

**GOLDMAN SACHS REPORTS RECORD EARNINGS  
PER COMMON SHARE OF \$11.21 FOR 2005**



**FOURTH QUARTER RECORD EARNINGS PER COMMON SHARE WERE \$3.35**

NEW YORK, December 15, 2005 - The Goldman Sachs Group, Inc. (NYSE: GS) today reported net earnings of \$5.63 billion for the year ended November 25, 2005. Diluted earnings per common share were \$11.21, an increase of 26% compared with \$8.92 for the year ended November 26, 2004. Return on average tangible common shareholders' equity <sup>(1)</sup> was 27.6% and return on average common shareholders' equity was 21.8% for 2005.

Fourth quarter net earnings were \$1.63 billion. Diluted earnings per common share were \$3.35 compared with \$2.36 for the same 2004 quarter and \$3.25 for the third quarter of 2005. Annualized return on average tangible common shareholders' equity <sup>(1)</sup> was 31.7% and annualized return on average common shareholders' equity was 25.2% for the fourth quarter.

**Annual Business Highlights**

- Goldman Sachs achieved its best annual results in 2005, generating record net revenues, net earnings and diluted earnings per common share.
- Investment Banking generated net revenues of \$3.67 billion, its best annual performance in four years.
- The firm continued its leadership in global advisory and equity underwriting for the calendar year-to-date, ranking first in both worldwide announced and completed mergers and acquisitions as well as worldwide equity and equity-related offerings. <sup>(2)</sup>
- Fixed Income, Currency and Commodities (FICC) generated record net revenues of \$8.48 billion, 16% higher than the previous record set in 2004.
- Equities generated record net revenues of \$5.65 billion, 21% higher than 2004.
- Asset Management achieved record net revenues of \$2.96 billion, 16% higher than the previous record set in 2004. Assets under management increased 18% to a record \$532 billion, with net asset inflows of \$63 billion in 2005.
- Securities Services achieved record net revenues of \$1.79 billion, 38% higher than the previous record set in 2004.

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"We are very pleased to report another record year for the firm, with virtually every area producing strong results," said Henry M. Paulson, Jr., Chairman and Chief Executive Officer. "Looking forward, we are optimistic that global growth will continue to create opportunities for our clients, and we will remain intensely focused on serving their needs."

## Net Revenues

### Investment Banking

#### Full Year

Net revenues in Investment Banking were \$3.67 billion for the year, 9% higher than 2004. Net revenues in Financial Advisory were \$1.91 billion, 10% higher than 2004, primarily reflecting an increase in industry-wide completed mergers and acquisitions. Net revenues in the firm's Underwriting business were \$1.77 billion, 8% higher than 2004, reflecting higher net revenues in debt underwriting, primarily due to an increase in leveraged finance and mortgage activity, partially offset by lower net revenues in equity underwriting. The firm's investment banking backlog was significantly higher at year end than at the end of 2004.

#### Fourth Quarter

Net revenues in Investment Banking were \$948 million, 23% higher than the fourth quarter of 2004 and 7% lower than the third quarter of 2005. Net revenues in Financial Advisory were \$546 million, 32% higher than the fourth quarter of 2004, primarily reflecting an increase in industry-wide completed mergers and acquisitions. Net revenues in the firm's Underwriting business were \$402 million, 14% higher than the fourth quarter of 2004, reflecting higher net revenues in equity underwriting and, to a lesser extent, debt underwriting. The firm's investment banking backlog increased significantly during the quarter.

### Trading and Principal Investments

#### Full Year

Net revenues in Trading and Principal Investments were \$16.36 billion for the year, 23% higher than 2004.

Net revenues in FICC were \$8.48 billion for the year, 16% higher than 2004, primarily reflecting significantly higher net revenues in credit products (which includes distressed investing) and, to a lesser extent, interest rate products and currencies. Net revenues in commodities and mortgages were strong, but essentially unchanged compared with 2004. During 2005, FICC operated in an environment generally characterized by strong customer-driven activity, tight, but volatile, credit spreads, higher energy prices and a flatter yield curve.

Net revenues in Equities were \$5.65 billion for the year, 21% higher than 2004, reflecting significantly higher net revenues in the firm's customer franchise and principal strategies businesses. The increase in the firm's customer franchise businesses reflected improved results in derivatives and shares, particularly in Europe and Asia, as well as in convertibles. In addition, results in principal strategies reflected strength across all regions. During 2005, Equities operated in an environment characterized by generally higher equity prices, improved customer-driven activity and continued low levels of market volatility.

Principal Investments recorded net revenues of \$2.23 billion, due to a \$1.48 billion gain related to the firm's investment in the convertible preferred stock of Sumitomo Mitsui Financial Group, Inc. (SMFG) and \$753 million in gains and overrides from other corporate and, to a lesser extent, real estate principal investments.

#### Fourth Quarter

Net revenues in Trading and Principal Investments were \$4.10 billion, 43% higher than the fourth quarter of 2004 and 19% lower than the third quarter of 2005.

Net revenues in FICC were \$1.85 billion, 27% higher than the fourth quarter of 2004, primarily due to higher net revenues in interest rate products, credit products and, to a lesser extent, mortgages. Net revenues in commodities and currencies were strong, but lower compared with the fourth quarter of 2004. During the quarter, FICC operated in an environment characterized by solid customer-driven activity, generally narrow credit spreads, a flat yield curve and generally high energy prices.

Net revenues in Equities were \$1.40 billion, 37% higher than the fourth quarter of 2004, due to higher net revenues in the firm's customer franchise businesses, partially offset by lower net revenues in principal strategies. The increase in the firm's customer franchise businesses primarily reflected higher net revenues in derivatives, shares and convertibles. During the quarter, Equities operated in an environment characterized by strong customer-driven activity and higher equity prices. In addition, market volatility levels increased, but remained low.

Principal Investments recorded net revenues of \$852 million, reflecting a \$723 million gain related to the firm's investment in SMFG and \$129 million in gains and overrides from other corporate and real estate principal investments.

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

##### Full Year

Net revenues in Asset Management and Securities Services were \$4.75 billion for the year, 23% higher than 2004.

Asset Management net revenues were \$2.96 billion for the year, 16% higher than 2004, primarily due to higher management fees, driven by growth in assets under management. During the year, assets under management increased 18%, reflecting net asset inflows of \$63 billion across all asset classes as well as market appreciation of \$17 billion, primarily in equity assets.

Securities Services net revenues were \$1.79 billion for the year, 38% higher than 2004, primarily reflecting significantly higher global customer balances in securities lending and margin lending.

##### Fourth Quarter

Net revenues in Asset Management and Securities Services were \$1.23 billion, 32% higher than the fourth quarter of 2004 and 2% higher than the third quarter of 2005.

Asset Management net revenues were \$787 million, 32% higher than the fourth quarter of 2004, reflecting higher management fees, driven by growth in assets under management, and higher incentive fees. During the quarter, assets under management increased 2%, reflecting net asset inflows of \$8 billion, primarily in equity and money market assets as well as market appreciation of \$4 billion, primarily in equity assets.

Securities Services net revenues were \$447 million, 32% higher than the fourth quarter of 2004, as the firm's prime brokerage business continued to generate strong results, primarily reflecting significantly higher global customer balances in securities lending and margin lending.

## **Expenses**

Operating expenses were \$16.51 billion for 2005, 19% higher than 2004.

### **Compensation and Benefits**

Compensation and benefits expenses were \$11.69 billion for 2005, 21% higher than 2004. The ratio of compensation and benefits to net revenues for 2005 was 47.2% compared with 46.7% <sup>(3)</sup> for 2004. Employment levels increased 8% compared with the end of 2004 and 2% during the fourth quarter.

### **Non-Compensation Expenses**

#### **Full Year**

Non-compensation expenses were \$4.82 billion for 2005, 14% higher than 2004. Excluding non-compensation expenses related to consolidated entities held for investment purposes <sup>(4)</sup>, non-compensation expenses were 8% higher than 2004, primarily due to higher brokerage, clearing and exchange fees, reflecting higher transaction volumes in FICC and Equities, increased professional fees, reflecting higher legal and consulting fees, and higher other expenses, primarily reflecting increased levels of business activity and higher charitable contributions.

Non-compensation expenses in 2005 included \$37 million of net provisions for litigation and regulatory proceedings (included in other expenses) and \$36 million of real estate costs associated with the relocation of office space (included in occupancy). Non-compensation expenses in 2004 included \$103 million of net provisions for litigation and regulatory proceedings, \$62 million in connection with the firm's establishment of a joint venture in China (included in market development) and \$41 million of real estate exit costs associated with reductions in the firm's office space (included in occupancy and depreciation and amortization).

#### **Fourth Quarter**

Non-compensation expenses were \$1.37 billion, 9% higher than the fourth quarter of 2004 and 10% higher than the third quarter of 2005. Excluding non-compensation expenses related to consolidated entities held for investment purposes <sup>(4)</sup>, non-compensation expenses were 2% higher than the same prior year period, primarily due to higher brokerage, clearing and exchange fees, reflecting higher transaction volumes in Equities and FICC, and increased professional fees, reflecting higher consulting and legal fees.

