

## **GOLDMAN SACHS REPORTS THIRD QUARTER EARNINGS PER SHARE OF US\$0.87**

NEW YORK, September 26, 2001 - The Goldman Sachs Group, Inc. (NYSE:GS) today reported net earnings of US\$468 million for its fiscal third quarter ended August 31, 2001. Earnings per diluted share were US\$0.87 compared to US\$1.06 for the 2001 second quarter and US\$1.62 for the third quarter of 2000. Diluted earnings per share excluding the amortization of goodwill and other intangible assets were US\$0.94 for the third quarter of 2001. Annualized return on average tangible shareholders' equity <sup>(1)</sup> was 18.8% for the first nine months of 2001 and 14.2% for the third quarter.

### **Business Highlights**

- Goldman Sachs ranked first in global public stock offerings and announced and completed worldwide mergers and acquisitions. <sup>(2)</sup>
- Fixed Income, Currency and Commodities (FICC) produced net revenues of US\$1.11 billion, its second best quarter ever.
- The firm's Asset Management business achieved record net revenues of US\$380 million for the third quarter of 2001.
- Assets under management grew 6% from a year ago to US\$325 billion. The firm continued to generate strong net inflows with US\$16 billion raised in the quarter and US\$40 billion for the first nine months of 2001.

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"The human tragedy resulting from the terrorist attack certainly overshadows our announcement," said Henry M. Paulson, Jr., Chairman and Chief Executive Officer. "We grapple with this crime against humanity even as we applaud the successful re-opening of the U.S. financial markets. We are very confident about the long-term outlook for our business, but believe that the immediate impact will be a further weakening in the operating environment and a delay in the economic recovery. However, given increased fiscal and monetary stimulus, we anticipate that long-term economic recovery should be more certain and vigorous than previously expected."

<sup>(1)</sup> Tangible shareholders' equity excludes goodwill and other intangible assets.

<sup>(2)</sup> Thomson Financial Securities Data – January 1, 2001 through August 31, 2001.

## **Business Segment Net Revenues**

### **Global Capital Markets**

In a challenging business environment, net revenues in the firm's Global Capital Markets segment, which includes Investment Banking and Trading and Principal Investments, were US\$2.34 billion, 6% lower than the second quarter of 2001 and 32% below the third quarter of 2000.

### **Investment Banking**

Net revenues in Investment Banking were US\$1.10 billion for the third quarter, 39% higher than the second quarter of 2001 and 17% lower than the third quarter of 2000.

Net revenues in Financial Advisory were US\$638 million compared to US\$673 million for the same 2000 period, reflecting lower levels of worldwide activity in mergers and acquisitions. Net revenues in the firm's Underwriting business were US\$464 million, down from US\$648 million for the same 2000 period, primarily reflecting a slowdown in equity new issue activity.

The firm's backlog declined significantly during the quarter reflecting lower equity market valuations, reduced merger activity and continued market uncertainty.

### **Trading and Principal Investments**

Net revenues in Trading and Principal Investments were US\$1.24 billion for the third quarter compared to US\$1.69 billion for the second quarter of 2001 and US\$2.12 billion for the third quarter of 2000.

FICC net revenues of US\$1.11 billion were 27% higher than the same 2000 period due to strong performances across many of the firm's businesses, particularly fixed income derivatives, leveraged finance and commodities.

Net revenues in Equities of US\$573 million were down from US\$763 million for the third quarter of 2000, primarily due to reduced customer flow and market volatility, the impact of decimalization and lower net revenues in equity arbitrage. Net revenues from Spear, Leeds & Kellogg (SLK), which were not included in the third quarter of 2000, partially offset these reductions.

Principal Investments experienced negative net revenues of US\$445 million for the third quarter due to mark-to-market losses on both private and public investments, primarily in the high technology and telecommunications sectors.

### **Asset Management and Securities Services**

Net revenues in the firm's Asset Management and Securities Services segment were US\$1.32 billion, a decrease of 12% compared to the prior quarter and an increase of 21% compared to the same period in 2000.

Asset Management net revenues of US\$380 million increased 16% compared to last year's third quarter, primarily reflecting a 9% increase in average assets under management. Strong net inflows were partially offset by declines in asset values due to depreciation in global equity markets.

Securities Services net revenues of US\$295 million increased 26% over the same 2000 period, primarily due to the inclusion of SLK, increased spreads in the firm's fixed income matched book and increased customer balances in securities lending.

Commissions increased 22% compared to the same period last year to US\$649 million, reflecting the contribution from SLK's clearing and execution business and increased customer flow in equity derivatives, partially offset by the effect of decreased activity in the firm's global shares businesses.

### **Expenses**

Operating expenses were US\$2.89 billion, 5% below the second quarter of 2001 and 8% below last year's third quarter.

Compensation and benefits of US\$1.79 billion declined 6% from the prior quarter and 21% from the same period last year, commensurate with lower net revenue levels. The ratio of compensation and benefits to net revenues was 49% for both the 2001 third quarter and year-to-date periods. Employment levels were essentially unchanged during the quarter.

Non-compensation-related expenses were US\$988 million, 2% below the second quarter of 2001 and 25% above the same 2000 period. In addition to the inclusion of SLK, the growth in these expenses compared to last year was primarily due to growth in employment levels during 2000 partially offset by the effect of expense reduction initiatives implemented in 2001.

The effective tax rate for the third quarter of 2001 was 39%, unchanged from the full year of 2000.

### **Capital**

As of August 31, 2001, total capital was US\$48.24 billion, consisting of US\$17.96 billion in shareholders' equity and US\$30.28 billion in long-term debt. Book value per share was US\$35.67, based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 503.5 million at period end. The firm repurchased 6.2 million shares of its common stock during the quarter.

### **Dividend**

The Board of Directors of The Goldman Sachs Group, Inc. declared a dividend of US\$0.12 per share to be paid on November 26, 2001, to common shareholders of record on October 29, 2001.

## Subsequent Event

Goldman Sachs' liquidity, facilities and overall financial condition were not materially affected by the terrorist attack against the United States on September 11, 2001. The firm's primary operational, trade settlement and other information systems have been functioning throughout the crisis. The attack has already caused, and may continue to cause, additional weakness in the business and economic environment. Management continues to evaluate the effect of these events on the firm's fourth quarter results of operations.

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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 could affect the firm's future results, see "Business – Certain Factors That May Affect Our Business" in the firm's Annual Report on Form 10-K for the fiscal year ended November 24, 2000 and "Item 5: Other Information" in the firm's Quarterly Reports on Form 10-Q for the fiscal quarters ended February 23, 2001 and May 25, 2001. Many of these risks and factors may be more likely to occur as a result of the September 11, 2001 terrorist attack.

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. Many of these factors may be more likely to occur as a result of the September 11, 2001 terrorist attack. For a discussion of other important factors that could adversely affect our investment banking transactions, see "Business – Certain Factors That May Affect Our Business" in the firm's Annual Report on Form 10-K for the fiscal year ended November 24, 2000 and "Item 5: Other Information" in the firm's Quarterly Reports on Form 10-Q for the fiscal quarters ended February 23, 2001 and May 25, 2001.

## Conference Call

A conference call to discuss the firm's results, outlook and related matters will be held at 11:00 a.m., E.D.T. The call will be open to the public. Members of the public who would like to listen to the conference call should dial 1-888-281-7154 (U.S. domestic) and 1-706-679-5627 (international). The number should be dialed at least 10 minutes prior to the start of the conference call. The conference call will also be accessible as an audio webcast through the Shareholders section of the firm's Web site, <http://www.gs.com/shareholders/>. There is no charge to access the call. For those unable to listen to the live broadcast, a replay will be available on the firm's Web site or by dialing 1-800-642-1687 (U.S. domestic) or 1-706-645-9291 (international) passcode number 1869049, beginning approximately one hour after the event. Please direct any questions regarding obtaining access to the conference call to Goldman Sachs Investor Relations, via e-mail, at [investor-relations@gs.com](mailto:investor-relations@gs.com).

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

	<u>Three Months Ended</u>			<u>% Change From</u>		<u>Nine Months Ended</u>		<u>% Change From</u>
	<u>August 31, 2001</u>	<u>May 25, 2001</u>	<u>August 25, 2000</u>	<u>May 25, 2001</u>	<u>August 25, 2000</u>	<u>August 31, 2001</u>	<u>August 25, 2000</u>	<u>August 25, 2000</u>
<u>Global Capital Markets</u>								
Financial Advisory	\$ 638	\$ 321	\$ 673	99 %	(5) %	\$ 1,689	\$ 1,968	(14) %
Underwriting	464	471	648	(1)	(28)	1,350	2,183	(38)
Investment Banking	1,102	792	1,321	39	(17)	3,039	4,151	(27)
FICC	1,107	948	872	17	27	3,180	2,522	26
Equities	573	739	763	(22)	(25)	2,488	2,707	(8)
Principal Investments	(445)	5	480	N.M.	N.M.	(580)	373	N.M.
Trading and Principal Investments	1,235	1,692	2,115	(27)	(42)	5,088	5,602	(9)
Total Global Capital Markets	2,337	2,484	3,436	(6)	(32)	8,127	9,753	(17)
<u>Asset Management and Securities Services</u>								
Asset Management	380	357	327	6	16	1,105	987	12
Securities Services	295	287	234	3	26	863	724	19
Commissions	649	862	530	(25)	22	2,289	1,711	34
Total Asset Management and Securities Services	1,324	1,506	1,091	(12)	21	4,257	3,422	24
Total net revenues	\$ 3,661	\$ 3,990	\$ 4,527	(8)	(19)	\$ 12,384	\$ 13,175	(6)

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

	<u>As of</u>			<u>% Change From</u>		<u>As of</u>	
	<u>August 31, 2001</u>	<u>May 31, 2001</u>	<u>August 31, 2000</u>	<u>May 31, 2001</u>	<u>August 31, 2000</u>	<u>November 30, 2000</u>	<u>November 30, 1999</u>
Assets under management	\$ 324,909	\$ 314,388	\$ 307,851	3 %	6 %	\$ 293,842	\$ 258,045
Other client assets	153,293	171,420	273,090	(11)	(44)	197,876	227,424
Total assets under supervision <sup>(1)</sup>	\$ 478,202	\$ 485,808	\$ 580,941	(2)	(18)	\$ 491,718	\$ 485,469

<sup>(1)</sup> 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			% Change From	
	August 31, 2001	May 25, 2001	August 25, 2000	May 25, 2001	August 25, 2000
	(in millions, except per share amounts and employees)				
Revenues					
Global capital markets					
Investment banking	\$ 1,080	\$ 784	\$ 1,316	38 %	(18) %
Trading and principal investments	1,267	1,795	2,112	(29)	(40)
Asset management and securities services	1,049	1,245	872	(16)	20
Interest income	3,964	4,334	4,551	(9)	(13)
Total revenues	7,360	8,158	8,851	(10)	(17)
Interest expense	3,699	4,168	4,324	(11)	(14)
Revenues, net of interest expense	3,661	3,990	4,527	(8)	(19)
Operating expenses					
Compensation and benefits	1,794	1,907	2,263	(6)	(21)
Amortization of employee initial public offering and acquisition awards	112	128	102	(13)	10
Brokerage, clearing and exchange fees	218	206	136	6	60
Market development	90	102	126	(12)	(29)
Communications and technology	145	153	111	(5)	31
Depreciation and amortization	160	145	112	10	43
Amortization of goodwill and other intangible assets	66	64	7	3	N.M.
Occupancy	142	151	116	(6)	22
Professional services and other	167	188	181	(11)	(8)
Total non-compensation expenses	988	1,009	789	(2)	25
Total operating expenses	2,894	3,044	3,154	(5)	(8)
Pre-tax earnings	767	946	1,373	(19)	(44)
Provision for taxes	299	369	549	(19)	(46)
Net earnings	\$ 468	\$ 577	\$ 824	(19)	(43)
Earnings per share					
Basic	\$ 0.92	\$ 1.12	\$ 1.71	(18)	(46)
Diluted	0.87	1.06	1.62	(18)	(46)
Diluted (excluding amortization of goodwill and other intangible assets)	0.94	1.13	1.63	(17)	(42)
Average common shares outstanding					
Basic	508.1	513.8	481.3	(1)	6
Diluted	539.7	545.8	508.9	(1)	6
Employees at period end <sup>(1)</sup>	23,494	22,967	18,666	2	26
Ratio of compensation and benefits to revenues, net of interest expense	49%	48%	50%		

<sup>(1)</sup> 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.

**The Goldman Sachs Group, Inc. and Subsidiaries**  
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(unaudited)

	<u>Nine Months Ended</u>		<u>% Change From</u>
	<u>August 31,</u> <u>2001</u>	<u>August 25,</u> <u>2000</u>	<u>August 25,</u> <u>2000</u>
	(in millions, except per share amounts)		
Revenues			
Global capital markets			
Investment banking	\$ 2,995	\$ 4,131	(27) %
Trading and principal investments	5,128	5,543	(7)
Asset management and securities services	3,462	2,758	26
Interest income	<u>13,435</u>	<u>12,579</u>	7
Total revenues	<u>25,020</u>	<u>25,011</u>	-
Interest expense	<u>12,636</u>	<u>11,836</u>	7
Revenues, net of interest expense	<u>12,384</u>	<u>13,175</u>	(6)
Operating expenses			
Compensation and benefits	6,068	6,587	(8)
Amortization of employee initial public offering and acquisition awards	371	314	18
Brokerage, clearing and exchange fees	619	419	48
Market development	316	343	(8)
Communications and technology	451	304	48
Depreciation and amortization	439	301	46
Amortization of goodwill and other intangible assets	192	21	N.M.
Occupancy	453	312	45
Professional services and other	<u>503</u>	<u>464</u>	8
Total non-compensation expenses	<u>2,973</u>	<u>2,164</u>	37
Total operating expenses	<u>9,412</u>	<u>9,065</u>	4
Pre-tax earnings	2,972	4,110	(28)
Provision for taxes	<u>1,159</u>	<u>1,644</u>	(30)
Net earnings	<u>\$ 1,813</u>	<u>\$ 2,466</u>	(26)
Earnings per share			
Basic	\$ 3.54	\$ 5.10	(31)
Diluted	3.33	4.85	(31)
Diluted (excluding amortization of goodwill and other intangible assets)	3.54	4.88	(27)
Average common shares outstanding			
Basic	512.3	483.4	6
Diluted	544.6	508.2	7
Ratio of compensation and benefits to revenues, net of interest expense	49%	50%	