FELLOW SHAREHOLDERS

2000 was a remarkable year for Goldman Sachs and a rewarding one for our shareholders. In our first full year as a public company, we posted record earnings[(1)] of $3.25 billion, up 27% from $2.55 billion in 1999. Earnings per diluted share rose to $6.35, a 20% increase from $5.27 in 1999. And our return on equity reached 27%.

These results reflect more than a very good year for a number of our businesses. They are also evidence of our continued progress toward our goal of becoming the preeminent, global investment banking and securities firm. This goal is underpinned by a strategy that emphasizes expanding in key markets our core businesses: Global Capital Markets (Investment Banking and Trading and Principal Investments) and Asset Management and Securities Services. Our goal is for Goldman Sachs to be the financial advisor of choice for the most important and influential corporations, institutions and individuals worldwide. It is critical that we capture — and keep — a leading share of the high value-added business of these clients. In 2000, we experienced marked success in doing so.

John A. Thain / Henry M. Paulson, Jr. / John L. Thornton

In Investment Banking, for instance, we were the number one advisor in merger transactions on a worldwide basis. Goldman Sachs advised on a total of $1.3 trillion in announced transactions, including seven out of ten of the largest in the world. We hold strong leadership positions in key growth industries, including telecommunications, financial institutions, technology, healthcare and energy. Goldman Sachs was also the number one global underwriter of initial public offerings (IPOs) and all common stock offerings. In addition, we improved our high-yield underwriting business, finishing the year with the number two market share in the United States.

In 2000, we also continued to expand our most profitable trading businesses. We placed a special emphasis on client-driven transactions and solving complex problems with highly tailored solutions. During the course of the year, we succeeded in increasing our trading revenues while lowering risk. In Fixed Income, Currency and Commodities (FICC), net revenues grew by 5% despite difficult market conditions. Our Equities business posted spectacular gains, with net revenues up 78% over 1999. In October, we strengthened our capabilities in the equity market through our combination with Spear, Leeds & Kellogg, an industry leader in securities market making and clearing. In Principal Investments, we substantially expanded our global platform, raising $8 billion in new private equity and real estate funds. Goldman Sachs now manages more than $30 billion of merchant banking investments for our clients and our own account.

Asset Management and Securities Services also generated strong growth in 2000. Net revenues rose 43% from 1999 and assets under management reached $294 billion, a 14% increase over the previous year. Since 1995, our assets under management have expanded at an average rate of 41% per year, making us one of the fastest growing large asset managers in the industry. In 2000, we added $40 billion of new client assets, building on $34 billion and $46 billion increases in 1999 and 1998, respectively. This growth is testimony to both our investment record and distribution power. We see attractive growth opportunities in the high-net-worth market and are investing to capture an increasing share of it.

A strong capital position is an important part of our strategy. Indeed, one of the principal reasons we became a public company was to secure the permanent capital necessary to serve our clients better. Since our IPO, our equity capital has grown from $6.6 billion to $16.5 billion. Despite this increase, we remain as disciplined about our capital as we were when we were a private partnership. Our capital is available to help clients meet their important needs but we use it carefully for those transactions where we can combine it with our expertise and where we believe that the potential rewards justify the risk. We owe our shareholders no less.

(1) Results for 2000 exclude the charge related to our combination with Spear, Leeds & Kellogg. Results for 1999 reflect the pro forma effect of our incorporation and related transactions. Source of market share information: Thomson Financial Securities Data

We continue to compete with firms with more capital than Goldman Sachs. And, in 2000, we continued to compete successfully. The reason is simple: Our clients choose us not just because of our balance sheet but because of even more important assets — our reputation for excellence and our people who provide the very best advice and execution.

Our distinctive culture — which emphasizes integrity, entrepreneurship, excellence, teamwork and fairness — has allowed us to assemble the most talented team in the business. Our IPO further strengthened our culture by giving all our employees a stake in the firm's future. Today, the people of Goldman Sachs own more than 55% of the firm, making us one of the largest employee-owned companies in the world and the employer of choice in our industry.

It is critical that Goldman Sachs continue to be a magnet for talent at both senior and entry levels. This is why attracting, retaining and rewarding the very best individuals was one of our highest priorities in 2000. As part of this effort, in November we expanded our senior leadership by selecting 114 new participating managing directors and naming 198 new managing directors. These individuals — the most diverse group of senior leaders we have ever chosen — combine tested professional excellence with a strong personal commitment to our core values.

We are proud of our accomplishments in 2000. Our scope was truly global, with European and Asian operations representing more than 35% of our workforce and more than 40% of our net revenues. In key businesses — advisory services, underwriting and trading — we are leaders in every important market in the world. And our asset management business, already strong, is poised for even more global growth in the future.

In 2000, we were fortunate to exceed again our financial goals of a return on equity of more than 20% and earnings growth in the 12–15% range. These remain our objectives. But, looking forward, we do not expect a predictable, stable pattern of quarter-over-quarter earnings increases. Goldman Sachs will continue to seek faster growth in our investment banking and asset management businesses to ensure greater stability in our earnings. But fluctuating market conditions mean that the securities industry can never attain the stability of some other businesses.

The markets of the last months of 2000 and the first part of 2001 produced a much less favorable business environment than earlier in 2000, reminding us that our greatest challenge remains managing growth. We will be disciplined in our approach, but we will continue to build for the future. In our business, periods of slowing and volatility are to be expected, but they do not change our enthusiasm about the medium to long term. And, in the short term, they provide us with an opportunity to strengthen our competitive position.

The untimely death of Michael Mortara in November was a loss to the firm and to all of us who had the privilege of working with him. Mike played an instrumental role in the creation of the mortgage-backed securities market in the 1980s. As co-head of our FICC Division from 1994 to 2000 and, from May 2000, president and CEO of GS Ventures, the firm's financial services incubator, Mike was one of the most respected and beloved members of the Goldman Sachs family.

Looking ahead, the changes sweeping today's economy — globalization, deregulation, consolidation, technological transformation and pension reform — are creating a business environment of great opportunities. By virtue of the firm's global presence, unparalleled reputation and extraordinary people, Goldman Sachs is well positioned to seize those opportunities on behalf of our shareholders. We are absolutely committed to doing so in 2001 and beyond.

Henry M. Paulson, Jr.
Chairman and Chief Executive Officer

John A. Thain
President and Co-Chief Operating Officer

John L. Thornton
President and Co-Chief Operating Officer

OUR CORE BUSINESSES

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.

Our activities are divided into two segments:

Global Capital Markets, which comprises our Investment Banking and Trading and Principal Investments businesses, and Asset Management and Securities Services. The product and service offerings within these segments are described in the following tables:

GLOBAL CAPITAL MARKETS

INVESTMENT BANKING

- Equity and debt underwriting
- Financial restructuring advisory services
- Mergers and acquisitions advisory services
- Real estate advisory services

TRADING AND PRINCIPAL INVESTMENTS

- Bank loans
- Commodities
- Currencies
- Equity and fixed income derivatives
- Equity and fixed income securities
- Principal investments
- Proprietary arbitrage
- Specialist in securities and options

Our Investment Banking activities are divided into two categories: Financial Advisory and Underwriting. Financial Advisory includes advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, restructurings and spin-offs. Underwriting includes public offerings and private placements of equity and debt securities.

Our Trading and Principal Investments activities are divided into three categories: Fixed Income, Currency and Commodities; Equities; and Principal Investments. In our Trading and Principal Investments business, we facilitate client transactions and take proprietary positions through market making in, and trading of, fixed income and equity products, currencies, commodities, and swaps and other derivatives. In addition, we engage in floor-based market making as a specialist on U.S. equities and options exchanges. Principal Investments primarily represents net revenues from our merchant banking investments.

ASSET MANAGEMENT AND SECURITIES SERVICES

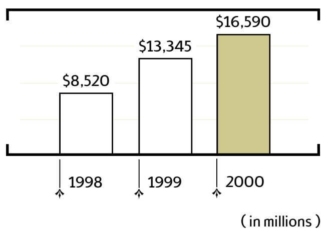
- Commissions
- Institutional and high-net-worth asset management
- Margin lending
- Matched book
- Merchant banking fees
- Increased share of merchant banking fund income and gains
- Mutual funds
- Prime brokerage
- Securities lending
- Securities and options clearing services

Our Asset Management and Securities Services activities are divided into three categories: Asset Management, Securities Services and Commissions. In Asset Management, we provide a broad array of investment advisory services to a diverse client base. Securities Services includes prime brokerage, financing services and securities lending, and our matched book businesses. Commissions include clearing and agency transactions for clients on major stock, options and futures exchanges and revenues from the increased share of the income and gains derived from our merchant banking funds.

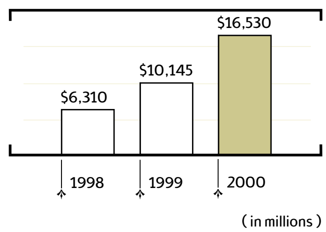
FINANCIAL HIGHLIGHTS

FIRMWIDE

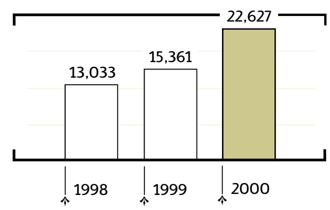
Net Revenues



Equity Capital



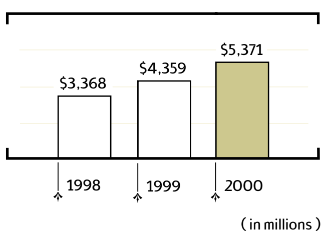
Employees



GLOBAL CAPITAL MARKETS

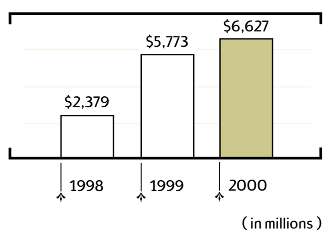
Investment Banking

Net Revenues



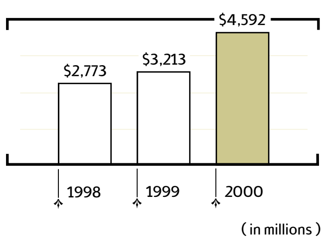
Trading and Principal Investments

Net Revenues



ASSET MANAGEMENT AND SECURITIES SERVICES

Net Revenues



Assets Under Supervision