454
Trading and Principal Investments	9,342,125	6,554,990
Asset Management and Securities Services	639,711	1,246,484
	11,218,542	8,789,928

Investment Banking

The company's investment banking activities are divided into two categories:

- *Financial Advisory* – Financial Advisory includes advisory assignments with respect to mergers and acquisitions, divestitures, corporate defence activities, restructuring and spin offs; and
- *Underwriting* – Underwriting includes public offerings and private placements of a wide range of securities and other financial instruments.

Trading and Principal Investments

Trading and Principal Investments is divided into three categories:

- *Fixed Income, Currencies and Commodities* – The company makes markets in and trades interest rate and credit products, mortgage-related securities and loans, including asset-backed securities, currencies and commodities, structures and enters into a wide variety of derivative transactions and engages in proprietary trading and investing;
- *Equities* – The company makes markets in and trades equities and equity-related products, structures and enters into equity derivative transactions, and engages in proprietary trading. The company also executes and clears customer transactions on major stock, options and futures exchanges worldwide; and
- *Principal Investments* – Principal Investments primarily represents fees from group companies for sourcing and associated work with regard to the group's merchant banking investments.

Trading and Principal Investments also includes variable costs such as brokerage, clearance and underwriting expenses that are offset against trading profit.

Asset Management and Securities Services

The Asset Management and Securities Services segment includes services related to the following:

- *Asset Management* – Asset Management provides investment advisory and financial planning services to a diverse group of institutions and individuals worldwide and primarily generates revenues in the form of management and incentive fees; and
- *Securities Services* – Securities Services provides prime brokerage, 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.

Geographic Analysis

Due to the highly integrated nature of international financial markets, the directors consider that the company operates in a single global market. As a result, no disclosure of segmental information relating to the geographical origin of results has been provided.

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6. OPERATING PROFIT

	57 week period ended 31 December 2009 US\$'000	52 week period ended 28 November 2008 US\$'000
Operating profit is stated after charging / (crediting):		
Depreciation of tangible fixed assets (note 12)	3,910	3,688
Amortisation of fixed asset investments (note 13(b))	7	7
Management fees charged by group undertakings	426,426	529,358
Management fees charged to group undertakings	(283,035)	(219,262)
Foreign exchange loss / (gain) on long-term debt	7,140	(8,462)
Auditors' remuneration for audit services: – company	3,487	3,825
Operating lease rentals: – land and buildings	100,729	110,552
Trading interest payable: – group undertakings	2,378,333	3,626,260
– other	2,967,356	10,331,495
Trading interest receivable: – group undertakings	(1,484,687)	(5,594,192)
– other	(3,890,965)	(9,672,955)

The company has taken the exemption not to disclose fees payable to the auditor and its associates for other non-audit services as the consolidated financial statements of Goldman Sachs Group Holdings (U.K.) are required to disclose such information on a consolidated basis.

7. INTEREST PAYABLE AND SIMILAR CHARGES

	57 week period ended 31 December 2009 US\$'000	52 week period ended 28 November 2008 US\$'000
Payable to parent undertakings	216,304	719,570

Interest payable and similar charges payable to parent undertakings arise on subordinated loans repayable within five years otherwise than by instalments.

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8. DIRECTORS' EMOLUMENTS

	57 week period ended 31 December 2009 US\$'000	52 week period ended 28 November 2008 US\$'000
Aggregate emoluments	11,693	6,447
Company pension contributions to money purchase schemes	10	31
	11,703	6,478
	US\$'000	US\$'000
Highest paid director:		
Aggregate emoluments and benefits	3,437	1,943
Company pension contributions to money purchase schemes	-	-
Accrued pension at end of period	-	-

In accordance with the Companies Act 2006, directors' emoluments represent the proportion of total emoluments paid or payable in respect of qualifying services only. Directors also receive emoluments for non-qualifying services which are not required to be disclosed. Five persons, who were directors for some or all of the period are members of the defined contribution pension scheme and six persons are members of the defined benefit pension scheme. Four directors, including the highest paid director, have been granted shares in respect of long term incentive schemes. Three directors, including the highest paid director, have exercised options.

9. STAFF COSTS

The average number of employees of the company, including directors, is analysed below:

	57 week period ended 31 December 2009 Number	52 week period ended 28 November 2008 Number
Investment Banking	565	755
Trading and Principal Investing	1,411	1,637
Asset Management and Securities Services	502	581
Support Functions	2,499	2,858
	4,977	5,831

The company's average number of employees is categorised into the three principal segments, per note 5, and Support Functions. Accordingly, the comparatives have been revised to be consistent with the current period's presentation.

The company has the use of a number of individuals who are employed by affiliated entities and seconded to the company. These seconded individuals are included in the disclosure of headcount and related staff costs.

In addition to the above, an average number of 526 (52 week period ended 28 November 2008: 606) consultants and temporary staff are included in the company's headcount the costs of whom are included in the staff costs, below.

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9. STAFF COSTS (CONTINUED)

The employment costs incurred by the company, including those relating to directors, were:

	57 week period ended 31 December 2009 US\$'000	52 week period ended 28 November 2008 US\$'000
Aggregate gross wages and salaries ⁽¹⁾	4,853,973	81,302
Employer's National Insurance Contributions ⁽¹⁾	510,102	65,539
Pension costs, employer contributions to the:		
Defined contribution scheme	39,581	50,350
Defined benefit scheme	54,337	76,242
Total direct costs of employment ⁽¹⁾	5,457,993	273,433

⁽¹⁾ Staff costs include a charge of US\$1.8 billion (52 week period ended 28 November 2008: credit of US\$2.9 billion) relating to the mark-to-market of equity-based compensation.

Pension schemes

The company sponsors an open pension plan with a hybrid structure ('the Plan'), having both defined benefit and defined contribution sections. From 1 March 2008, the Plan was closed to employees whose employment commenced after this date.

A full actuarial valuation of the Plan was carried out by a qualified independent actuary as at 1 December 2006 (which is currently being updated to 1 December 2009) using the projected unit funding method and updated to 31 December 2009. The asset and liability figures shown below have been calculated as a proportion of the total Plan assets and liabilities, based on the company's proportion of the active membership as advised at the start and end of the period.

The major financial assumptions used by the actuary underlying the funding of the Plan which had the most significant effect on the pension cost are set out below:

	57 week period ended 31 December 2009 % per annum	52 week period ended 28 November 2008 % per annum
Discount rate	5.65	7.20
Rate of increase in salaries	4.00	4.00
Rate of increase in pensions (post-30 November 1996 accrual)	3.90	3.45
Rate of price inflation	3.90	3.45

The mortality assumptions were set based on the '00' series base table projected to 2006 with an allowance known as 'medium cohort' made for future improvements in longevity. The future improvement from 2006 is subject to a minimum level of 1% per annum.

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9. STAFF COSTS (CONTINUED)

The assets in the Plan attributable to the company and the expected rates of return were:

	31 December 2009		28 November 2008	
	Expected rate of return % p.a.	Market value US\$m	Expected rate of return % p.a.	Market value US\$m
Equities	8.4	493.2	8.4	147.9
Bonds	4.9	126.2	4.8	27.5
Hedge funds	-	-	7.0	25.7
Cash and reinvested cash	4.6	125.5	4.8	323.0
Total market value of assets		744.9		524.1

Development of the balance sheet

	31 December 2009 US\$m	28 November 2008 US\$m	30 November 2007 US\$m	24 November 2006 US\$m	25 November 2005 US\$m
Market value of Plan assets	744.9	524.1	590.3	430.1	315.6
Actuarial value of Plan liabilities	902.1	395.0	698.5	547.6	373.3
(Deficit) / surplus in the Plan and pension (liability) / asset recognised in the balance sheet before deferred taxation	(157.2)	129.1	(108.2)	(117.5)	(57.7)

The defined benefit cost was formed of the following components:

	57 week period ended 31 December 2009 US\$m	52 week period ended 28 November 2008 US\$m
Analysis of amounts charged to operating profit:		
Current service cost	42.5	82.5
Total charged to operating profit	42.5	82.5
Analysis of the amount credited to net finance income:		
Interest on Plan liabilities	31.1	38.2
Expected return on assets in the Plan	(35.9)	(41.4)
Total credited to net finance income	(4.8)	(3.2)
Total charged to profit and loss before tax	37.7	79.3
Analysis of amounts recognised in the statement of total recognised gains and losses:		
(Gain) / loss on assets	(107.0)	115.8
Experience gain on liabilities	(17.2)	(15.9)
Loss / (gain) in assumptions (financial and demographic)	424.7	(253.8)
Total loss / (gain) recognised in the statement of total recognised gains and losses before tax	300.5	(153.9)

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9. STAFF COSTS (CONTINUED)

History of experience gains and losses are as follows:

	31 December 2009	28 November 2008	30 November 2007	24 November 2006	25 November 2005
(Gain) / loss on Plan assets:					
Amount (US\$m)	(107.0)	115.8	(66.8)	(47.5)	(22.9)
% of Plan assets at end of the period	14.4%	22.1%	11.3%	11.0%	7.3%
Experience (gain) / loss on Plan liabilities:					
Amount (US\$m)	(17.2)	(15.9)	38.7	30.4	(9.9)
% of Plan liabilities at end of the period	1.9%	4.0%	5.5%	5.6%	2.7%
Total actuarial loss / (gain) recognised in statement of total recognised gains and losses:					
Amount (US\$m)	300.5	(153.9)	(46.5)	12.3	15.2
% of Plan liabilities at end of the period	33.3%	39.0%	6.7%	2.3%	4.1%

Analysis of the movement in Plan assets during the period

	57 week period ended 31 December 2009 US\$m	52 week period ended 28 November 2008 US\$m
Plan assets at the start of the period	524.1	590.3
Expected return on Plan assets	35.9	41.4
Gain / (loss) on assets	107.0	(115.8)
Contributions paid – Employer	55.0	164.9
Benefits paid	(10.2)	(7.6)
Foreign exchange gains / (losses) on translation of Plan assets	33.1	(149.1)
Plan assets at the end of the period	744.9	524.1

Analysis of the movement in Plan liabilities during the period

	57 week period ended 31 December 2009 US\$m	52 week period ended 28 November 2008 US\$m
Plan liabilities at the start of the period	395.0	698.5
Current service cost	42.5	82.5
Interest on Plan liabilities	31.1	38.2
Loss / (gain) on change in assumptions	424.7	(253.8)
Experience gain	(17.2)	(15.9)
Benefits paid	(10.2)	(7.6)
Foreign exchange losses / (gains) on translation of Plan liabilities	36.2	(146.9)
Plan liabilities at the end of the period	902.1	395.0

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9. STAFF COSTS (CONTINUED)

Analysis of the movement in surplus / (deficit) in the Plan during the period

	57 week period ended 31 December 2009	52 week period ended 28 November 2008
	US\$m	US\$m
Surplus / (deficit) in the Plan at the start of the period	129.1	(108.2)
Contributions paid – Employer	55.0	164.9
Current service cost	(42.5)	(82.5)
Net finance income	4.8	3.2
Actuarial (loss) / gain	(300.5)	153.9
Foreign exchange losses on translation of surplus / (deficit)	(3.1)	(2.2)
(Deficit) / surplus in the Plan at the end of the period	(157.2)	129.1

Additional disclosures:

	57 week period ended 31 December 2009	52 week period ended 28 November 2008
	US\$m	US\$m
Expected future benefit payments for the period to 31 December 2010 / 31 December 2009	10.3	6.3
Expected contributions for the period to 31 December 2010 / 31 December 2009 – Employer	277.4	58.6
Actual return on Plan assets during the period ended 31 December 2009 / 28 November 2008		
Expected return on Plan assets	35.9	41.4
Asset gain / (loss) during the period	107.0	(115.8)
Actual return on Plan assets	142.9	(74.4)

Cumulative amounts recognised in the statement of total recognised gains and losses since the adoption of FRS17 Retirement Benefits:

	31 December 2009	28 November 2008
	US\$m	US\$m
Actuarial (loss) / gain relating to the pension scheme	(127.6)	172.9
UK deferred tax attributable to the actuarial (loss) / gain	36.2	(47.9)
Net cumulative amount recognised in the statement of total recognised gains and losses	(91.4)	125.0

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10. SHARE-BASED PAYMENTS

Stock incentive plan

GSI's ultimate parent company, The Goldman Sachs Group, Inc., 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, non-qualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units, awards with performance conditions and other share-based awards.

Other compensation arrangements

The ultimate parent company has a discount stock program through which participating managing directors may be permitted to acquire restricted stock units at an effective 25% discount (for 2009 and 2008 period ends compensation, the program was suspended and no individual was permitted to acquire discounted restricted stock units thereunder). In prior periods, the 25% discount was 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 were 100% vested when granted, but the shares underlying them generally were subject to certain transfer restrictions (which were waived in December 2008 except for certain senior executives). The shares underlying the restricted stock units that were granted to effect the 25% discount generally vest in equal instalments on the second and third anniversaries following the grant date and were subject to certain transfer restrictions (transfer restrictions on vested awards were waived in December 2008 except for certain senior executives). Compensation expense related to these restricted stock units is recognised over the vesting period.

Restricted stock units

The ultimate parent company issued restricted stock units to GSI's employees under the Amended SIP, primarily in connection with period-end compensation. Restricted stock units are valued based on the closing price of the underlying shares at the date of grant. Period end restricted stock units generally vest as outlined in the applicable restricted stock unit agreements. All employee-restricted stock unit agreements provide that vesting is accelerated in certain circumstances, such as upon retirement, death and extended absence. 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. The activity related to these restricted stock units is set forth below:

	31 December 2009		28 November 2008	
	No. of RSUs		No. of RSUs	
	No future service requirement	Future service requirement	No future service requirement	Future service requirement
Outstanding at the beginning of the period	9,920,000	3,817,217	11,628,421	6,292,241
Granted during the period	51,560	7,062,841	13,809	546,706
Forfeited during the period	(47,366)	(725,586)	(65,263)	(310,682)
Delivered during the period	(7,524,719)	-	(4,387,862)	-
Transferred in / (out) during the period	18,257	(122,865)	28,534	(8,687)
Vested during the period	4,307,096	(4,307,096)	2,702,361	(2,702,361)
Outstanding at the end of the period	6,724,828	5,724,511	9,920,000	3,817,217

The weighted average fair value of the equity instruments granted during the 57 week period ended 31 December 2009 was US\$75.47 (52 week period ended 28 November 2008: US\$149.85).

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10. SHARE-BASED PAYMENTS (CONTINUED)

Stock options

Stock options granted to employees generally vest as outlined in the applicable stock option agreement. Options granted for the 57 week period ended 31 December 2009 will become exercisable in one-third annual instalments from January 2010 and expire on 31 December 2018. Period end stock options for the 52 week period ended 28 November 2008 become exercisable in January 2011 and expire on 24 November 2017. 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 activity related to these stock options is set forth below:

	31 December 2009		28 November 2008	
	No. of share options	Weighted average exercise price (US\$)	No. of share options	Weighted average exercise price (US\$)
Outstanding at the beginning of the period	5,580,549	104.57	6,354,323	100.32
Granted during the period	9,606,716	78.78	-	-
Forfeited during the period	(90,422)	78.82	258	96.08
Transferred in / (out) during the period	(57,794)	78.78	16,898	85.82
Exercised during the period	(1,250,801)	78.57	(790,769)	69.98
Expired during the period	(1,068)	95.85	(161)	83.20
Outstanding at the end of the period	13,787,180	89.24	5,580,549	104.57
Exercisable at the end of the period	3,481,757	90.10	4,444,519	84.16

For those options exercised during the period, the weighted average share price at the date of exercise was US\$150.48 (28 November 2008: US\$167.08). The weighted average fair value of options granted during the 57 week period ended 31 December 2009 was US\$14.08 per option (52 week period ended 28 November 2008: US\$nil). The weighted average share price at the date of grant was US\$78.78 (52 week period ended 28 November 2008: US\$nil).

The options outstanding as at 31 December 2009 and 28 November 2008 are set forth below:

Exercise price	31 December 2009		28 November 2008	
	No. of share options outstanding	Weighted average remaining contractual life (years)	No. of share options outstanding	Weighted average remaining contractual life (years)
\$45.00 – \$59.99	-	-	342,490	0.50
\$75.00 – \$89.99	11,098,980	7.94	1,963,584	2.88
\$90.00 – \$104.99	1,552,170	2.01	2,138,445	3.08
\$120.00 – \$134.99	288,720	5.92	288,720	7.00
\$195.00 – \$209.99	847,310	7.51	847,310	8.59
Outstanding at the end of the period	13,787,180		5,580,549	

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10. SHARE-BASED PAYMENTS (CONTINUED)

The fair value of options granted during the 57 week period ended 31 December 2009 (no options were granted during the 52 week period ended 28 November 2008) was estimated as of the grant date based on a Black-Scholes option-pricing model principally using the following weighted average assumptions:

	<u>31 December 2009</u>
Risk-free interest rate	1.1%
Expected volatility	50.1%
Expected dividends	\$1.40
Expected life	<u>4.0 years</u>

The expected volatility assumption is determined by management based on implied volatility data for listed options on The Goldman Sachs Group, Inc. common stock. This information is typically not available for the full term of the options which have been granted. Accordingly, management estimates longer-dated volatilities using a combination of available market data for these shorter dated listed options and other implied volatility data for comparable entities and / or benchmark indices.

The common stock underlying the options granted during the 57 week period ended 31 December 2009 is subject to transfer restrictions until January 2014. The value of the common stock underlying the options granted during the 57 week period ended 31 December 2009 has been discounted by 26.7% to reflect these transfer restrictions.

GSI recorded total share-based compensation expenses net of forfeitures of US\$743 million for the 57 week period ended 31 December 2009 (52 week period ended 28 November 2008: US\$509 million) related to the amortisation of equity awards. The corresponding credit to equity has been transferred to liabilities as a result of the terms of the intercompany agreements with the group.

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11. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of tax charge for the period:

	57 week period ended 31 December 2009 US\$'000	52 week period ended 28 November 2008 US\$'000
Current tax:		
UK corporation tax	1,748,462	839,756
Adjustments in respect of previous periods	(19,056)	(2,288)
Overseas taxation	68,126	86,737
Total current tax (see note 11(b))	1,797,532	924,205
Deferred tax:		
Provisions and other timing differences	(508,940)	870,843
Adjustments in respect of previous periods	-	5,799
Total deferred tax (see note 19)	(508,940)	876,642
Tax charge on profit on ordinary activities	1,288,592	1,800,847

(b) Factors affecting tax charge for the period

The current tax assessed for the period is lower than the standard rate of corporation tax in the UK of 28% (28 November 2008: 28.67%). The differences are explained below:

	57 week period ended 31 December 2009 US\$'000	52 week period ended 28 November 2008 US\$'000
Profit on ordinary activities before tax	4,815,842	7,176,702
Profit on ordinary activities multiplied by standard rate in the UK 28% (2008: 28.67%)	1,348,436	2,057,560
Expenses not deductible for tax purposes	1,943	7,319
Accelerated capital allowances and other timing differences	53,266	(12,310)
Timing differences in respect of equity-based compensation	511,688	(886,615)
Permanent differences	(24,859)	(61,621)
Pension contribution relief in excess of net pension cost charge	(2,727)	889
Tax losses surrendered from group undertakings for nil consideration	(71,375)	(204,974)
Exchange differences and other	216	26,245
Adjustment to tax in respect of prior periods	(19,056)	(2,288)
Current tax charge for the period	1,797,532	924,205

The timing differences in respect of equity-based compensation comprises the net tax effect of the amounts charged to the profit and loss account during the period and those amounts paid to the employees during the period.

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12. TANGIBLE FIXED ASSETS

The movements in tangible fixed assets during the period were as follows:

	Leasehold improvements US\$'000	Fixtures, fittings & equipment US\$'000	Motor vehicles US\$'000	Total US\$'000
Cost				
At 28 November 2008	18,036	6,278	16	24,330
Additions	156	139	-	295
Transfers out	-	(1,041)	-	(1,041)
At 31 December 2009	18,192	5,376	16	23,584
Depreciation				
At 28 November 2008	11,453	2,226	16	13,695
Charge for period (note 6)	2,988	922	-	3,910
At 31 December 2009	14,441	3,148	16	17,605
Net Book Value				
At 31 December 2009	3,751	2,228	-	5,979
At 28 November 2008	6,583	4,052	-	10,635

13. FIXED ASSET INVESTMENTS

(a) Shares in subsidiary undertakings

Cost and Net Book Value	US\$'000
At 28 November 2008 and at 31 December 2009	50

The subsidiaries over which the company exercises control at the period end are listed below:

Name of company	Country of incorporation	Holding and proportion of voting rights	Number of shares in issue	Class of shares held	Nature of business
Goldman Sachs Europe Limited	Jersey	100%	100	Ordinary shares	Financial services
Goldman Sachs Securities (Nominees) Limited	Great Britain	100%	2	Ordinary shares	Nominee company
Goldman Sachs (Jersey) Limited	Jersey	100%	50,000	Ordinary shares	Financial services

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13. FIXED ASSET INVESTMENTS (CONTINUED)

(b) Other investments other than loans

	US\$'000
Cost	
At 28 November 2008 and at 31 December 2009	1,335
Amortisation	
At 28 November 2008	53
Charge for period (note 6)	7
At 31 December 2009	60
Net Book Value	
At 31 December 2009	1,275
At 28 November 2008	1,282

Other investments other than loans primarily consists of exchange memberships.

- (c) The company has interests in a number of special purpose vehicles and capital-guaranteed funds considered by the directors to be subsidiaries which do not meet the definition of a legal subsidiary, but give rise to the risks and rewards that are, in substance, no different than if they were legal subsidiaries.

The activities of these special purpose vehicles and the capital-guaranteed funds consist of the issuance of loan notes under the terms of a repackaging programme.

These vehicles are consolidated in the financial statements of Goldman Sachs Group Holdings (U.K.).

- (d) The directors consider that the value of investments in subsidiary undertakings and other investments other than loans is not less than their book value.

14. TRADING INVENTORY

Trading inventory comprises financial instruments and investments within the trading activities of the company.

Trading inventory pledged as collateral represents financial instruments owned and pledged to counterparties that have the right to deliver or repledge.

15. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

Included within the resale agreements are amounts of US\$12,542 million (28 November 2008: US\$13,277 million) which relate to group undertakings.

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16. DEBTORS

	31 December 2009	28 November 2008
	US\$'000	US\$'000
Deposits as collateral for stock borrowed	4,197,253	4,631,167
Amounts due from broker / dealers and customers	38,233,568	75,197,558
Amounts due from parent and group undertakings	70,547,125	100,180,866
Deferred tax (note 19)	945,920	352,853
Other debtors	119,753	157,057
Prepayments and accrued income	38,545	65,583
	114,082,164	180,585,084

Of the amounts due from parent and group undertakings, US\$41 million (28 November 2008: US\$33 million) is due in more than one year. This relates to equity-based employee compensation. The remaining debtors are all due within one year of the balance sheet date.

17. CASH AT BANK AND IN HAND

Included within cash at bank and in hand is US\$12,676 million (28 November 2008: US\$16,435 million) that is held on behalf of clients in segregated accounts.

18. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Included within the repurchase agreements are amounts of US\$23,562 million (28 November 2008: US\$17,371 million) which relate to group undertakings.

19. DEFERRED TAX

	31 December 2009	28 November 2008
	US\$'000	US\$'000
Deferred tax balance comprises (note 16):		
Depreciation in excess of capital allowances	6,309	8,501
Post-retirement benefits	59,527	(14,488)
Other timing differences	880,084	358,840
	945,920	352,853
	US\$'000	
The movements in the deferred tax balance were as follows:		
At 28 November 2008	352,853	
Transfer to the profit and loss account for the period (note 11(a))	508,940	
Transfer to the statement of total recognised gains and losses for the period	84,127	
At 31 December 2009	945,920	

Other timing differences includes deferred tax in respect of equity-based compensation.

The directors consider that future profits will be available against which the deferred tax asset can be recovered.

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20. OTHER CREDITORS

Other creditors, all of which are payable within one year of the balance sheet date, comprise:

	31 December 2009	28 November 2008
	US\$'000	US\$'000
Bank loans and overdrafts	53,612	124,732
Debt securities issued	12,717,321	10,384,046
Deposits received as collateral for stock loans	18,697,973	26,636,000
Amounts due to broker / dealers and customers	92,789,702	131,962,498
Amounts due to parent and group undertakings	88,367,160	66,734,082
Amounts due to subsidiary undertakings	2,772	1,712
Accrual for management charges payable to parent and group undertakings (see note 21(c))	1,850,732	454,697
Corporation tax payable	486,495	157,143
Other taxes and social security costs	291,241	107,631
Other creditors and accruals	1,403,507	832,870
	216,660,515	237,395,411

Of the above, US\$56,546 million (28 November 2008: US\$59,067 million) is secured by marketable securities, of which US\$35,729 million (28 November 2008: US\$32,431 million) relates to amounts due to parent and group undertakings.

21. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 December 2009	28 November 2008
	US\$'000	US\$'000
Long-term subordinated loans (note (a))	5,333,000	9,113,000
Debt securities issued (note (b))	4,049,576	486,342
Accrual for management charges payable to parent and group undertakings (note (c))	809,186	630,741
	10,191,762	10,230,083

(a) The amounts outstanding at 31 December 2009 and 28 November 2008 include long-term subordinated loans from parent undertakings. The loans are unsecured and carry interest at a margin over the London Inter-Bank Offer Rate ('LIBOR'). Long-term subordinated loans of US\$5,333 million (28 November 2008: US\$9,113 million) constitute regulatory capital as approved by the FSA. Of the US\$5,333 million, US\$5,000 million is repayable upon giving or receiving at least two years' notice to or from the parent undertaking and US\$333 million is repayable upon giving or receiving at least five years' notice to or from the parent undertaking. The repayment of subordinated debt is also subject to FSA approval.

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21. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (CONTINUED)

(b) The maturity of debt securities issued due after more than one year is as follows:

	31 December 2009	28 November 2008
	US\$'000	US\$'000
In more than one year, but not more than two years	-	9,384
In more than two years, but not more than five years	1,236,125	280,636
In more than five years	2,813,451	196,322
	<u>4,049,576</u>	<u>486,342</u>

Of the above, \$365 million (28 November 2008: US\$nil) is secured by marketable securities and US\$205 million (28 November 2008: US\$218 million) is repayable to group undertakings, none of which is secured. Amounts due in more than five years predominantly relate to structured debt securities with maturities falling from 2014 to 2050. Payments on these securities are typically referenced to underlying financial assets including collateralised debt obligations and OTC mortgage portfolios.

(c) The accrual for management charges (per above and note 20) is in respect of RSUs and Long-Term Incentive Plans.

22. PROVISION FOR LIABILITIES AND CHARGES

	US\$'000
At 28 November 2008 and at 31 December 2009	<u>40,000</u>

The provision of US\$40 million was made in respect of legal claims made against the company. Further details relating to these claims have not been disclosed as permitted by accounting standard FRS12, 'Provisions, Contingent Liabilities and Contingent Assets', on the grounds that it would be seriously prejudicial to do so.

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23. SHARE CAPITAL

At 28 November 2008 and 31 December 2009 share capital comprised:

	31 December 2009		28 November 2008	
	No.	US\$'000	No.	US\$'000
<u>Authorised</u>				
Ordinary shares of US\$1 each	950,000,000	950,000	950,000,000	950,000
Class A preference shares of US\$0.01 each	1,500,000,000	15,000	1,500,000,000	15,000
Class B preference shares of US\$0.01 each	500,000,000	5,000	500,000,000	5,000
		<u>970,000</u>		<u>970,000</u>
<u>Allotted, called up and fully paid</u>				
Ordinary shares of US\$1 each	499,257,654	499,258	493,492,858	493,493
Class A preference shares of US\$0.01 each	958,659,363	9,586	958,659,363	9,586
Class B preference shares of US\$0.01 each	227,906,997	2,279	227,906,997	2,279
		<u>511,123</u>		<u>505,358</u>

The class A and class B preference shares carry limited voting rights and on a winding up the holders have a preferential right to return of capital together with any premium. Class A preference shares have a fixed non-cumulative dividend payable at a rate of 8 cents per share per annum. Class B preference shares have a fixed non-cumulative dividend at a rate of 10 cents per share per annum.

On 31 March 2009, 5,707,148 ordinary shares of US\$1 each were allotted at US\$26.02 to Goldman Sachs Holdings (U.K.) and 57,648 ordinary shares of US\$1 each were allotted at US\$26.02 to Goldman Sachs Group Holdings (U.K.). The total consideration received was US\$150,000,000 in cash incorporating a share premium of US\$144,235,204. These shares were issued in order to increase the company's regulatory capital to support ongoing business activities.

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24. RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital US\$'000	Share premium account US\$'000	Capital reserve (non- distributable) US\$'000	Profit and loss account US\$'000	Total US\$'000
At 30 November 2007	498,396	2,607,806	17,286	4,423,761	7,547,249
Profit for the financial period	-	-	-	5,375,855	5,375,855
Other recognised gains and losses for the period	-	-	-	110,785	110,785
Dividends paid (note 25)	-	-	-	(99,483)	(99,483)
Share-based payments (note 10)	-	-	-	509,151	509,151
Management recharge related to share-based payments	-	-	-	(509,151)	(509,151)
Shares issued	6,962	133,219	-	-	140,181
At 29 November 2008	505,358	2,741,025	17,286	9,810,918	13,074,587
Profit for the financial period	-	-	-	3,527,250	3,527,250
Other recognised gains and losses for the period	-	-	-	(216,325)	(216,325)
Dividends paid (note 25)	-	-	-	(99,483)	(99,483)
Share-based payments (note 10)	-	-	-	742,564	742,564
Management recharge related to share-based payments	-	-	-	(742,564)	(742,564)
Shares issued (note 23)	5,765	144,235	-	-	150,000
At 31 December 2009	511,123	2,885,260	17,286	13,022,360	16,436,029

Pension reserve

	31 December 2009 US\$'000	28 November 2008 US\$'000
Profit and loss reserve excluding pension (deficit) / surplus	13,179,538	9,681,776
Pension reserve (note 9)	(157,178)	129,142
Profit and loss reserve	13,022,360	9,810,918

25. DIVIDENDS PAID

	31 December 2009 US\$'000	28 November 2008 US\$'000
US\$0.01 Class A fixed rate preference shares	76,693	76,693
US\$0.01 Class B fixed rate preference shares	22,790	22,790
	99,483	99,483

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26. FINANCIAL RISK MANAGEMENT

Normal trading activities expose the company to market, credit, and liquidity risk. These risks, described below, are managed in accordance with established risk management policies and procedures.

The Goldman Sachs Group, Inc. manages market, credit and liquidity risk on a consistent basis, firmwide. Consequently, GSI, as part of a global group, adheres to global risk management policies and procedures.

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 global, regional and entity committees are responsible for monitoring risk exposures and for general oversight of our risk management process. These committees meet regularly and consist of senior members of both our revenue-producing units and departments that are independent of our revenue-producing units. In addition to the committees, functions that are independent of the revenue-producing units, such as Compliance, Finance (including Risk Management), Legal, Management Controls (Internal Audit) and Operations, perform global risk management functions, which include monitoring, analysing and evaluating risk.

(a) 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 and proprietary trading, investing and underwriting activities. Categories of market risk include exposures to interest rates, equity prices, and currency rates. 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, funding spreads and credit spreads;
- equity price risk results from exposure to changes in prices and volatilities of individual equities, equity baskets and equity indices; and
- currency rate risks result from exposures to changes in spot prices, forward prices and volatilities of currencies.

We seek to manage these firmwide risks through diversifying exposures, controlling position sizes and establishing hedges in related securities or derivatives. 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 the related hedge instrument.

Firmwide market risk limits are monitored on a daily basis by the Market Risk Department in the Finance Division and are reviewed regularly by the appropriate risk committee.

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

- risk limits based on a summary measure of market risk exposure referred to as Value-at-Risk ('VaR') which are updated and monitored on a daily basis. VaR represents the potential loss in value of the company's trading positions due to adverse market movements over a defined time horizon with respect to a specified confidence level;
- 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 certain business units (determined at a firmwide level).

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26. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) 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 obligations 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:

- entering into agreements that enable us to obtain collateral from a counterparty on an upfront or contingent basis;
- seeking third-party guarantees of the counterparty's obligations; and
- transferring credit risk to third parties using credit derivatives and other structures and techniques.

Counterparty credit risk is managed by the Credit Department, which is independent of the revenue-producing departments, based on guidelines set by the Firmwide Risk Committee and the Credit Policy Committee. To measure and manage our credit exposure we use a variety of tools including credit limits which reference both current and potential exposure. We typically measure potential exposure based on projected worst case market movements over the life of the transactions. For collateralised transactions, we also evaluate potential exposure over a shorter collection period and give effect to the value of the collateral received. We further seek to measure credit exposure through the use of scenario analyses, stress tests and other quantitative tools. Our global credit management systems monitor current and potential credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. These systems also provide management, including the Firmwide Risk and Credit Policy Committees with information, regarding overall credit risk by product, industry sector, country and region.

(c) Liquidity risk

Liquidity is of critical importance to companies in the financial services sector. Accordingly, the company has in place a comprehensive set of liquidity and funding policies that are intended to maintain significant flexibility to address company and firmwide-specific as well as broader industry or market liquidity events. Our principal objective is to be able to fund the company and to enable our core business to continue to generate revenue under adverse circumstances.

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

- excess liquidity – maintain substantial excess liquidity to meet a broad range of potential cash outflows in a stressed environment including financing obligations;
- asset-liability management – assess the overall characteristics, including anticipated holding periods and potential liquidity in a stressed environment, of the assets held. Manage the maturities and diversity of secured and unsecured funding liabilities across markets, products and counterparties, and see to maintain liabilities of appropriate terms relative to the asset base; and
- contingency fund planning ('CFP') – a firmwide CFP is maintained to help identify, measure, monitor and mitigate liquidity and funding risk. The CFP considers various risk factors that could occur during a crisis and provides a framework for analysing and responding to a liquidity crisis.

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27. FINANCIAL COMMITMENTS AND CONTINGENCIES

- (a) The company's financial commitments and contingencies outstanding at the period end arise from letters of credit and forward foreign exchange, swaps, options, financial futures contracts, debt and equity forwards and underwriting commitments entered into in the ordinary course of business. In addition, there are registered charges on the company's assets which have arisen in the ordinary course of business.
- (b) The company leases certain buildings on long-term leases. Under these leases, which are subject to renegotiation at various intervals specified in the leases, the company pays all insurance, maintenance and repairs of these properties. The rentals that the company is committed to pay in the next year are as follows:

	<u>31 December 2009</u> US\$'000	<u>28 November 2008</u> US\$'000
Maturity of lease:		
Between one and two years	2,685	111
Between two and five years	12,182	12,124
Over five years	97,558	92,847
	<u>112,425</u>	<u>105,082</u>

28. ULTIMATE AND IMMEDIATE PARENT UNDERTAKINGS

The immediate parent undertaking is Goldman Sachs Holdings (U.K.), and the parent company of the smallest group for which consolidated financial statements are prepared is Goldman Sachs Group Holdings (U.K.), a company incorporated in Great Britain and registered in England and Wales.

The ultimate parent undertaking and the parent company of the largest group for which consolidated financial statements are prepared is The Goldman Sachs Group, Inc., a company incorporated in the United States of America. Copies of its accounts can be obtained from 200 West Street, New York, NY 10282, United States of America, the group's principal place of business.

29. POST BALANCE SHEET EVENTS

Bank payroll tax

Following the period end, the UK Government introduced, through the Finance Bill 2010, a one-off tax in respect of certain bonuses payable by banks and banking groups. At the balance sheet date, there were uncertainties as to the implementation and scope of the initial proposals and it was not possible to conclude that the tax was virtually certain to be enacted as initially drafted. The company's current estimate, based on the enacted legislation, of the total amount of the tax expected to be paid is in excess of US\$600 million. The bank payroll tax will be payable and recognised in the profit and loss account in the year ended 31 December 2010.