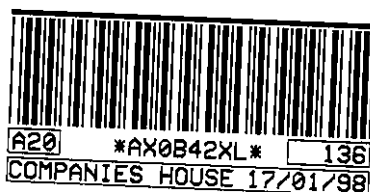


GOLDMAN SACHS INTERNATIONAL BANK

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 March 1997



GOLDMAN SACHS INTERNATIONAL BANK

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 March 1997.

1. Principal activities

The company is engaged in international merchant banking business and conducts foreign exchange and derivatives business through a branch in Tokyo. The company is authorised under the Banking Act 1987.

2. Review of business and future developments

The directors consider that the year end financial position of the company was satisfactory and do not anticipate any significant changes in its activities in the forthcoming year.

3. Fixed Assets

The movement in tangible fixed assets is given in note 13 to the financial statements.

4. Dividends

During the year a dividend of £1,727,000 was paid in respect of the 1995 group restructuring (1996: £6,070,000). After payment of the dividend, the retained profit for the year of £1,367,000 will be added to the company's reserves. The directors do not recommend the payment of a final dividend on the ordinary or preference shares.

5. Directors

The directors of the company during the year and as at the date of this report, together with dates of appointment and resignation where applicable are:

Name	Appointed	Resigned
J. A. Thain (Co-Chairman)		July 18, 1997
F. E. DuBose		
L. C. Blankfein		
D. W. Blood		June 11, 1997
R. J. O'Shea		
B. H. Young, Jr.		
P. Savitz	September 4, 1996	
P.C. Deighton	September 4, 1996	
E.G. Corrigan (Co-Chairman)	December 24, 1996	

No director has, or had during the year, any beneficial interest requiring note herein.

GOLDMAN SACHS INTERNATIONAL BANK

REPORT OF THE DIRECTORS (CONTINUED)

6. Directors' responsibilities

The directors are required by United Kingdom company law to prepare financial statements 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 for that period. In preparing the financial statements, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. Applicable accounting standards have been followed and the financial statements have been prepared on a going concern basis. The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

BY ORDER OF THE BOARD


THERESE L. MILLER
Secretary

**Report of the auditors to the members of
GOLDMAN SACHS INTERNATIONAL BANK**

We have audited the financial statements on pages 4 to 16.

Respective responsibilities of directors and auditors

As described on page 2, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

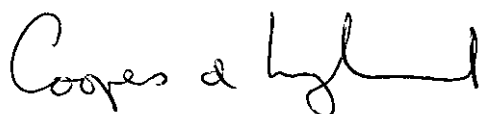
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 March 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand
Chartered Accountants and Registered Auditors
1 Embankment Place
London
WC2N 6NN

1 August 1997

GOLDMAN SACHS INTERNATIONAL BANK

PROFIT AND LOSS ACCOUNT for the year ended 31 March 1997

	Notes	1997 £'000	1996 £'000
Interest receivable and similar income	3	9,099	13,622
Less: interest payable and similar charges	4	(5,350)	(9,056)
NET INTEREST INCOME		3,749	4,566
Fees and commissions receivable		7,315	5,600
Less: fees and commissions payable		(313)	(462)
Dealing profits		180	196
OPERATING PROFIT		10,931	9,900
Administrative expenses	5	(4,872)	(5,228)
Depreciation and amortisation		(100)	(141)
Other operating charges		(2,104)	(2,432)
Other operating income		-	27
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	7	3,855	2,126
Taxation	8	(761)	(1,221)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		3,094	905
Dividends paid - ordinary dividend on restructuring (equity)	9	(1,727)	(6,070)
RETAINED PROFIT/(LOSS) FOR THE YEAR		1,367	(5,165)

The operating profit of the company is derived entirely from continuing operations.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year as stated above and their historical cost equivalents.

The notes on pages 7 to 16 form part of these financial statements.
Auditors' report - page 3.

GOLDMAN SACHS INTERNATIONAL BANK

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	1997 £'000	1996 £'000
Profit on ordinary activities after taxation		3,094	905
Other recognised gains/(losses)	24	820	(9)
Total recognised gains		<u>3,914</u>	<u>896</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

		1997 £'000	1996 £'000
Profit on ordinary activities after taxation		3,094	905
Dividends paid - ordinary dividend on restructuring		(1,727)	(6,070)
		<u>1,367</u>	<u>(5,165)</u>
Other recognised gains/(losses)	24	820	(9)
Net increase/(decrease) in shareholders' funds		<u>2,187</u>	<u>(5,174)</u>
Retranslation of legal reserve		(18)	-
Issue of ordinary shares		-	6,410
Issue of preference shares		-	62,000
Redemption of ordinary shares		-	(19,969)
Redemption of preference shares		-	(35,000)
Repayment of capital contribution		-	(2,930)
Opening shareholders' funds		<u>70,433</u>	<u>65,096</u>
Closing shareholders' funds		<u>72,602</u>	<u>70,433</u>

The notes on pages 7 to 16 form part of these financial statements.


GOLDMAN SACHS INTERNATIONAL BANK

BALANCE SHEET as at 31 March 1997

	Notes	1997 £'000	1996 £'000
ASSETS			
Loans and advances to banks	10	149,598	142,203
Loans and advances to customers	11	-	14,526
Tangible fixed assets	13	191	248
Other assets	14	142,388	124,100
Deferred taxation	15	74	91
Prepayments and accrued income	16	384	356
Total assets		292,635	281,524
LIABILITIES			
Bank overdraft		3,163	-
Deposits by banks	17	32	16,290
Customer accounts	18	26,194	24,382
Other liabilities	19	154,614	132,646
Accruals and deferred income	20	883	675
Provision for liabilities and charges	21	147	2,098
Subordinated liabilities - dated loan capital	22	35,000	35,000
		220,033	211,091
SHAREHOLDERS' FUNDS			
Called up share capital	25	6,410	6,410
Legal reserve	23, 24	74	92
Profit and loss account	24	2,812	1,445
Translation account	24	1,306	486
Equity shareholders' funds		10,602	8,433
Preference share capital	25	639	639
Share premium account	24	61,361	61,361
Non-equity (preferred) shareholders' funds		62,000	62,000
Total shareholders' funds		72,602	70,433
Total liabilities and shareholders' funds		292,635	281,524
MEMORANDUM ITEMS			
Financial Commitments and Contingencies	26	3,617	20,230

Approved by the Board of Directors on 26 July, 1997

Director



The notes on pages 7 to 16 form part of these financial statements.
Auditors' report - page 3.

GOLDMAN SACHS INTERNATIONAL BANK

1. ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, modified as explained in note 1(b) below, and in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking companies, applicable accounting standards, and Statements of Recommended Accounting Practice issued by the British Bankers Association. The company has not consolidated its subsidiary undertakings as they are not material to the financial statements. The principal accounting policies, which have been consistently applied, were as follows:

(a) **Fixed Assets:**

- (i) **Tangible fixed assets** - Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated so as to write off the cost of the assets, on a reducing line basis, over their estimated useful lives.
The principal annual rates used for this purpose are from 21% to 32%, depending on the nature of the asset.
- (ii) **Investments** - Investments are carried at cost less amounts written off where there is a permanent diminution in value.

(b) **Valuation of forward foreign exchange contracts:** Forward foreign exchange contracts, and other financial instruments, are stated at market value.

(c) **Deferred taxation:** Deferred taxation is provided in respect of all differences in timing between the accounting and tax treatments of income and expenses, to the extent that a liability is expected to crystallise in the foreseeable future. Such taxation is provided at the rate of taxation expected to be ruling when the differences reverse.

(d) **Foreign currencies:** Assets, liabilities and share capital expressed in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated at the rates of exchange prevailing at the dates the transactions were made. Results of the overseas branch are translated at the average rate for the period. Differences arising on the translation of the opening reserves and fixed assets of overseas branches are dealt with through reserves. All other gains and losses on exchange are recognised in the profit and loss account.

(e) **Pension costs:** The company participates in the following pension schemes for the benefit of certain employees:

- (i) A defined contribution scheme, for which the costs are charged to the profit and loss account in the period to which they relate.
- (ii) A funded defined benefit scheme, for which the costs of providing the expected retirement benefits to relevant employees are charged to the profit and loss account in the period to which they relate.

(f) **Advances:** Specific provisions are made against advances when recovery is doubtful.

(g) **Cash flow statement:** The company is a wholly owned subsidiary of The Goldman Sachs Group L.P. and is therefore exempt from preparing a Cash Flow Statement as required by Financial Reporting Standard No.1 "Cash Flow Statements", as the parent company accounts are publicly available and include a Cash Flow Statement.

2. SEGMENTAL REPORTING

All operating profit arises from the provision of financial services to clients, accordingly the directors are of the opinion that the company's activities constitute a single business. No analysis of results by geographical market is provided on the grounds that the company's clients are located world-wide.

GOLDMAN SACHS INTERNATIONAL BANK

3. *INTEREST RECEIVABLE AND SIMILAR INCOME*

	1997 £'000	1996 £'000
Interest receivable and similar income comprises:		
Interest receivable on loans to banks and customers	9,099	13,622

4. *INTEREST PAYABLE AND SIMILAR CHARGES*

	1997 £'000	1996 £'000
Interest payable and similar charges comprises:		
Interest payable on deposits from banks and customers	2,450	6,224
Interest payable on subordinated debt to parent undertaking	2,900	2,809
Other interest payable	-	23
	5,350	9,056

5. *ADMINISTRATIVE EXPENSES*

	1997 £'000	1996 £'000
Administrative expenses comprises:		
Salaries and wages	2,405	2,887
Social security costs	176	162
Other pension costs	515	486
Staff costs	3,096	3,535
Other expenses	1,776	1,693
	4,872	5,228

6. *DIRECTORS' AND EMPLOYEES' EMOLUMENTS*

The directors received no emoluments in respect of their services as directors of the company (1996:Nil). All of the directors except two are partners in The Goldman Sachs Group, L.P., and their remuneration is earned in relation to their world-wide activities in the firm as a whole. No part of their remuneration relates to their services as directors of the company. The remuneration of the remaining directors is in respect of their services within global business units of The Goldman Sachs Group, L.P., which take place within the world-wide group, and is not in respect of their services as directors of the company. London staff involved in the company's operations are employed by a fellow subsidiary undertaking. The charges made by this fellow subsidiary undertaking for all services provided to the company are included in the management fee charged by fellow subsidiary undertakings.

The employees in Tokyo were remunerated as disclosed in administrative expenses above. The average number of employees in Tokyo during the year was 26 (1996:25).

GOLDMAN SACHS INTERNATIONAL BANK

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Pension costs relate to pension schemes maintained by the company for the benefit of certain employees, as set out below:

Defined benefit scheme

All employees of the company are members of a defined benefit scheme operated by a fellow subsidiary undertaking. The assets of the scheme are held separately from those of the company. The scheme is funded by contributions determined by an independent qualified actuary on the basis of annual valuations using the discount future obligation method. The most recent actuarial valuation was carried out as at 30 September 1995. The principal actuarial assumptions adopted at that valuation date were that, over the long term, the annual rate of return on investments would be 1.5% higher than the annual increase in total pensionable remuneration. The benefits provided by the scheme are based on final pensionable pay and the attributable pension costs relating to the scheme are charged to the profit and loss account on the basis of the contribution rate determined by the actuary.

The most recent actuarial valuation of the scheme as at 30 September 1995 showed that the aggregate market value of the scheme's assets was £432,000 and that the actuarial value of those assets represented 68% of the benefits that had accrued to all members, after allowing for expected future increases in earnings. The existing contribution rate takes into account the deficit disclosed by this valuation. The pension charge for the year to 31 March 1997 was £134,000 (1996: £146,000).

Defined contribution scheme

Certain employees are also members of a defined contribution scheme. The pension charge for the year to 31 March 1997 was £381,000 (1996: £341,000).

7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1997 £'000	1996 £'000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration - audit services	188	52
- other	246	33
Management fees charged by fellow subsidiary undertakings	2,104	2,432
Interest charges incurred with respect to subordinated liabilities	2,900	2,809
Loss on disposal of fixed assets	14	-

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1997 £'000	1996 £'000
The taxation charge for the year comprises:		
U.K. corporation tax at 33% (1996:33%)	800	928
Deferred taxation	17	25
Adjustment in respect of prior years	(56)	268
	761	1,221

GOLDMAN SACHS INTERNATIONAL BANK

9. DIVIDENDS PAID

	1997 £'000	1996 £'000
Dividends paid comprise:		
Dividend on restructuring - ordinary shares	1,727	6,070

10. LOANS AND ADVANCES TO BANKS

	1997 £'000	1996 £'000
Repayable:		
On demand	149,398	20,433
In not more than three months	-	121,743
In more than three months but not more than one year	174	-
In more than five years	26	27
	149,598	142,203

11. LOANS AND ADVANCES TO CUSTOMERS

	1997 £'000	1996 £'000
Loans and advances to customers comprise:		
Unsecured loans	-	12,433
Amounts due from fellow subsidiary undertakings	-	2,093
	-	14,526
Repayable:		
On demand	-	2,093
In not more than three months	-	833
In more than three months but not more than one year	-	11,600
	-	14,526

12. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

The company has investments in the following subsidiary undertakings which are wholly-owned and registered in England and Wales:

	1997 £	1996 £
Goldman Sachs Leasing Limited (finance lessor)		
- Ordinary shares of £1 at cost	100	100
Restamove Limited (dormant)		
- Ordinary shares of £1 at cost	2	2
	102	102

GOLDMAN SACHS INTERNATIONAL BANK

13. TANGIBLE FIXED ASSETS

Fixed assets comprise leasehold improvements and equipment. The movement during the year was:

	£'000
Cost	
At 1 April 1996	980
Additions	69
Disposals	(125)
At 31 March 1997	924
Depreciation	
At 1 April 1996	732
Charge for the year	100
Disposals	(99)
At 31 March 1997	733
Net book value	
At 31 March 1997	191
At 31 March 1996	248

14. OTHER ASSETS

	1997 £'000	1996 £'000
Other assets comprise:		
Long positions in options	12,375	44,839
Foreign exchange and interest rate contracts	126,707	76,153
Amounts due from fellow subsidiary undertakings	2,253	1,687
Other assets	1,053	1,421
	142,388	124,100

15. DEFERRED TAX

The deferred taxation balance represents full provision for timing differences in respect of accelerated capital allowances. The movement in the provision was:

	£'000
1 April 1996	91
Transfer to current year tax charge	(17)
31 March 1997	74

GOLDMAN SACHS INTERNATIONAL BANK

16. PREPAYMENTS AND ACCRUED INCOME

	1997 £'000	1996 £'000
Prepayments and accrued income comprise:		
Accrued interest	217	219
Prepayments and accrued income	167	137
	<u>384</u>	<u>356</u>

17. DEPOSITS BY BANKS

	1997 £'000	1996 £'000
Repayable:		
On demand	32	265
In not more than three months	-	16,025
	<u>32</u>	<u>16,290</u>

18. CUSTOMER ACCOUNTS

	1997 £'000	1996 £'000
Customer accounts comprise:		
Demand deposits	902	-
Time deposits	-	4,392
Amounts due to parent company	11,979	399
Amounts due to subsidiary and fellow subsidiary undertakings	13,313	19,591
	<u>26,194</u>	<u>24,382</u>
Repayable		
On demand	26,194	20,680
In not more than three months	-	3,702
	<u>26,194</u>	<u>24,382</u>

19. OTHER LIABILITIES

	1997 £'000	1996 £'000
Other liabilities comprise:		
Short positions in options	12,375	44,839
Foreign exchange and interest rate contracts	137,153	80,970
Corporation tax	1,170	1,171
Creditors and other liabilities	167	706
Amounts due to fellow subsidiary undertakings	875	3,799
Amounts due to parent undertaking	2,874	1,161
	<u>154,614</u>	<u>132,646</u>

20. ACCRUALS AND DEFERRED INCOME

	1997 £'000	1996 £'000
Accruals and deferred income comprise:		
Accrued interest	3	6
Other accruals	880	669
	<u>883</u>	<u>675</u>

GOLDMAN SACHS INTERNATIONAL BANK

21. PROVISION FOR LIABILITIES AND CHARGES

	Pension Obligations £'000
1 April 1996	2,098
Payments in respect of retirements	(1,887)
Charge against profits	260
Exchange differences	(324)
31 March 1997	147

22. SUBORDINATED LIABILITIES

Subordinated liabilities comprise dated loan capital from the ultimate parent undertaking of £35,000,000 (1996: £35,000,000) maturing 29 June 2014. Interest is payable on the loan capital at a margin over LIBOR. The rights of the lender are subordinated to the claims of the senior creditors.

23. LEGAL RESERVE

This reserve represents an amount legally required to be transferred from the Tokyo branch profits and is not distributable.

24. SHARE PREMIUM ACCOUNT AND RESERVES

EQUITY	Share Premium Account £'000	Legal Reserve £'000	Profit and Loss Account £'000	Translation Account £'000
1 April 1996	61,361	92	1,445	486
Exchange differences		(18)		820
Profit for the year			1,367	
31 March 1997	61,361	74	2,812	1,306

25. SHARE CAPITAL

	No	1997 £'000	No	1996 £'000
Authorised				
Ordinary Shares of £1 each	45,595,600	45,596	45,595,600	45,596
Preference shares of £0.01 each	100,000,000	1,000	100,000,000	1,000
		46,596		46,596
Allotted, called up and fully paid				
Ordinary Shares of £1 each	6,410,256	6,410	6,410,256	6,410
Preference shares of £0.01 each	63,917,526	639	63,917,526	639
		7,049		7,049

The Company's Preference Shares are non-cumulative and carry a fixed non-cumulative preferential dividend at the rate of 8 pence per share per annum.

GOLDMAN SACHS INTERNATIONAL BANK

26. FINANCIAL COMMITMENTS AND CONTINGENCIES

	1997 £'000	1996 £'000
Undrawn loan facilities granted	3,387	20,000
Formal standby facilities, credit lines and other commitments to lend to fellow subsidiary undertakings - one year and over	230	230
	<u>3,617</u>	<u>20,230</u>

The tables below show the nominal principal amounts, and, in the case of exchange rate and interest rate contracts, the credit risk weighted amounts of off-balance sheet transactions. The nominal principal amounts indicate the volume of business outstanding at the balance sheet date, and do not represent amounts at risk. The credit risk weighted amounts have been calculated in accordance with the Bank of England's guidelines.

Exchange rate, interest rate and equity contracts outstanding at the balance sheet date were:

	1997 £'000	1996 £'000
Exchange rate contracts		
Contracts or underlying principal amounts	6,007,168	2,613,525
Credit equivalent amounts	147,142	89,307
Risk weighted amounts	32,784	31,932
Interest rate contracts		
Contracts or underlying principal amounts	3,590,074	8,816,456
Credit equivalent amounts	42,774	85,090
Risk weighted amounts	16,198	32,924
Equity Contracts		
Contracts or underlying principal amounts	15,410	-
Credit equivalent amounts	2,341	-
Risk weighted amounts	<u>1,032</u>	<u>-</u>

The exchange rate, interest rate and equity contracts are used predominantly for trading purposes.

27. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY

	1997 £'000	1996 £'000
Assets	174,973	149,054
Liabilities and capital	<u>173,337</u>	<u>149,555</u>

28. RELATED PARTIES

Under the terms of Financial Reporting Standard No.8, "Related Party Disclosures" the company is exempt from disclosing transactions with companies 90% or more controlled within the same group, as the consolidated financial statements in which the company is included are publicly available.

29. ULTIMATE PARENT COMPANY

The Goldman Sachs Group L.P., 85 Broad Street, New York, NY 10004, USA, is the ultimate parent undertaking. The immediate parent undertaking is Goldman Sachs Holdings L.L.C., a company incorporated in the U.S.A.

GOLDMAN SACHS INTERNATIONAL BANK

30. DERIVATIVES POSITIONS

The company's objective is to gain margin value by marketing derivatives to end-users and hedging the resulting exposures. Products offered by the company include interest rate and currency swaps, and foreign exchange forward and option contracts.

Interest rate exposure is managed by establishing hedges so as to keep the company's exposure to interest rate and foreign exchange risk within limits set by management. The limit structure also includes exposures to counterparties both on an individual and aggregate basis.

Derivative activity is subject to the same credit approval, limit and monitoring procedures as used for other credit transactions. Total counterparty risk is monitored on an aggregate basis across all activities. Derivative credit exposure to individual counterparties is monitored on a daily basis based on mark-to-market values, and taking into consideration potential future exposure on transactions. To reduce credit risk, the company uses a variety of credit enhancement techniques such as netting and collateralisation, where security is provided against exposure.

Derivatives Positions as of 31 March 1997

	Notional Principal Amounts by Maturity £'000			
	< 1 Year	1-5 Years	>5 Years	Total
Interest Rate Contracts				
With financial institutions	536,788	1,435,497	83,817	2,056,102
With others	71,358	1,378,797	83,817	1,533,972
Total	608,146	2,814,294	167,634	3,590,074
Foreign Exchange Contracts				
With financial institutions	5,152,955	-	33,933	5,186,888
With others	820,280	-	-	820,280
Total	5,973,235	-	33,933	6,007,168
Equity Contracts				
With financial institutions	7,705	-	-	7,705
With others	7,705	-	-	7,705
Total	15,410	-	-	15,410