

## FINANCIAL HIGHLIGHTS

	AS OF OR FOR YEAR ENDED NOVEMBER	
(\$ AND SHARE AMOUNTS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	2001	2000
<b>Operating Results</b>		
Net revenues		
Global capital markets		
Investment banking	\$ 3,836	\$ 5,371
Trading and principal investments	6,349	6,627
Asset management and securities services	5,626	4,592
Total net revenues	15,811	16,590
Pre-tax earnings	3,696	5,020
Net earnings	2,310	3,067
<b>Common Share Data</b>		
Diluted earnings per share <sup>(1)</sup>	\$ 4.26	\$ 6.35
Average diluted common shares outstanding	541.8	511.5
Dividends declared per share	\$ 0.48	\$ 0.48
Book value per share <sup>(2)</sup>	36.33	32.18
<b>Financial Condition and Other Operating Data</b>		
Total assets <sup>(3)</sup>	\$312,218	\$284,410
Long-term borrowings	31,016	31,395
Shareholders' equity	18,231	16,530
Leverage ratio <sup>(4)</sup>	17.1x	17.2x
Adjusted leverage ratio <sup>(5)</sup>	13.2x	13.1x
Return on tangible shareholders' equity <sup>(6)</sup>	17.8%	28.9%
<b>Selected Data</b>		
Total employees	22,677	22,627
Assets under management	\$350,718	\$293,842

<sup>(1)</sup> Diluted earnings per share for the year ended November 2000 exclude a charge of \$290 million (\$180 million after taxes) related to our combination with SLK LLC (SLK). Including this charge, diluted earnings per share were \$6.00.

<sup>(2)</sup> Book value per share is based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 501.8 million as of November 2001 and 513.7 million as of November 2000.

<sup>(3)</sup> In accordance with Statement of Financial Accounting Standards (SFAS) No. 140, total assets as of November 2000 exclude collateral of \$5.35 billion previously recognized under SFAS No. 125.

<sup>(4)</sup> Leverage ratio equals total assets divided by shareholders' equity.

<sup>(5)</sup> Adjusted leverage ratio equals adjusted assets divided by shareholders' equity. Adjusted assets represent total assets less securities purchased under agreements to resell, certain securities borrowed transactions and the increase in total assets related to certain provisions of SFAS No. 140.

<sup>(6)</sup> Return on tangible shareholders' equity is computed by dividing net earnings by average tangible shareholders' equity. Tangible shareholders' equity equals total shareholders' equity less goodwill and other intangible assets. Return on tangible shareholders' equity for 2000 excludes the charge related to our combination with SLK.

FROM LEFT  
John A. Thain  
*President and  
Co-Chief Operating Officer*

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

John L. Thornton  
*President and  
Co-Chief Operating Officer*



## FELLOW SHAREHOLDERS,

It is impossible to discuss 2001 without beginning with the events of September 11. While our 13,000 people in the downtown New York area were unharmed and our facilities largely untouched, the stunning and savage attack on the World Trade Center, just a few blocks away from our headquarters, represented a formidable challenge in operational and human terms. We are proud to report that the people of Goldman Sachs, not just in New York but around the world, met this challenge with courage, resilience and initiative.

But even as our people worked tirelessly to keep Goldman Sachs up and running, they never forgot the human dimension of the September 11 tragedy. They reached out to provide comfort to those who had lost loved ones and friends in the attack. And together with the firm, they provided needed material assistance in the form of more than \$11 million in donations for the victims of this crime. In short, September 11 tested us as a firm and as individuals in a way we had never been

tested. And we emerged stronger than ever before. Our corporate culture had again proven its enduring value.

This year's report focuses on the Business Principles and the core values that embody our culture: commitment to the client, teamwork, integrity, professional excellence and entrepreneurial spirit. These values not only serve our clients and shareholders; they also set us apart from other firms, making us the employer of choice in our industry.

- Our culture of teamwork allows us to pull together the best thinking from different parts of the firm and deliver integrated solutions to complex client problems.
- Our emphasis on integrity makes us a firm that individuals, corporations, institutions and governments can trust.
- Our commitment to professional excellence and a true meritocracy ensures that our clients receive the very best service that our industry can offer.
- Our focus on entrepreneurship means that we are always searching for new ways to promote our customers' interests.

Maintaining the Goldman Sachs culture is therefore a critical task. But it is not easy. Like any competitive edge, our culture must be continually reinforced and adapted or it will atrophy. Though some were concerned that our decision to go public in 1999 would undermine our core values, we disagreed. We believe that our culture reflects much more than our ownership structure. Instead, it is the manifestation of the values that have been impressed upon us for years—constantly communicated from the top down—and the behavior and actions that are reinforced through our 360-degree performance reviews and rewarded through promotions, compensation and peer approval.

Our initial public offering, in fact, enhanced our culture by spreading ownership—and a personal stake in our success—throughout the firm. But our culture does face a challenge: our growing size. It is far easier to inculcate and perpetuate core values in an organization of 5,000 people than it is in one of over

22,000. The major task confronting us today—as it did in 1999 and will for the foreseeable future—is managing growth.

In the financial services industry, where people are absolutely critical, size can become the enemy of excellence. It is our job to make sure that this does not happen at Goldman Sachs, where our culture is a magnet for talent. This is because we offer outstanding people—high achievers—the opportunity to work with other outstanding people as part of a mutually supportive team in a collaborative environment. Our people are motivated by job content, which has never been more interesting, and by working in a meritocracy where they are tested with great responsibility. They demand career development opportunities and care deeply about the values that Goldman Sachs represents.

Our people want to make a difference. They see globalization as a force for good and are proud of the dynamic role that Goldman Sachs plays in shaping the world economy.

It is no easy task to maintain our culture in the face of great growth and change. To meet this challenge, in 1999 we initiated a multiyear process to adapt our culture to a large and growing global organization without becoming bureaucratic. As we became larger, we recognized that many of our processes—recruiting, mentoring, training, performance evaluation, career development—had to be reengineered.

In the “old days,” each business manager was his or her own Human Resources professional, and much of the training and career development was done on an

apprenticeship basis. This doesn’t work quite as well anymore. Over the last several years, we have made some real progress in adapting our people-management capabilities to a larger organization in “Pine Street” (named after the address of the original Goldman Sachs headquarters).

- We are 12 months into a highly promising leadership development program for our Managing Directors, headed by the former Director of the G.E. Crotonville Executive Educational Program.
- We are doing a better job of continually communicating with our people on firmwide, divisional and business-unit levels.
- We have continued to strengthen our performance evaluations, mentoring and training programs throughout the firm.
- We have recently taken actions to intensify and strengthen a 21st century Diversity Program in the context of a global institution.
- We continue to expand our Community TeamWorks Program. This year, over 18,000 of our people around the world worked together in teams to give energy and creativity to nonprofit organizations in the communities in which they work.

These and other measures to manage our growth are ongoing. They are clearly only part of what must be a long-term, broad-based commitment to strengthening our culture. Making—and keeping—that commitment will be critical as we work toward our goal of becoming the world’s preeminent investment banking, securities and investment management company.

Of course, we recognize that a corporate culture is not an end in itself but a means to an end. It enables us to execute successfully a winning business strategy that results in extraordinary client service and

superior long-term financial performance for our shareholders. Like everyone in our industry, we faced considerable adversity in the form of difficult market conditions in 2001. We have noted in the past that we do not expect a predictable, stable pattern of quarter-over-quarter earnings increases. In fact, while we believe our business offers attractive long-term returns, 2001 provided an excellent reminder that fluctuating markets mean that our business will never have the stability of some other sectors.

We continually tell our people that although we cannot do anything to change the environment, we can strive to outperform the competition and meet the high expectations of our clients. From that perspective, 2001 was a highly successful year. The quality of our people and culture, together with the strength and diversity of our businesses, was evident as we produced an 18% return on our tangible shareholders’ equity in one of the most challenging years in our industry’s history.

Investment Banking activity and revenues declined sharply for the industry. Our own results were no exception. The firm’s performance in this challenging environment was, however, first-rate. We believe the quality of our client relationships and our leadership in the most important businesses have never been stronger.

For example, in 2001, we again were the number one advisor in merger transactions on a worldwide basis. We advised on 8 of the 10 largest transactions completed during the year, more than any

other firm. We also were the number one global underwriter of initial public offerings and all common stock offerings. We think these results are a testament to the strength and quality of our franchise.

Within our Trading and Principal Investments business, Fixed Income, Currency and Commodities produced excellent results, increasing net revenues 35% by capitalizing on lower interest rates, increased volatility and strong customer demand. Performance was strong across a wide range of our businesses, including commodities, currencies, our credit-sensitive businesses and fixed income derivatives.

Net revenues declined in our equities business in a difficult environment with declining volatility and customer flow. Despite the challenging market, we were very pleased with our progress in the integration of Spear, Leeds & Kellogg with our own capabilities to strengthen our leading position in equities markets.

Principal Investments had a very disappointing year, with significant market-to-market losses, principally in our high technology and telecommunications investments. Overall, however, we continue to believe that our merchant banking activities are an excellent business for us. We see many attractive opportunities created by the volatility in the past year.

Asset Management and Securities Services produced another record year in 2001. Assets under management increased 19% to \$351 billion. In 2001, we had record net inflows of \$67 billion of new client assets. These very strong results demon-

strate the value created through a diverse, multi-product global platform. We also continue to build our high-net-worth business and believe it is one of our most attractive growth opportunities.

As our industry has undergone dramatic consolidation over the last few years, and as commercial banks have increasingly used low-priced credit as a competitive tool, some observers have asked, "Is Goldman Sachs big enough?" To be frank, we believe that this is the wrong question, particularly for a global firm with over 22,000 people, \$18 billion in equity capital, and a \$300 billion balance sheet. Capital has never been a limiting factor for us.

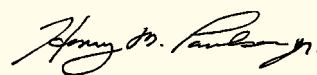
The right question—and the one we ask ourselves constantly—is, "Can we continue to manage growth by adapting our culture to a large and increasingly complex global company?" This, and not the size of competitors, will be the key to our continuing ability to execute our strategy superbly, which is the ultimate determinant of our success.

We face a big challenge, but we are up to it. We wouldn't trade places with any of our competitors, whatever their size or business model. Despite the uncertainties of the current market environment, we remain bullish about the future. We operate at the "sweet spot" of global capitalism.

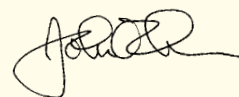
We believe that the trends that have created opportunities for us in the past—globalization, deregulation, consolidation and market-driven reform—will continue to do so in the future. But we know that

our ultimate success will depend upon a constant commitment to the core cultural values that allow us to execute successfully our corporate strategy and to attract the very best of the best in the world of finance. We have made that commitment and intend to adhere resolutely to it in 2002 and the years that follow.

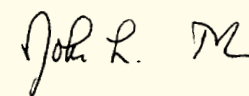
We owe you, our shareholders, no less.



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 and Asset Management and Securities Services.

### GLOBAL CAPITAL MARKETS

Our Global Capital Markets segment is divided into Investment Banking and Trading and Principal Investments.

#### INVESTMENT BANKING

Our current structure, which is organized along regional, product and industry groups, seeks to combine client-focused investment bankers with execution and industry expertise.

Our Investment Banking activities are divided into two categories: Financial Advisory and Underwriting.

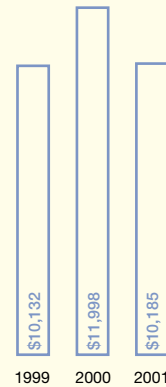
In 2001, Goldman Sachs maintained its leading investment banking position, ranking first in worldwide common stock offerings, as well as in announced and completed worldwide mergers and acquisitions. We were also one of the leaders in worldwide convertibles and worldwide high-yield offerings, and we continued to be recognized as innovators in leveraged finance.

#### Financial Advisory

Financial Advisory includes advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, restructurings and spin-offs.

#### Underwriting

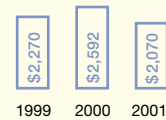
Underwriting includes public offerings and private placements of equity and debt securities.



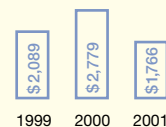
Global Capital Markets  
Net Revenues  
(in millions of dollars)



Investment Banking  
Net Revenues  
(in millions of dollars)



Financial Advisory  
Net Revenues  
(in millions of dollars)



Underwriting  
Net Revenues  
(in millions of dollars)

GLOBAL CAPITAL MARKETS (continued)

TRADING AND PRINCIPAL INVESTMENTS

Our Trading and Principal Investments business facilitates customer transactions and takes 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 and electronic market making as a specialist on U.S. equities and options exchanges.

Our Trading and Principal Investments activities are divided into three categories: Fixed Income, Currency and Commodities, Equities and Principal Investments.

Fixed Income, Currency and Commodities (FICC)

FICC makes markets in and trades fixed income products, currencies and commodities, structures and enters into a wide variety of derivative transactions, and engages in proprietary trading and arbitrage activities. FICC's principal products are: bank loans, commodities, currencies, derivatives, emerging market debt, global government securities, high-yield securities, investment-grade securities, money market instruments, mortgage securities and loans and municipal securities.

FICC generated record net revenues—35% higher than 2000—as the firm capitalized on lower interest rates, increased volatility and strong customer demand.

Equities

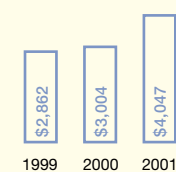
Equities makes markets in, acts as a specialist for, and trades equities and equity-related products, structures and enters into equity derivative transactions, and engages in proprietary trading and equity arbitrage. We make markets and position blocks of stock to facilitate customers' transactions and to provide liquidity in the marketplace.

Principal Investments

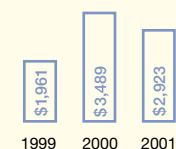
Principal Investments primarily represents net revenues from our merchant banking investments. We make principal investments directly and through the funds we raise and manage.



Trading and Principal Investments  
Net Revenues  
(in millions of dollars)



FICC  
Net Revenues  
(in millions of dollars)



Equities  
Net Revenues  
(in millions of dollars)



Principal Investments  
Net Revenues  
(in millions of dollars)

## OUR CORE BUSINESSES

### ASSET MANAGEMENT AND SECURITIES SERVICES

Our Asset Management and Securities Services segment is divided into three categories: Asset Management, Securities Services and Commissions.

#### Asset Management

Asset Management generates management fees by providing investment advisory services to a diverse client base of institutions and individuals. Assets under management include our mutual funds, separate accounts managed for institutional and individual investors, our merchant banking funds and other alternative investment funds.

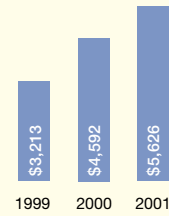
Assets under management grew 19% during the year, with record net inflows of \$67 billion.

#### Securities Services

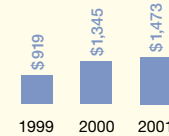
Securities Services includes prime brokerage, financing services and securities lending, and our matched book businesses, all of which generate revenues primarily in the form of fees or interest rate spreads.

#### Commissions

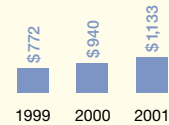
Commissions include fees from executing and clearing client transactions on major stock, options and futures markets worldwide. Commissions also include revenues from the increased share of the income and gains derived from our merchant banking funds.



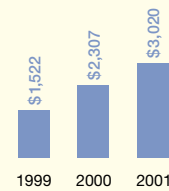
**Asset Management and Securities Services**  
Net Revenues  
(in millions of dollars)



**Asset Management**  
Net Revenues  
(in millions of dollars)



**Securities Services**  
Net Revenues  
(in millions of dollars)



**Commissions**  
Net Revenues  
(in millions of dollars)