

Confidential Presentation to:

The Board of Directors

2008 Financial Plan Summary

January 29, 2008

LEHMAN BROTHERS

Budget, Capital, and Risk Summary (I)

- ◆ In October 2007, the Firm went through a detailed, bottom-up process to create a budget for 2008
 - Revenue of \$23.0 billion, up 19% relative to 2007
 - Non-personnel expense of \$4.2 billion, up 12% relative to 2007, primarily due to occupancy (e.g., additional office space both in the US and overseas), technology (e.g., upgrade and expansion of data centers), and increase in transaction volumes
 - Compensation-to-revenue ratio of 49.3%, consistent with prior years, enabling the Firm to pay its existing franchise up 5% and invest \$300 million in growth initiatives, primarily outside the U.S.

- ◆ With current market conditions, which have worsened since last October, the Management has revised the budget
 - Revenue of \$21.0 billion, down \$2.0 billion from the original but up \$1.7 billion (or 9%) relative to 2007
 - Non-personnel expense essentially unchanged (NPE expenses primarily driven by prior years' decisions and have very limited scope for reduction)
 - The Executive Committee of the Firm and the Compensation & Benefits Committee of the Board are discussing the appropriate budget for compensation expenses in 2008
 - Additionally, the Management is considering modifications to the Firm's equity award plan to make it less costly in the long run. The change may give rise to one-off transition costs

Budget, Capital, and Risk Summary (II)

- ◆ The current budget presented by the Management and reviewed and approved by the Finance Committee of the Board sets the following performance targets
 - EPS of \$7.01 to 7.89, slightly lower than in 2007, but well ahead of First Call estimate of \$6.80
 - Book value per share of \$43.7 to \$44.6, up 11-13% from \$39.45 in 2007
 - ROE of 17.6% to 19.7%, down from 21.5% in 2007

- ◆ To support the growth, the Firm will deploy additional resources
 - Net assets are to increase by \$60 billion, to \$433 billion, lead by Prime Services, Equities, and Principal Investing
 - Risk Appetite to increase to \$4.0 billion from \$3.5 billion in 2007, driven by increase in central capacity
 - Long-term debt issuance of \$51 billion, of which \$24 billion will be in public debt markets (\$7 billion of public debt issuance already completed)

- ◆ As in previous years, the Firm is expected to repurchase sufficient number of shares to fully offset dilution associated with the equity-based awards, but may accelerate or delay repurchases depending on market conditions. We recommend the Board to approve repurchases of up to 100 million shares, same authorization as in 2007

- ◆ The Firm is planning an increase in annual common stock dividend to \$0.68 per share from \$0.60 in 2007, a 13% increase, continuing the long-term policy of annual dividend increases while preserving financial flexibility

2008 Budget Scenarios

Budget

The Firm's revised 2008 Budget is based on \$21.0 billion revenue forecast. The two scenarios below reflect different growth strategies

Financial Performance

\$ billions	2007	2008	vs. 2007	2008	vs. 2007	2008	vs. 2007
	Actuals	Initial Budget		Revised Budget (A)		Revised Budget (B)	
Net Revenues	19.3	23.0	19%	21.0	9%	21.0	9%
Personnel Expenses	9.5	11.3	19%	10.4	9%	11.1	17%
Non-Personnel Expenses	3.8	4.2	12%	4.2	11%	4.2	12%
Total Expenses	13.2	15.5	17%	14.5	10%	15.3	15%
Pretax Income	6.0	7.5	24%	6.5	8%	5.7	-5%
Income Tax	1.8	2.3	27%	2.0	8%	1.7	-6%
Net Income	4.2	5.1	23%	4.5	7%	4.0	-5%
Performance Indicators							
First Call Revenue Estimate, \$B ⁽¹⁾		19.3		19.3		19.3	
EPS, \$/share	\$7.26	\$8.99	24%	\$7.89	9%	\$7.01	-3%
First Call EPS Estimate, \$/share ⁽¹⁾		\$6.80		\$6.80		\$6.80	
ROE	20.8%	21.5%	+0.7pp	19.7%	(1.1)pp	17.6%	(3.2)pp
ROTE	25.7%	26.3%	+0.6pp	24.3%	(1.3)pp	21.9%	(3.8)pp
Average Common Equity, \$B	19.8	23.7	20%	22.6	14%	22.4	13%
Diluted Share Count, million	568.3	568.5	-	563.7	-	563.7	-
Compensation / Net Revenue	49.3%	49.3%	-	49.3%	-	52.8%	-
NPE / Net Revenue	19.5%	18.3%	(1.2)pp	19.9%	+0.4pp	20.0%	+0.5pp
Pretax Margin	31.2%	32.4%	+1.2pp	30.8%	(0.4)pp	27.2%	(4.0)pp
Book Value Per Share, \$/share	\$39.45	\$47.43	20%	\$44.64	13%	\$43.72	11%

1. First Call estimate as of January 17, 2008

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Growth Opportunities By Business

Budget

Fixed Income

- ◆ Focus on Commodities and Fx and expansion into newer product areas (e.g., Infrastructure, Insurance)
- ◆ Continued geographical expansion into China, India, Singapore, Australia, Eastern Europe, Scandinavia, Spain, Middle East and Latin America
- ◆ Development of eCommerce platform (e.g., FXLive)

Investment Banking

- ◆ Global expansion with particular focus on Australia, Brazil, Canada, India, Middle East and Russia
- ◆ Focus on Financial Institutions, Natural Resources and Industrials
- ◆ Global fee share expected to increase to 4.8% from 4.4% at the end of 2007

Principal Investing

- ◆ Build out of a scalable origination and investing platform – particularly in Europe and Asia
- ◆ Asset class expansion (e.g., Insurance, Emerging Markets)

Equities

- ◆ Expansion into Asia, Emerging Markets (Brazil, Mexico, Russia, Turkey and South Africa)
- ◆ Further diversification of the business franchise by growing Prime Services
- ◆ Investment in technology to create a market leading trading platform providing additional capacity and speed to the Firm's clients

Investment Management

- ◆ 27% growth of Assets Under Management to \$358 billion by the end of 2008
- ◆ 45% increase in Asset Management net flows to \$45bn in 2008
- ◆ Rolling out of new Private Equity funds
- ◆ Build out of the European asset management platform

Infrastructure & Technology

- ◆ Reengineer front-to-back trade processing for Equity Derivatives and Fixed Income growth
- ◆ Continue to migrate functionality to modularized components to reduce reliance on mainframe processes
- ◆ Improve scalability and control of middle office processes

Market Developments And Competitive Dynamics

Budget

Current environment presents a unique long-term growth opportunity for the Firm

- ◆ The market environment has become more challenging in the past three months
 - Economic growth slowing down in all major markets
 - U.S. housing crisis more severe than previously anticipated
 - Lack of activity seen in several fixed income markets, e.g., real estate, leveraged loans, sub-prime-related products
 - Outlook uncertainty is much higher than usual

- ◆ The Firm's competitors, with the notable exceptions of Goldman Sachs and JPMorgan Chase, have sustained large losses, weakening their competitive position
 - Despite recent capital raising efforts, most competitors are still capital-constrained; more likely to retrench to the core of their franchises than to invest in growth
 - Senior management changes (e.g., BofA, Bear Stearns, Citigroup, Merrill Lynch, Morgan Stanley and UBS), causing organizational turmoil
 - Significant pool of talent will become available, as many of our competitors' top performers become disillusioned with their firms' strategies and risk management

- ◆ This presents an opportunity for the Firm to pursue a countercyclical growth strategy, similar to what it did during the 2001-2002 downturn, to improve its competitive position and, over time, generate superior returns for our shareholders

Share Repurchase Plan

- ◆ The Firm is committed to fully offsetting dilution associated with employee awards and to effective utilization of capital. Between 2004 and 2007, we repurchased shares in excess of dilution requirements, reducing Book Value shares from 551 million to 543 million⁽¹⁾
- ◆ In 2008, we intend to fully offset dilution, but may accelerate or delay repurchases depending on the market conditions
- ◆ We request the Board to approve repurchases of up to 100 million common shares for the management of the Firm's equity capital, including offsetting dilution due to employee awards, subject to market conditions. This authorization supersedes the previous share repurchase authorization

Share Repurchase Plan

(# of Shares In Millions)	2004	2005	2006	2007	2007-08 Change		
					2008B	# of Shares	%
RSU Amortization	24	25	19	34	42	8	22%
Option Exercises	34	51	22	15	19	4	26%
Equity Award Dilution	58	76	42	50	61	12	23%
Acquisitions & Other			-	2	-	(2)	
Total Dilution	58	76	42	51	61	10	19%
Repurchases to Offset Current Year Dilution	58	76	42	43	61		
Accelerated Repurchases	-	4	11	-	-		
Total Repurchases	58	81	53	43	61	18	42%
Book Value Shares	551	546	534	543	543	0	0%

1. In 2007 we repurchased less than dilution which reflects the acceleration of repurchases in 2004-2006

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Impact of Share Repurchases and Equity Awards on Equity

Capital Plan

- ◆ In 2008, we enhanced our share repurchase program by entering into a short-term structured buyback contract. The transaction allows us to repurchase shares at a discounted price or gain equity premium
- ◆ We project the net impact of share repurchases and equity awards on equity to be approximately \$766 million. The actual cost will be affected by the number of options exercised in 2008 and the share price dynamics

Net Impact of Equity Awards and Share Repurchases On Equity

(\$ millions)	2004	2005	2006	2007	2008		
					2008B	Δ	%
Impact on Stockholders' Equity							
RSU Amortization / Option Expense	800	1,054	923	1,953	1,958	5	0%
Options Exercised (Proceeds)	626	1,245	637	444	610	167	38%
Tax Benefit on Options Exercised	285	537	385	239	284	45	19%
Tax Benefit on RSU Issuances	216	467	451	202	427	225	112%
Increase in Equity from Employee Awards	1,927	3,304	2,396	2,838	3,279	441	16%
Cost of Share Repurchases	(2,267)	(4,157)	(3,681)	(3,178)	(4,045)	(867)	27%
Net Impact on Equity	(341)	(853)	(1,285)	(341)	(766)	(426)	125%
Number of Shares Repurchased, millions	58	81	53	43	61	18	42%
Average Purchase Price Per Share	\$39	\$52	\$70	\$74	\$66	(\$8)	-10%

2008 Dividend Increase Recommendation (\$0.08 increase)

Capital Plan

- ◆ Similar to previous years, we propose to continue our approach of maintaining strong record of dividend increases while keeping a low payout ratio
 - Signal management’s confidence in the financial health of the Firm
 - Position Lehman Brothers as a “growth” stock

- ◆ We recommend increasing Lehman Brothers’ annual common stock dividend from \$0.60 in 2007 (\$0.15 per quarter) to \$0.68 in 2008 (\$0.17 per quarter), a 13% increase. The proposed dividend would return approximately \$360 million of retained earnings to shareholders
 - Projected dividend payout ratio¹ remains below 10%, which we believe to be an important threshold for maintaining flexibility, at approximately 9.2%
 - Projected dividend yield of 1.0%, lower than, but consistent with, peer average of 1.2%
 - Dividend growth consistent with revenue and income growth

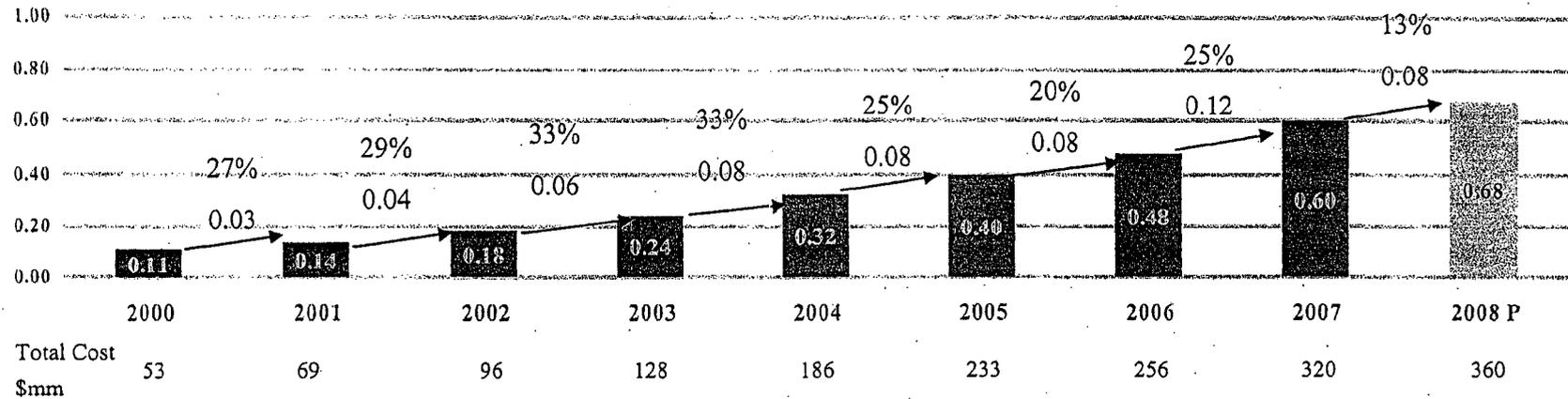
1. Payout ratio calculated as a ratio of common dividends to net income applicable to common.

2. Dividend yield calculated as a ratio of dividends per share / projected average stock price.

2008 Dividend Increase Recommendation (\$0.08 increase)

Capital Plan

Lehman's Dividend Trend and 2008 Recommendation, \$ / Share



Peer Group Dividend Benchmarking

	Lehman Brothers	Goldman Sachs	Morgan Stanley	Merrill Lynch	Bear Stearns	
Dividend per Share	Last Announcement	February 1, 2007	December 18, 2007	December 19, 2007	January 28, 2008	December 20, 2007
	Increase of	13%		No Change		
	Projected 2008	\$0.68	\$1.40	\$1.08	\$1.40	\$1.28
Dividend CAGR	5 Year	27%	24%	3%	17%	16%
	2002 - 2007					
Payout Ratio¹	2007	9.8%	5.8%	12.8%	49.9%	10.6%
	Lehman 2008 B	9.2%				
Dividend Yield^{2,3}	2007	0.9%	0.7%	1.6%	1.8%	0.9%
	Lehman 2008 B	1.0%				

1. Calculated as: Common Dividends Paid / Net Income Applicable to Common. Since 2007 full year data not yet available, 2007 data is Q3 2007 YTD. Dividend Yield calculated based on average stock price during period

2. Dividend yield based on current stock price

3. Lehman 2008 budgeted year-end stock price of \$77.

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Capital Raising Alternatives

We are monitoring potential alternative sources of capital, however, we believe that currently capital raising is not in the best interests of our shareholders.

- ◆ Significant capital has been raised by several banks and broker-dealers over the past three months. The actions have been motivated by the need to shore up capital ratios, negatively affected by large losses

- ◆ For Lehman, aggressive capital raising is not necessary
 - Capital raising leads to dilution of existing shareholders
 - The Firm remains adequately capitalized
 - Capital generated by earnings and issuance of capital securities sufficient to support growth

- ◆ Nonetheless, we are continuously monitoring opportunities and are prepared to take action if/when appropriate
 - Slowing down buybacks
 - Tapping into alternative capital sources, such as sovereign wealth funds and Asian banks

Risk Appetite

Risk

We recommend establishing a 2008 Risk Appetite limit of \$4.0 billion, up 14% relative to 2007. The Risk Appetite limits allocated to businesses are unchanged, while \$0.5 billion central capacity will allow the Firm to focus its risk-bearing capacity more strategically.

Risk Appetite Limits, \$millions

Business	Limits	
	2007 Year End	2008 Budget
Risk Appetite		
Fixed Income	2,500	2,500
Equities	800	800
Capital Markets Prime Services	150	150
Investment Mgt/ Principal Investing	2,000	2,000
Investment Banking	100	100
Central Capacity		500
Total Risk Appetite	3,500	4,000
Risk Appetite Diversification %	37%	28%
Total VaR (95% 1-day)	135	150

Risk Appetite is an aggregate risk measure which includes Market Risk, Event Risk, and Counterparty Credit Risk, and assumes a 95% confidence level over a 1-year time horizon