GOLDMAN SACHS REPORTS FOURTH QUARTER AND FULL YEAR RESULTS

ANNUAL NET REVENUES INCREASE 57% TO A RECORD US$13.3 BILLION

NEW YORK, December 21, 1999 - The Goldman Sachs Group, Inc. (NYSE: GS) today reported net earnings of US$723 million, or US$1.48 per diluted share, for its fiscal fourth quarter ended November 26, 1999. Net earnings for the full fiscal year ended November 26, 1999 were US$2.7 billion, or US$5.57 per diluted share. Net earnings for the year were reduced by non-recurring items of US$672 million related to the firm's conversion to corporate form in May.

Pro forma net earnings for the fourth quarter were US$756 million, or US$1.54 per diluted share. These results were significantly above those of the same period in 1998, which were adversely affected by global market turmoil, and 18% higher than the previous quarter. Pro forma net earnings for the full year were US$2.6 billion, or US$5.27 per diluted share compared to net earnings of US$1.3 billion, or US$2.62 per diluted share, in 1998. Pro forma earnings assume that the firm's incorporation and other related transactions had occurred at the beginning of each fiscal year. Annualized return on average stockholders' equity in the fourth quarter was 31%.

Pro forma diluted core earnings per share were US$1.60 for the fourth quarter compared to US$1.38 in the prior quarter. Pro forma diluted core earnings per share exclude the amortization of the employee initial public offering awards and include all of the related restricted stock units in common shares outstanding.

Fourth Quarter Business Highlights

- Goldman Sachs ranked first in worldwide mergers and acquisitions for the calendar year, having advised on announced transactions valued at more than US$1 trillion.[1]
- The firm achieved record results in equity underwriting, ranking first in both worldwide and U.S. public stock offerings for the year. [1]
- The firm's Trading and Principal Investments business continued to produce favorable results. Strong performances in equities and merchant banking were partially offset by lower net revenues in the fixed income, currency and commodities business.
- Assets under supervision increased 18% to US$485 billion and assets under management grew 17% to US$258 billion.

"This concludes an historic and highly successful year for Goldman Sachs," said Henry M. Paulson, Jr., Chairman and Chief Executive Officer. "The firm's financial performance demonstrates the power of our global franchise and the benefit of our continuing focus on serving the needs of clients."

(1) Securities Data Company - January 1 - November 30, 1999.

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Business Lines

Investment Banking

Fourth Quarter

Net revenues in Investment Banking were US$1.3 billion, a 13% increase over an outstanding prior quarter and 59% above the same 1998 period. The firm's equity underwriting and advisory businesses, both in the United States and internationally, performed strongly as buoyant global equity markets continued to stimulate healthy deal flow in both new issues and mergers and acquisitions. Net revenue growth compared to last year's fourth quarter was particularly strong in the communications, media and entertainment, high technology and energy and power sectors.

Full Year

Investment Banking generated net revenues of US$4.4 billion for the full year, a 29% increase over 1998. The firm's equity underwriting business benefited from favorable global economic conditions, which led major equity market indices higher and new issue activity to record levels. The firm maintained its leading position in the advisory business and benefited from an increase in global merger and acquisition activity. Net revenue growth was driven by strong performances in the United States and Europe, particularly in the communications, media and entertainment, high technology, energy and power, and healthcare sectors.

Trading and Principal Investments

Fourth Quarter

Net revenues in Trading and Principal Investments were US$1.3 billion for the quarter, substantially above last year's fourth quarter in all major components of the business, but 14% lower than the third quarter of 1999, primarily due to reduced customer activity in commodities and lower transaction flow in both foreign currency and fixed income markets. The increase in FICC net revenues compared to the fourth quarter of 1998 was primarily due to a recovery in the fixed income markets, which were negatively affected a year ago by a dramatic widening of credit spreads and reduced liquidity. Net revenues in equities increased over the prior year period primarily due to strength in derivatives and arbitrage and improved performance in convertible securities. Net revenues in principal investments increased over the prior year period due to mark-to-market gains on certain of the firm's merchant banking investments, particularly in the telecommunications and high technology sectors.

Full Year

Net revenues in Trading and Principal Investments were US$5.8 billion compared to US$2.4 billion in 1998, as substantially all components of the business recovered from the global market turmoil of the second half of 1998. Net revenues in FICC nearly doubled as growth in the firm's credit-sensitive businesses and commodities was partially offset by lower net revenues in currencies. The significant net revenue growth in equities was primarily due to strength in arbitrage and convertibles and increased customer flow in derivatives and global shares. Net revenues from principal investments increased dramatically due to mark-to-market gains on certain of the firm's merchant banking investments, particularly in the high technology and telecommunications sectors.

Asset Management and Securities Services

Fourth Quarter

Net revenues in Asset Management and Securities Services were US$917 million, an increase of 13% over the third quarter and 21% above the fourth quarter of 1998. Asset management revenues increased 47% over last year's fourth quarter, primarily reflecting a 29% increase in average assets under management. Securities services net revenues were 3% lower than the same 1998 period as net revenue growth in the firm's securities lending and margin lending businesses was offset by reduced spreads in the fixed income matched book. Commissions rose by 21% compared to the prior year period due to higher worldwide transaction volumes in equity securities.

Full Year

Net revenues in Asset Management and Securities Services were US$3.2 billion, an increase of 16% compared to fiscal 1998. Asset management revenues increased 36%, primarily reflecting a 32% increase in average assets under management as well as favorable changes in the composition of assets managed. Securities services net revenues were up 6%, due to increased customer balances in the firm's securities lending and margin lending businesses, partially offset by reduced spreads in the fixed income matched book. Commissions rose by 11% as fees earned on higher transaction volumes in equity securities were partially offset by a reduction in the firm's increased share of gains from its merchant banking funds.

Expenses

Operating expenses were US$11.4 billion for the full fiscal year, including non-recurring charges of $2.5 billion related to the firm's conversion to corporate form. On a pro forma basis, operating expenses in 1999 increased 43% compared to pro forma 1998, primarily reflecting increased compensation and benefits commensurate with higher net revenue levels. The ratio of compensation and benefits to net revenues was 48.4% for the full year, compared to 50% for the nine-month fiscal period ended August 27, 1999. Non-compensation-related expenses, excluding the charitable contribution of US$200 million made in connection with the firm's conversion to corporate form, rose 23% compared to 1998, due to higher employment levels, global expansion and growth in business activity.

The firm's effective tax rate for the corporate period from May 7, 1999 to the end of the fiscal year was 40%, excluding a non-recurring tax benefit of US$1.8 billion related to its conversion to corporate form.

Capital

As of November 26, 1999, total capital was US$31.1 billion, consisting of US$10.1 billion in stockholders' equity and US$21.0 billion in long-term debt. Book value per share was US$20.94, based on common shares outstanding, including restricted stock units granted to employees with no future service requirements, of 484,566,184 at period end.

Dividend

On December 20, 1999, the Board of Directors of The Goldman Sachs Group, Inc. declared a dividend of US$0.12 per share to be paid on February 24, 2000, to voting and nonvoting common shareholders of record on January 24, 2000.

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Goldman Sachs is a leading global investment banking and securities firm, providing a full range of investing, advisory and financing services worldwide to a substantial and diversified client base, which includes corporations, financial institutions, governments and high net worth individuals. Founded in 1869, it is one of the oldest and largest investment banks. The firm is headquartered in New York and maintains offices in London, Frankfurt, Tokyo, Hong Kong and other major financial centers around the world.

<u>Cautionary Note Regarding Forward-Looking Statements</u>

Statements in this press release may constitute "forward-looking statements". These forward-looking statements represent only the firm's belief regarding future events, many of which, by their nature, are inherently uncertain and outside of its control. For a discussion of some of the risks and factors that could affect the firm's future results, see the description of "Risk Factors" in its Prospectus, dated December 10, 1999.