



## **GOLDMAN SACHS REPORTS THIRD QUARTER EARNINGS PER SHARE OF \$1.32**

NEW YORK, September 23, 2003 - The Goldman Sachs Group, Inc. (NYSE:GS) today reported net earnings of \$677 million for its fiscal third quarter ended August 29, 2003. Earnings per diluted share were \$1.32 compared to \$1.00 for the third quarter of 2002 and \$1.36 for the second quarter of 2003. Annualized return on average tangible shareholders' equity <sup>(1)</sup> was 17.8% for the third quarter of 2003 and 18.3% for the first nine months of 2003. Annualized return on average shareholders' equity was 13.4% for the third quarter of 2003 and 13.8% for the first nine months of 2003.

### **Business Highlights**

- Goldman Sachs retained its leadership position in global mergers and acquisitions, ranking first in announced and completed worldwide mergers and acquisitions. <sup>(2)</sup>
- The firm ranked first in worldwide equity and equity-related offerings and common stock offerings. <sup>(2)</sup>
- Asset Management achieved record quarterly net revenues of \$481 million, reflecting a strong performance across the business, as well as the contribution from Ayco, which was acquired on July 1, 2003. <sup>(3)</sup>
- Assets under management increased 9% from a year ago to a record \$365 billion. Net asset inflows of \$14 billion, including \$4 billion in assets from the acquisition of Ayco, were generated during the quarter.

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"Once again we saw the importance of the firm's diverse business mix, as our performance in Asset Management, Equities and Securities Services, which benefited from improved equity markets, helped to offset sluggish investment banking volumes and more challenging conditions within Fixed Income, Currency and Commodities," said Henry M. Paulson, Jr., Chairman and Chief Executive Officer.

## Net Revenues

### **Investment Banking**

Net revenues in Investment Banking were \$687 million compared to \$652 million for the third quarter of 2002 and \$659 million for the second quarter of 2003. Net revenues in Financial Advisory were \$304 million compared to \$315 million for the third quarter of 2002, reflecting continued weakness in industry-wide completed mergers and acquisitions. Net revenues in the firm's Underwriting business were \$383 million compared to \$337 million for the same 2002 period, primarily reflecting higher net revenues from debt new issuance activity. The firm's investment banking backlog declined during the quarter.

### **Trading and Principal Investments**

Net revenues in Trading and Principal Investments were \$1.62 billion compared to \$1.49 billion for the third quarter of 2002 and \$2.01 billion for the second quarter of 2003.

Fixed Income, Currency and Commodities (FICC) net revenues of \$828 million decreased 37% compared to the same 2002 period, primarily due to weak results in mortgages and currencies, reflecting higher interest rates, widening mortgage spreads and volatile currency markets. Net revenues in interest rate products were lower compared to a particularly strong third quarter of 2002. These decreases were partially offset by higher net revenues in credit products, which benefited from continued narrowing of credit spreads.

Net revenues in Equities were \$441 million compared to \$281 million for the third quarter of 2002, primarily due to higher net revenues in equity arbitrage, as well as in the firm's global shares businesses, partially offset by lower net revenues in equity derivatives, reflecting reduced market volatility.

Principal Investments recorded net revenues of \$346 million, primarily due to an unrealized gain related to the firm's convertible preferred stock investment in Sumitomo Mitsui Financial Group, Inc. (SMFG) of \$277 million, as well as increases in the fair value of other corporate principal investments.

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

Net revenues in Asset Management and Securities Services were \$1.49 billion compared to \$1.50 billion for the third quarter of 2002 and \$1.32 billion for the second quarter of 2003.

Asset Management net revenues of \$481 million increased 20% compared to last year's third quarter, primarily reflecting higher assets under management, the contribution from Ayco, which was acquired on July 1, 2003, and increased incentive income. During the quarter, assets under management increased 5%, reflecting net asset inflows of \$10 billion, spread across all asset classes, \$4 billion from the acquisition of Ayco, primarily in fixed income and equity assets, and market appreciation of \$5 billion, primarily in equity assets.

Securities Services net revenues were \$326 million compared to \$266 million for the same 2002 period, primarily reflecting higher customer balances in the firm's securities lending and margin lending businesses.

Commissions were \$684 million compared to \$838 million for the same period last year, primarily reflecting lower equity commissions in the firm's U.S. shares businesses, reduced clearing fees and lower merchant banking overrides.

### **Expenses**

Operating expenses were \$2.81 billion, essentially unchanged from last year's third quarter.

Compensation and benefits of \$1.90 billion increased 4% compared to the same period last year, commensurate with higher net revenues. The ratio of compensation and benefits to net revenues was 50% for the first nine months of 2003, consistent with the first nine months of 2002. Employment levels increased 6% during the quarter to 19,476, due primarily to the inclusion of 1,028 employees from the acquisition of Ayco. Excluding Ayco, employment levels were essentially unchanged during the quarter.

Non-compensation-related expenses of \$898 million decreased 8% compared to the same period last year, primarily reflecting lower depreciation and amortization expenses, occupancy expenses, brokerage, clearing and exchange fees, and market development expenses.

The effective income tax rate was 33% for the first nine months of 2003, down from 34% for the first half of 2003 and 35% for fiscal year 2002. The lower effective income tax rate reflects an increase in tax credits and a change in the firm's geographic earnings mix.

### **Capital**

As of August 29, 2003, total capital was \$72.89 billion, consisting of \$20.44 billion in shareholders' equity and \$52.45 billion in long-term debt.<sup>(4)</sup> Book value per share was \$41.72 based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 489.9 million at period end. Tangible book value per share was \$31.12.<sup>(1)</sup>

During the quarter, the firm repurchased 3.2 million shares of its common stock at an average price of \$85.32 per share. The remaining share authorization under the firm's existing common stock repurchase program is 9.9 million shares.

### **Dividend**

The Board of Directors of The Goldman Sachs Group, Inc. declared a dividend of \$0.25 per share to be paid on November 24, 2003 to common shareholders of record on October 27, 2003.

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 29, 2002.

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 the firm expects 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 the firm's 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 29, 2002.

#### 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 (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 Investor Relations section of the firm's Web site, [http://www.gs.com/our\\_firm/investor\\_relations/](http://www.gs.com/our_firm/investor_relations/). 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 2636296, 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-investorrelations@gs.com](mailto:gs-investorrelations@gs.com).

**The Goldman Sachs Group, Inc. and Subsidiaries**

**Net Revenues**

(unaudited)  
(\$ in millions)

	Three Months Ended			% Change From	
	August 29, 2003	May 30, 2003	August 30, 2002	May 30, 2003	August 30, 2002
<u>Investment Banking</u>					
Financial Advisory	\$ 304	\$ 258	\$ 315	18 %	(3) %
Underwriting	383	401	337	(4)	14
Total Investment Banking	687	659	652	4	5
<u>Trading and Principal Investments</u>					
FICC	828	1,590	1,312	(48)	(37)
Equities	441	446	281	(1)	57
Principal Investments	346	(28)	(100)	N.M.	N.M.
Total Trading and Principal Investments	1,615	2,008	1,493	(20)	8
<u>Asset Management and Securities Services</u>					
Asset Management	481	404	400	19	20
Securities Services	326	279	266	17	23
Commissions	684	635	838	8	(18)
Total Asset Management and Securities Services	1,491	1,318	1,504	13	(1)
Total net revenues	\$ 3,793	\$ 3,985	\$ 3,649	(5)	4

	Nine Months Ended		% Change From August 30, 2002
	August 29, 2003	August 30, 2002	
<u>Investment Banking</u>			
Financial Advisory	\$ 899	\$ 1,200	(25) %
Underwriting	1,165	1,107	5
Total Investment Banking	2,064	2,307	(11)
<u>Trading and Principal Investments</u>			
FICC	4,297	3,677	17
Equities	1,236	804	54
Principal Investments	241	(222)	N.M.
Total Trading and Principal Investments	5,774	4,259	36
<u>Asset Management and Securities Services</u>			
Asset Management	1,340	1,266	6
Securities Services	856	735	16
Commissions	1,931	2,531	(24)
Total Asset Management and Securities Services	4,127	4,532	(9)
Total net revenues	\$ 11,965	\$ 11,098	8

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

	Three Months Ended			% Change From	
	August 29, 2003	May 30, 2003	August 30, 2002	May 30, 2003	August 30, 2002
	(in millions, except per share amounts and employees)				
Revenues					
Investment banking	\$ 592	\$ 556	\$ 593	6 %	- %
Trading and principal investments	1,113	1,526	1,107	(27)	1
Asset management and securities services	1,169	1,036	1,253	13	(7)
Interest income	2,841	2,867	2,919	(1)	(3)
Total revenues	<u>5,715</u>	<u>5,985</u>	<u>5,872</u>	(5)	(3)
Interest expense	<u>1,922</u>	<u>2,000</u>	<u>2,223</u>	(4)	(14)
Revenues, net of interest expense	3,793	3,985	3,649	(5)	4
Operating expenses					
Compensation and benefits	1,896	1,992	1,824	(5)	4
Amortization of employee initial public offering and acquisition awards	19	34	57	(44)	(67)
Brokerage, clearing and exchange fees	218	200	236	9	(8)
Market development	62	64	75	(3)	(17)
Communications and technology	119	119	125	-	(5)
Depreciation and amortization	130	139	161	(6)	(19)
Amortization of identifiable intangible assets	40	46	31	(13)	29
Occupancy	151	177	172	(15)	(12)
Professional services and other	178	176	174	1	2
Total non-compensation expenses	<u>898</u>	<u>921</u>	<u>974</u>	(2)	(8)
Total operating expenses	<u>2,813</u>	<u>2,947</u>	<u>2,855</u>	(5)	(1)
Pre-tax earnings	980	1,038	794	(6)	23
Provision for taxes	303	343	272	(12)	11
Net earnings	<u>\$ 677</u>	<u>\$ 695</u>	<u>\$ 522</u>	(3)	30
Earnings per share					
Basic	\$ 1.39	\$ 1.43	\$ 1.05	(3)	32
Diluted	1.32	1.36	1.00	(3)	32
Average common shares outstanding					
Basic	488.5	485.8	494.9	1	(1)
Diluted	511.7	510.2	520.4	-	(2)
Employees at period end <sup>(5)</sup>	19,476	18,421	20,647	6	(6)
Ratio of compensation and benefits to revenues, net of interest expense	50%	50%	50%		

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

	<u>Nine Months Ended</u>		<u>% Change From</u>
	<u>August 29, 2003</u>	<u>August 30, 2002</u>	<u>August 30, 2002</u>
	(in millions, except per share amounts)		
Revenues			
Investment banking	\$ 1,774	\$ 2,123	(16) %
Trading and principal investments	4,412	3,384	30
Asset management and securities services	3,268	3,810	(14)
Interest income	8,340	8,489	(2)
Total revenues	<u>17,794</u>	<u>17,806</u>	-
Interest expense	<u>5,829</u>	<u>6,708</u>	(13)
Revenues, net of interest expense	11,965	11,098	8
Operating expenses			
Compensation and benefits	5,982	5,549	8
Amortization of employee initial public offering and acquisition awards	102	265	(62)
Brokerage, clearing and exchange fees	608	653	(7)
Market development	181	231	(22)
Communications and technology	355	401	(11)
Depreciation and amortization	426	451	(6)
Amortization of identifiable intangible assets	118	94	26
Occupancy	551	457	21
Professional services and other	606	463	31
Total non-compensation expenses	<u>2,845</u>	<u>2,750</u>	3
Total operating expenses	<u>8,929</u>	<u>8,564</u>	4
Pre-tax earnings	3,036	2,534	20
Provision for taxes	1,002	925	8
Net earnings	<u>\$ 2,034</u>	<u>\$ 1,609</u>	26
Earnings per share			
Basic	\$ 4.17	\$ 3.24	29
Diluted	3.98	3.04	31
Average common shares outstanding			
Basic	487.9	497.2	(2)
Diluted	511.3	528.5	(3)
Ratio of compensation and benefits to revenues, net of interest expense	50%	50%	

**The Goldman Sachs Group, Inc. and Subsidiaries**

**Average Daily VaR <sup>(6)</sup>**

(unaudited)  
(\$ in millions)

Risk Categories	Three Months Ended		
	August 29, 2003	May 30, 2003	August 30, 2002
Interest rates	\$ 47	\$ 39	\$ 35
Equity prices	24	24	21
Currency rates	14	18	19
Commodity prices	19	16	11
Diversification effect <sup>(7)</sup>	(40)	(38)	(39)
Firmwide	<u>\$ 64</u>	<u>\$ 59</u>	<u>\$ 47</u>

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**Assets Under Management <sup>(8)</sup>**

(unaudited)  
(\$ in billions)

	As of			% Change From	
	August 31, 2003	May 31, 2003	August 31, 2002	May 31, 2003	August 31, 2002
Money markets	\$ 93	\$ 91	\$ 100	2 %	(7) %
Fixed income and currency	111	108	94	3	18
Equity	96	86	81	12	19
Alternative investments	65	61	61	7	7
Assets under management	<u>\$ 365</u>	<u>\$ 346</u>	<u>\$ 336</u>	5	9

Assets Under Management	Three Months Ended		
	August 31, 2003	May 31, 2003	August 31, 2002
Balance, beginning of period	\$ 346	\$ 346	\$ 350
Net asset inflows/(outflows) <sup>(9)</sup>	14	(18)	(2)
Net market appreciation/(depreciation)	5	18	(12)
Balance, end of period	<u>\$ 365</u>	<u>\$ 346</u>	<u>\$ 336</u>

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**Principal Investments**

(unaudited)  
(\$ in millions)

	As of August 29, 2003		
	Corporate	Real Estate	Total
Private	\$ 974	\$ 767	\$ 1,741
Public	229	60	289
SMFG convertible preferred stock <sup>(10)</sup>	1,410	-	1,410
Total	<u>\$ 2,613</u>	<u>\$ 827</u>	<u>\$ 3,440</u>



## Footnotes

- (1) Tangible shareholders' equity equals total shareholders' equity less goodwill and identifiable intangible assets. Management believes that tangible shareholders' equity is a meaningful measure because it reflects the equity deployed in the firm's businesses. Annualized return on average tangible shareholders' equity is computed by dividing annualized net earnings by average monthly tangible shareholders' equity. Tangible book value per share is computed by dividing tangible shareholders' equity by the number of common shares outstanding, including restricted stock units granted to employees with no future service requirements. The following table sets forth the reconciliation of shareholders' equity to tangible shareholders' equity:

	Average for the		As of
	Nine Months Ended August 29, 2003	Three Months Ended August 29, 2003	August 29, 2003
	(unaudited, \$ in millions)		
Shareholders' equity	\$ 19,711	\$ 20,193	\$ 20,438
Deduct: Goodwill and identifiable intangible assets	(4,878)	(4,980)	(5,191)
Tangible shareholders' equity	\$ 14,833	\$ 15,213	\$ 15,247

- (2) Thomson Financial Securities Data – January 1, 2003 through August 29, 2003.
- (3) On July 1, 2003, The Goldman Sachs Group, Inc. acquired The Ayco Company, L.P. (Ayco), a leading provider of sophisticated, fee-based financial counseling in the United States.
- (4) Includes long-term debt of approximately \$3.0 billion issued by William Street Funding Corporation (a wholly-owned subsidiary of The Goldman Sachs Group, Inc. formed to raise funding to support loan commitments made by another William Street entity to investment-grade clients) and \$1.2 billion issued by consolidated variable interest entities, in each case, where the holders of the debt have no recourse to the general credit of the firm.
- (5) 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. Total employees also excludes employees of certain consolidated entities that are held for investment purposes only.
- (6) VaR is the potential loss in value of Goldman Sachs' trading positions due to adverse market movements over a one-day time horizon with a 95% confidence level. The modeling of the risk characteristics of the firm's trading positions involves a number of assumptions and approximations. While management believes that these assumptions and approximations are reasonable, there is no uniform industry methodology for estimating VaR, and different assumptions and/or approximations could produce materially different VaR estimates. For a further discussion of the calculation of VaR, see Part II, Item 7A "Quantitative and Qualitative Disclosures about Market Risk" in the firm's Annual Report on Form 10-K for the fiscal year ended November 29, 2002.
- (7) Equals the difference between firmwide VaR and the sum of the VaRs for the four risk categories. This effect arises because the four market risk categories are not perfectly correlated.
- (8) Substantially all assets under management are valued as of calendar month end.
- (9) For the three months ended August 31, 2003, includes \$4 billion from the acquisition of Ayco.
- (10) Includes the impact of foreign exchange revaluation on the investment, for which the firm maintains an economic hedge.