



GOLDMAN SACHS REPORTS SECOND QUARTER EARNINGS PER SHARE OF \$1.06

NEW YORK, June 20, 2002 - The Goldman Sachs Group, Inc. (NYSE:GS) today reported net earnings of \$563 million for its fiscal second quarter ended May 31, 2002. Earnings per diluted share were \$1.06 compared to \$0.98 for the 2002 first quarter and \$1.06 for the second quarter of 2001. Annualized return on average tangible shareholders' equity ⁽¹⁾ was 16.3% for the second quarter and 15.8% for the first half of 2002.

Business Highlights

- Goldman Sachs maintained its leading investment banking position, ranking first in completed worldwide mergers and acquisitions and second in global public stock offerings. ⁽²⁾
- Fixed Income, Currency and Commodities (FICC) produced net revenues of \$1.14 billion, its second best quarter ever.
- Asset Management generated record quarterly net revenues of \$443 million. Assets under management grew 11% from a year ago to \$350 billion.

"Our business continues to be affected by weakness in investor and executive confidence which has led to difficult markets and lower levels of corporate activity," said Henry M. Paulson, Jr., Chairman and Chief Executive Officer. "Despite these challenges, Goldman Sachs executed well across its core businesses. Looking ahead, we remain cautious about the near-term outlook."

(1) Tangible shareholders' equity excludes goodwill and other intangible assets.

(2) Thomson Financial Securities Data – January 1, 2002 through May 31, 2002.

Net Revenues

Investment Banking

Net revenues in Investment Banking were \$762 million, compared to \$893 million for the first quarter of 2002 and \$792 million for the second quarter of 2001.

Net revenues in Financial Advisory were \$428 million, 33% higher than the second quarter of 2001, principally due to increased mergers and acquisitions in the financial institutions, real estate and consumer sectors. Net revenues in the firm's Underwriting business were \$334 million compared to \$471 million for the same 2001 period, primarily reflecting lower equity issuance activity in the natural resources and communications, media and entertainment sectors and lower net revenues in debt underwriting. The firm's backlog declined slightly during the quarter.

Trading and Principal Investments

Net revenues in Trading and Principal Investments were \$1.44 billion for the second quarter, 8% higher than the first quarter of 2002 and 15% lower than the second quarter of 2001.

FICC net revenues of \$1.14 billion increased 21% compared to the same 2001 period, primarily reflecting strong performances in leveraged finance, currencies and fixed income derivatives, partially offset by decreased net revenues in commodities.

Net revenues in Equities were \$418 million compared to \$739 million for the second quarter of 2001, primarily due to lower net revenues in the firm's U.S. shares trading business, reflecting the continued weakness in the equity markets and the transfer of the Nasdaq fee-based business to Commissions ⁽¹⁾, as well as lower net revenues in equity arbitrage.

Principal Investments recorded negative net revenues of \$125 million due to declines in the fair value of certain private investments, primarily in the high technology and telecommunications sectors.

Asset Management and Securities Services

Net revenues in Asset Management and Securities Services were \$1.65 billion, 20% higher than the first quarter of 2002 and 10% above the second quarter of 2001.

Asset Management net revenues of \$443 million increased 24% compared to last year's second quarter, reflecting a 13% increase in average assets under management, higher incentive income and increased fund origination fees.

(1) In January 2002, the firm began to implement a new fee-based pricing structure in its Nasdaq trading business. Previously the firm did not charge explicit fees in this business but rather earned market-making revenues based generally on the difference between bid and ask prices. As a result of this change, a substantial portion of the firm's Nasdaq net revenues is now reported in Commissions.

Securities Services net revenues were \$262 million compared to \$287 million for the same 2001 period, primarily due to decreased spreads in the firm's fixed income matched book. Net revenues from the firm's securities and margin lending business were essentially unchanged compared to the same prior year period.

Commissions were \$948 million compared to \$862 million for the same period last year due to higher net revenues in the firm's global shares businesses, in part reflecting the transfer of the Nasdaq fee-based business into Commissions, partially offset by lower merchant banking overrides (i.e., an increased share of a fund's income and gains) and reduced clearing and execution fees.

Expenses

Operating expenses were \$2.95 billion, 7% above the first quarter of 2002 and 3% below last year's second quarter.

Compensation and benefits of \$1.93 billion increased 1% compared to the same period last year. The ratio of compensation and benefits to net revenues was 50% for the first half of 2002 compared to 49% for the first half of 2001. Employment levels decreased 4% during the quarter and 7% compared to the end of 2001.

Non-compensation-related expenses were \$941 million for the quarter. Excluding amortization of goodwill and other intangible assets, these expenses declined 4% compared to the same period last year, primarily due to lower levels of business activity and the continued effect of expense reduction initiatives implemented during 2001. Amortization of goodwill and other intangible assets was lower than in the second quarter of 2001 reflecting the adoption of the goodwill non-amortization provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

The effective income tax rate for the second quarter of 2002 was 37.5%, unchanged from the first quarter of 2002 and fiscal year 2001 and down compared to 39% for the second quarter of 2001.

Capital

As of May 31, 2002, total capital was \$53.36 billion, consisting of \$18.86 billion in shareholders' equity and \$34.50 billion in long-term debt. Book value per share was \$38.13, based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 494.6 million at period end. The firm repurchased 4.2 million shares of its common stock during the quarter.

Dividend

The Board of Directors of The Goldman Sachs Group, Inc. declared a dividend of \$0.12 per share to be paid on August 29, 2002 to common shareholders of record on July 30, 2002.

Shares Eligible for Future Sale

On June 21, 2002, approximately 39 million shares of common stock related to the firm's initial public offering (IPO) and subsequent acquisitions become eligible for sale. In addition, approximately 12 million employee stock options granted at the time of the IPO and in subsequent acquisitions become exercisable on that date. Separately, in connection with the firm's ongoing policy of facilitating the orderly entry of shares into the market, up to an additional 14 million shares of common stock may become eligible for sale during the third quarter. Substantially all of the above-referenced shares are subject to compliance with blackout procedures and volume restrictions.

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Goldman Sachs is a leading global investment banking, securities and investment management firm that provides a wide range of services worldwide to a substantial and diversified client base that includes corporations, financial institutions, governments and high net worth individuals. 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 important 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 30, 2001.

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. 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 30, 2001.

Conference Call

A conference call to discuss the firm's results, outlook and related matters will be held at 11:00 am (ET). 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 (US 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 (US domestic) or 1-706-645-9291 (international) passcode number 4448748, beginning approximately two hours after the event. Please direct any questions regarding obtaining access to the conference call to Goldman Sachs Investor Relations, via e-mail, at gs-investor-relations@gs.com.

The Goldman Sachs Group, Inc. and Subsidiaries

Net Revenues

(unaudited)
(\$ in millions)

	<u>Three Months Ended</u>			<u>% Change From</u>		<u>Six Months Ended</u>		<u>% Change From</u>
	<u>May 31, 2002</u>	<u>Feb. 22, 2002</u>	<u>May 25, 2001</u>	<u>Feb. 22, 2002</u>	<u>May 25, 2001</u>	<u>May 31, 2002</u>	<u>May 25, 2001</u>	<u>May 25, 2001</u>
<u>Investment Banking</u>								
Financial Advisory	\$ 428	\$ 457	\$ 321	(6) %	33 %	\$ 885	\$ 1,051	(16) %
Underwriting	334	436	471	(23)	(29)	770	886	(13)
Total Investment Banking	762	893	792	(15)	(4)	1,655	1,937	(15)
<u>Trading and Principal Investments</u>								
FICC	1,143	1,222	948	(6)	21	2,365	2,073	14
Equities	418	105	739	N.M.	(43)	523	1,915	(73)
Principal Investments	(125)	3	5	N.M.	N.M.	(122)	(135)	N.M.
Total Trading and Principal Investments	1,436	1,330	1,692	8	(15)	2,766	3,853	(28)
<u>Asset Management and Securities Services</u>								
Asset Management	443	423	357	5	24	866	725	19
Securities Services	262	207	287	27	(9)	469	568	(17)
Commissions	948	745	862	27	10	1,693	1,640	3
Total Asset Management and Securities Services	1,653	1,375	1,506	20	10	3,028	2,933	3
Total net revenues	<u>\$ 3,851</u>	<u>\$ 3,598</u>	<u>\$ 3,990</u>	7	(3)	<u>\$ 7,449</u>	<u>\$ 8,723</u>	(15)

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Assets Under Supervision

(unaudited)
(\$ in millions)

	<u>As of</u>			<u>% Change From</u>		<u>As of</u>	
	<u>May 31, 2002</u>	<u>Feb. 28, 2002</u>	<u>May 31, 2001</u>	<u>Feb. 28, 2002</u>	<u>May 31, 2001</u>	<u>Nov. 30, 2001</u>	<u>Nov. 30, 2000</u>
Assets under management	\$ 349,876	\$ 343,648	\$ 314,388	2 %	11 %	\$ 350,718	\$ 293,842
Other client assets	135,998	139,590	171,420	(3)	(21)	152,192	197,876
Total assets under supervision ⁽¹⁾	<u>\$ 485,874</u>	<u>\$ 483,238</u>	<u>\$ 485,808</u>	1	-	<u>\$ 502,910</u>	<u>\$ 491,718</u>

⁽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			% Change From	
	May 31, 2002	Feb. 22, 2002	May 25, 2001	Feb. 22, 2002	May 25, 2001
	(in millions, except per share amounts and employees)				
Revenues					
Investment banking	\$ 705	\$ 825	\$ 784	(15) %	(10) %
Trading and principal investments	1,074	1,203	1,795	(11)	(40)
Asset management and securities services	1,399	1,158	1,245	21	12
Interest income	3,056	2,514	4,334	22	(29)
Total revenues	<u>6,234</u>	<u>5,700</u>	<u>8,158</u>	9	(24)
Interest expense	<u>2,383</u>	<u>2,102</u>	<u>4,168</u>	13	(43)
Revenues, net of interest expense	3,851	3,598	3,990	7	(3)
Operating expenses					
Compensation and benefits	1,926	1,799	1,907	7	1
Amortization of employee initial public offering and acquisition awards	83	125	128	(34)	(35)
Brokerage, clearing and exchange fees	221	196	206	13	7
Market development	86	70	102	23	(16)
Communications and technology	134	142	153	(6)	(12)
Depreciation and amortization	153	137	145	12	6
Amortization of goodwill and other intangible assets	32	31	64	3	(50)
Occupancy	144	141	151	2	(5)
Professional services and other	171	118	188	45	(9)
Total non-compensation expenses	<u>941</u>	<u>835</u>	<u>1,009</u>	13	(7)
Total operating expenses	<u>2,950</u>	<u>2,759</u>	<u>3,044</u>	7	(3)
Pre-tax earnings	901	839	946	7	(5)
Provision for taxes	<u>338</u>	<u>315</u>	<u>369</u>	7	(8)
Net earnings	<u>\$ 563</u>	<u>\$ 524</u>	<u>\$ 577</u>	7	(2)
Earnings per share					
Basic	\$ 1.13	\$ 1.05	\$ 1.12	8	1
Diluted	1.06	0.98	1.06	8	-
Average common shares outstanding					
Basic	496.8	500.2	513.8	(1)	(3)
Diluted	531.0	534.4	545.8	(1)	(3)
Employees at period end ⁽¹⁾	21,145	22,136	22,967	(4)	(8)
Ratio of compensation and benefits to revenues, net of interest expense	50%	50%	48%		

⁽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.

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

	<u>Six Months Ended</u>		<u>% Change From</u>
	<u>May 31,</u> <u>2002</u>	<u>May 25,</u> <u>2001</u>	<u>May 25,</u> <u>2001</u>
	(in millions, except per share amounts)		
Revenues			
Investment banking	\$ 1,530	\$ 1,915	(20) %
Trading and principal investments	2,277	3,861	(41)
Asset management and securities services	2,557	2,413	6
Interest income	<u>5,570</u>	<u>9,471</u>	(41)
Total revenues	11,934	17,660	(32)
Interest expense	<u>4,485</u>	<u>8,937</u>	(50)
Revenues, net of interest expense	7,449	8,723	(15)
Operating expenses			
Compensation and benefits	3,725	4,274	(13)
Amortization of employee initial public offering and acquisition awards	208	259	(20)
Brokerage, clearing and exchange fees	417	401	4
Market development	156	226	(31)
Communications and technology	276	306	(10)
Depreciation and amortization	290	279	4
Amortization of goodwill and other intangible assets	63	126	(50)
Occupancy	285	311	(8)
Professional services and other	<u>289</u>	<u>336</u>	(14)
Total non-compensation expenses	1,776	1,985	(11)
Total operating expenses	<u>5,709</u>	<u>6,518</u>	(12)
Pre-tax earnings	1,740	2,205	(21)
Provision for taxes	653	860	(24)
Net earnings	<u>\$ 1,087</u>	<u>\$ 1,345</u>	(19)
Earnings per share			
Basic	\$ 2.18	\$ 2.61	(16)
Diluted	2.04	2.46	(17)
Average common shares outstanding			
Basic	498.3	514.6	(3)
Diluted	532.5	547.2	(3)
Ratio of compensation and benefits to revenues, net of interest expense	50%	49%	