

GOLDMAN SACHS REPORTS RECORD NET EARNINGS FOR 2000; ANNUAL NET REVENUES INCREASE 24%

NEW YORK, December 19, 2000 - The Goldman Sachs Group, Inc. (NYSE:GS) today reported net earnings excluding an after-tax charge of US\$180 million related to its combination with Spear, Leeds & Kellogg, L.P. (SLK) of US\$3.25 billion, or US\$6.35 per diluted share for the year ended November 24, 2000. In 1999, pro forma net earnings were US\$2.55 billion, or US\$5.27 per diluted share. Fourth quarter net earnings excluding the SLK charge were US\$781 million, or US\$1.50 per diluted share, compared to pro forma US\$1.54 for the same 1999 quarter and US\$1.62 for the third quarter of 2000. Return on average stockholders' equity was 27% for the full year and 23% (annualized) in the fourth quarter.

Net earnings, including the SLK charge, were US\$3.07 billion, or US\$6.00 per diluted share for the full year, and US\$601 million, or US\$1.16 per diluted share, for the fourth quarter.

Core earnings per diluted share were US\$6.61 for the full year of 2000, 20% higher than 1999, and US\$1.58 for the fourth quarter, slightly below the same 1999 pro forma period. Core earnings per diluted share exclude the amortization of the employee initial public offering awards and include all of the related restricted stock units issued in connection with the initial public offering in common shares outstanding. Core earnings per diluted share exclude the SLK charge.

Business Highlights

- On October 31, 2000, the firm completed its combination with SLK, a leader in securities clearing and execution, floor-based market making and off-floor market making.
- Goldman Sachs maintained its leading investment banking position, ranking first in worldwide, U.S. and European mergers and acquisitions, initial public offerings and public stock offerings. **(1)**
- Investment Banking generated record annual net revenues of US\$5.37 billion, 23% higher than 1999.
- The firm's Equities trading business achieved record annual net revenues of US\$3.49 billion, 78% higher than 1999.
- Asset Management and Securities Services exhibited strong growth as annual net revenues grew 43%, compared to 1999, to US\$4.59 billion.
- Assets under management grew 14% to US\$294 billion during the year, with net inflows of US\$40 billion.

"Our results for the year speak to the strength, breadth and market leadership of our business globally," said Henry M. Paulson, Jr., Chairman and Chief Executive Officer. "Although the markets continue to be slower for a number of our businesses, we are cautiously optimistic about the prospects for our business in 2001, and confident of the significant global growth opportunities of the coming years."

(1) Thomson Financial Securities Data – January 1, 2000 through November 24, 2000

Business Segments

Global Capital Markets

Net revenues in Global Capital Markets, which includes Investment Banking and Trading and Principal Investments, were US\$12.0 billion for the full year, an 18% increase over 1999. Net revenues for the fourth quarter were US\$2.25 billion, 12% below the fourth quarter of 1999 and 35% lower than the third quarter of 2000.

Investment Banking

Full Year

Investment Banking generated record net revenues of US\$5.37 billion, a 23% increase over 1999, with strong revenue growth in all major regions. The firm's backlog decreased during the fourth quarter of 2000 but was higher than at the end of 1999.

Net revenues in Financial Advisory increased 14% over 1999 as the firm benefited from increased activity in the global mergers and acquisitions market, particularly in the high technology, communications, media and entertainment, and financial institutions sectors. Underwriting net revenues increased 33% over 1999 as the firm capitalized on strong investor demand which led to record new issue volume in the global equity markets. Revenue growth was exceptionally strong in the high technology and communications, media and entertainment sectors.

Fourth Quarter

Net revenues in Investment Banking were US\$1.22 billion, 7% lower than the fourth quarter of 1999 and 8% lower than the third quarter of 2000.

Net revenues in the Financial Advisory business were essentially unchanged compared to the same 1999 period, as increased contributions from mergers and acquisitions in the high technology, financial institutions and healthcare sectors were offset by decreases in the communications, media and entertainment sector. Underwriting net revenues declined 13% compared to the same 1999 period, principally due to reductions in the energy and power and communications, media and entertainment sectors, offset in part by increases in the high technology and healthcare sectors.

Trading and Principal Investments

Full Year

Net revenues in Trading and Principal Investments were US\$6.63 billion for the year, an increase of 15% compared to 1999.

Net revenues in Fixed Income, Currency and Commodities (FICC) increased 5% compared to 1999, primarily due to increased activity in fixed income derivatives and currencies. These increases were partially offset by lower activity in the firm's credit-sensitive businesses, which were negatively affected by market uncertainty and wider credit spreads. Net revenues also declined in the firm's government bond and commodities businesses.

Equities net revenues rose 78% compared to 1999, primarily due to significant growth in equity derivatives, which benefited from favorable market conditions and increased customer flow, as well as record transaction volumes in the firm's European and U.S. shares businesses.

Principal Investments net revenues decreased substantially, as market declines in the high technology and telecommunications sectors led to unrealized losses on certain of the

firm's merchant banking investments. These losses were partially offset by increased gains on dispositions.

Fourth Quarter

Net revenues in Trading and Principal Investments were US\$1.03 billion for the quarter, 18% lower than the fourth quarter of 1999 and 52% lower than the third quarter of 2000.

FICC net revenues increased 16% compared to the same 1999 period, primarily due to increased customer flow in currencies and commodities. These increases were partially offset by declines in the firm's emerging markets, mortgages and fixed income derivatives businesses.

Equities net revenues rose 82% compared to the fourth quarter of 1999, primarily resulting from strong performances in equity derivatives and equity arbitrage and higher transaction volumes in the firm's U.S. shares business.

Principal Investments incurred negative net revenues in the fourth quarter, due to unrealized losses on the firm's merchant banking investments in the high technology and telecommunications sectors, partially offset by disposition gains.

Asset Management and Securities Services

Full Year

Asset Management and Securities Services net revenues were US\$4.59 billion, an increase of 43% compared to 1999.

Asset Management net revenues were 46% higher than last year, primarily reflecting a 31% increase in average assets under management as well as favorable changes in the composition of assets managed. Performance fees also contributed to the increase in net revenues.

Securities Services net revenues increased 22% over 1999, primarily due to growth in the firm's securities lending and margin lending, partially offset by reduced spreads in the fixed income matched book.

Commissions increased 52% compared to 1999 due to record transaction volumes in global equity markets and the firm's increased share of income and gains from its merchant banking funds.

Fourth Quarter

Asset Management and Securities Services net revenues were US\$1.17 billion, an increase of 28% above the same prior year period, and 7% above the prior quarter.

Asset Management net revenues were 27% higher than last year's fourth quarter, primarily reflecting a 29% increase in average assets under management.

Securities Services net revenues increased 10% over the same 1999 period, reflecting growth in the firm's prime brokerage business and increased customer balances in securities lending and margin lending.

Commissions increased 36% compared to the same period last year, as the firm benefited from higher U.S. and European transaction volumes in listed equity securities and increased activity in equity derivatives. Revenues from the increased share of income and gains from the firm's merchant banking funds also contributed to the increase in Commissions.

Expenses

Operating expenses excluding the SLK charge were US\$11.28 billion for the full fiscal year, 24% above pro forma 1999, primarily reflecting increased compensation and benefits commensurate with higher net revenue levels. The ratio of compensation and benefits to net revenues for fiscal year 2000 was 47%, compared to 50% for the nine-month period ended August 25, 2000, and 48% for pro forma 1999. Employee compensation for 2000 included both restricted stock units and stock options.

Non-compensation-related expenses increased to US\$3.08 billion, 42% above pro forma 1999, primarily due to incremental costs associated with global expansion, higher employment levels and increased business activity. Increased investment in technology-related expenditures also contributed to the increase in non-compensation-related expenses.

The firm's effective tax rate for fiscal year 2000 declined to 39% compared to 40% for the nine months ended August 25, 2000 and for the 1999 pro forma fiscal year.

Spear, Leeds & Kellogg Charge

As part of the combination with SLK, the firm established a US\$702 million retention pool in restricted stock units for all SLK employees. A charge of US\$290 million (US\$180 million after-tax), related to restricted stock units for which future service is not required as a condition to the delivery of the underlying shares of common stock, was included in the fourth quarter results of fiscal 2000. The remaining restricted stock units, for which future service is required, will be amortized over the five-year service period following the combination date.

Capital

As of November 24, 2000, total capital was US\$47.93 billion, consisting of US\$16.53 billion in stockholders' equity and US\$31.40 billion in long-term debt. Book value per share was US\$32.18, based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 513.7 million at period end. The firm repurchased approximately 6.5 million shares of its common stock during the year.

Dividend

The Board of Directors of The Goldman Sachs Group, Inc. declared a dividend of US\$0.12 per share to be paid on February 22, 2001, to common shareholders of record on January 22, 2001.

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Goldman Sachs is a leading global investment banking and securities firm that provides a wide range of services worldwide to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals. Founded in 1869, it is one of the oldest and largest investment banking firms. The firm is headquartered in New York and maintains offices in London, Frankfurt, Tokyo, Hong Kong and other major financial centers around the world.

Cautionary Note Regarding Forward-Looking Statements

This press release contains “forward-looking statements”. These statements are not historical facts but instead represent only the firm’s belief regarding future events, many of which, by their nature, are inherently uncertain and outside of the firm’s control. It is possible that the firm’s actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. For a discussion of some of the risks and factors that would affect the firm’s future results, see our preliminary prospectus contained in our registration statement (no. 333-49958) filed with the SEC on November 15, 2000, under the caption “Risk Factors”.

Statements about the firm’s investment banking transaction backlog also may constitute forward-looking statements. Such statements are subject to the risk that the terms of these transactions may be modified or that they may not be completed at all; therefore, the net revenues that we expect to earn from these transactions may differ, possibly materially, from those currently expected. Important factors that could result in a modification of the terms of a transaction or a transaction not being completed include, in the case of underwriting transactions, a decline in general economic conditions, volatility in the securities markets generally or an adverse development with respect to the issuer of the securities and, in the case of financial advisory transactions, a decline in the securities markets, an adverse development with respect to a party to the transaction or a failure to obtain a required regulatory approval. Other important factors that could adversely affect our investment banking transactions are contained in our preliminary prospectus, as filed on November 15, 2000, under the caption “Risk Factors”.

A conference call to discuss the firm’s results, outlook and related matters, will be held at 10:00 a.m., E.S.T. The call will be open to the public. Members of the public who would like to listen to the conference call should dial 1-888-209-3802. The number should be dialed at least 10 minutes prior to the start of the conference call. The conference call will also be accessible through the Shareholders portion of our Web site, <http://www.gs.com>. There is no charge to access the call. For those unable to listen to the live broadcast, a replay will be available on our Web site or by dialing 1-800-633-8284 (domestic) or 1-858-812-6440 (international) passcode number 17001959 beginning approximately one hour after the event. Please direct any questions regarding obtaining access to the conference call to Denise Iosue at 1-212-855-9668 or investor-relations@gs.com.

The Goldman Sachs Group, Inc. and Subsidiaries
Business Segment Net Revenues
(unaudited)
(\$ in millions)

	Three Months Ended			Change From		Year Ended		Change From
	Nov. 24, 2000	August 25, 2000	Nov. 26, 1999	August 25, 2000	Nov. 26, 1999	Nov. 24, 2000	Nov. 26, 1999	Nov. 26, 1999
<u>Global Capital Markets</u>								
Financial Advisory	\$ 624	\$ 673	\$ 622	(7) %	0 %	\$ 2,592	\$ 2,270	14 %
Underwriting	596	648	683	(8)	(13)	2,779	2,089	33
Investment Banking	\$ 1,220	\$ 1,321	\$ 1,305	(8)	(7)	\$ 5,371	\$ 4,359	23
FICC	\$ 482	\$ 872	\$ 414	(45)	16	\$ 3,004	\$ 2,862	5
Equities	782	763	430	2	82	3,489	1,961	78
Principal Investments	(239)	480	407	N.M.	N.M.	134	950	(86)
Trading and Principal Investments	\$ 1,025	\$ 2,115	\$ 1,251	(52)	(18)	\$ 6,627	\$ 5,773	15
Total Global Capital Markets	\$ 2,245	\$ 3,436	\$ 2,556	(35)	(12)	\$ 11,998	\$ 10,132	18
<u>Asset Management and Securities Services</u>								
Asset Management	\$ 358	\$ 327	\$ 282	9 %	27 %	\$ 1,345	\$ 919	46 %
Securities Services	216	234	196	(8)	10	940	772	22
Commissions	596	530	439	12	36	2,307	1,522	52
Total Asset Management and Securities Services	\$ 1,170	\$ 1,091	\$ 917	7	28	\$ 4,592	\$ 3,213	43
Total net revenues	\$ 3,415	\$ 4,527	\$ 3,473	(25)	(2)	\$ 16,590	\$ 13,345	24

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Assets Under Supervision
(unaudited)
(\$ in millions)

	As of			Change From		As of
	Nov. 30, 2000	August 31, 2000	Nov. 30, 1999	August 31, 2000	Nov. 30, 1999	Nov. 30, 1998
Assets under management	\$ 293,842	\$ 307,851	\$ 258,045	(5) %	14 %	\$ 194,821
Other client assets	197,876	273,090	227,424	(28)	(13)	142,018
Total assets under supervision ⁽¹⁾	\$ 491,718	\$ 580,941	\$ 485,469	(15)	1	\$ 336,839

⁽¹⁾ Substantially all assets under supervision are valued as of calendar month end.

The Goldman Sachs Group, Inc. and Subsidiaries
Consolidated Statements of Earnings
(unaudited)

	Three Months Ended			Year Ended	
	November 24, 2000	August 25, 2000	November 26, 1999	November 24, 2000	November 26, 1999
	(in millions, except per share amounts)				
Revenues					
Global capital markets					
Investment banking	\$ 1,208	\$ 1,316	\$ 1,305	\$ 5,339	\$ 4,359
Trading and principal investments	985	2,112	1,218	6,528	5,758
Asset management and securities services	979	872	736	3,737	2,524
Interest income	4,817	4,551	3,453	17,396	12,722
Total revenues	<u>7,989</u>	<u>8,851</u>	<u>6,712</u>	<u>33,000</u>	<u>25,363</u>
Interest expense	4,574	4,324	3,239	16,410	12,018
Revenues, net of interest expense	<u>3,415</u>	<u>4,527</u>	<u>3,473</u>	<u>16,590</u>	<u>13,345</u>
Operating expenses					
Compensation and benefits	1,186	2,263	1,527	7,773	6,459
Nonrecurring employee initial public offering and acquisition awards	290	-	-	290	2,257
Amortization of employee initial public offering and acquisition awards	114	102	114	428	268
Brokerage, clearing and exchange fees	154	136	118	573	446
Market development	163	126	117	506	364
Communications and technology	131	111	82	435	306
Depreciation and amortization	164	119	108	486	337
Occupancy	128	116	93	440	314
Professional services and other	175	181	105	639	402
Charitable contribution	-	-	-	-	200
Total operating expenses	<u>2,505</u>	<u>3,154</u>	<u>2,264</u>	<u>11,570</u>	<u>11,353</u>
Pre-tax earnings	910	1,373	1,209	5,020	1,992
Provision / (benefit) for taxes	309	549	486	1,953	(716)
Net earnings	<u>\$ 601</u>	<u>\$ 824</u>	<u>\$ 723</u>	<u>\$ 3,067</u>	<u>\$ 2,708</u>
Earnings per share					
Basic	\$ 1.23	\$ 1.71	\$ 1.51	\$ 6.33	\$ 5.69
Diluted	1.16	1.62	1.48	6.00	5.57
Average common shares outstanding					
Basic	488.3	481.3	477.4	484.6	475.9
Diluted	519.7	508.9	489.0	511.5	485.8
Employees at period end ⁽¹⁾	22,627 *	18,666	15,361		

* Includes 2,600 employees related to the combination with SLK that was completed on October 31, 2000.

The accompanying notes are an integral part of the Consolidated Statements of Earnings.

The Goldman Sachs Group, Inc. and Subsidiaries
Consolidated Statements of Earnings
(unaudited)

	Three Months Ended			Year Ended	
	Actual		Pro Forma ⁽²⁾	Actual	Pro Forma ⁽²⁾
	November 24, 2000	August 25, 2000	November 26, 1999	November 24, 2000	November 26, 1999
	(in millions, except per share amounts)				
Revenues					
Global capital markets					
Investment banking	\$ 1,208	\$ 1,316	\$ 1,305	\$ 5,339	\$ 4,359
Trading and principal investments	985	2,112	1,218	6,528	5,758
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Interest income	4,817	4,551	3,453	17,396	12,722
Total revenues	<u>7,989</u>	<u>8,851</u>	<u>6,712</u>	<u>33,000</u>	<u>25,363</u>
Interest expense	<u>4,574</u>	<u>4,324</u>	<u>3,239</u>	<u>16,410</u>	<u>12,025</u>
Revenues, net of interest expense	3,415	4,527	3,473	16,590	13,338
Operating expenses					
Compensation and benefits	1,186	2,263	1,527	7,773	6,459
Nonrecurring acquisition awards	290	-	-	290	-
Amortization of employee initial public offering and acquisition awards	114	102	114	428	460
Brokerage, clearing and exchange fees	154	136	118	573	446
Market development	163	126	117	506	364
Communications and technology	131	111	82	435	306
Depreciation and amortization	164	119	108	486	337
Occupancy	128	116	93	440	314
Professional services and other	175	181	105	639	402
Total operating expenses	<u>2,505</u>	<u>3,154</u>	<u>2,264</u>	<u>11,570</u>	<u>9,088</u>
Pre-tax earnings	910	1,373	1,209	5,020	4,250
Provision for taxes	309	549	453	1,953	1,700
Net earnings	<u>\$ 601</u>	<u>\$ 824</u>	<u>\$ 756</u>	<u>\$ 3,067</u>	<u>\$ 2,550</u>
Earnings per share					
Basic	\$ 1.23	\$ 1.71	\$ 1.58	\$ 6.33	\$ 5.36
Diluted	1.16	1.62	1.54	6.00	5.27
Diluted (excluding nonrecurring acquisition awards)	1.50	1.62	1.54	6.35	5.27
Diluted core ⁽³⁾	1.58	1.68	1.60	6.61	5.53
Average common shares outstanding					
Basic	488.3	481.3	477.4	484.6	475.4
Diluted	519.7	508.9	491.9 ⁽⁴⁾	511.5	483.9 ⁽⁴⁾
Diluted core	535.2	526.4	515.0 ⁽⁴⁾	529.9	511.3 ⁽⁴⁾
Ratio of compensation and benefits to revenues, net of interest expense	35 %	50 %	44 %	47 %	48 %

The accompanying notes are an integral part of the Consolidated Statements of Earnings.

NOTES TO CONSOLIDATED STATEMENTS OF EARNINGS

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

(2) Given the firm's conversion from partnership to corporation in the second quarter of 1999, management believes that the best measure by which to assess the firm's performance in 1999 is operating results on a pro forma basis, as if the incorporation and related transactions had taken place at the beginning of fiscal 1999.

The Pro Forma Consolidated Statements of Earnings do not give effect to the following items due to their nonrecurring nature:

- the employee award of formula-based restricted stock units,
- the initial irrevocable contribution of shares of common stock to the defined contribution plan,
- the recognition of certain net tax assets, and
- a contribution to The Goldman Sachs Foundation.

The Pro Forma Consolidated Statements of Earnings give effect to the following items:

- interest expense on junior subordinated debentures issued to retired limited partners in exchange for their partnership interests,
- the amortization of the restricted stock units awarded to employees in connection with the firm's initial public offering, for which future service is required as a condition to the delivery of the underlying shares of common stock, and
- the provision for taxes in corporate form.

(3) Core earnings per diluted share exclude the amortization of the employee initial public offering awards and include all of the related restricted stock units issued in connection with the initial public offering in common shares outstanding. Core earnings per diluted share exclude the SLK charge.

(4) For the purpose of calculating 1999 pro forma diluted and diluted core average common shares outstanding, the firm used the initial public offering price of \$53 per share from the beginning of fiscal 1999 until May 4, 1999, the day trading in its common stock commenced. Thereafter, the firm used actual daily closing prices.