

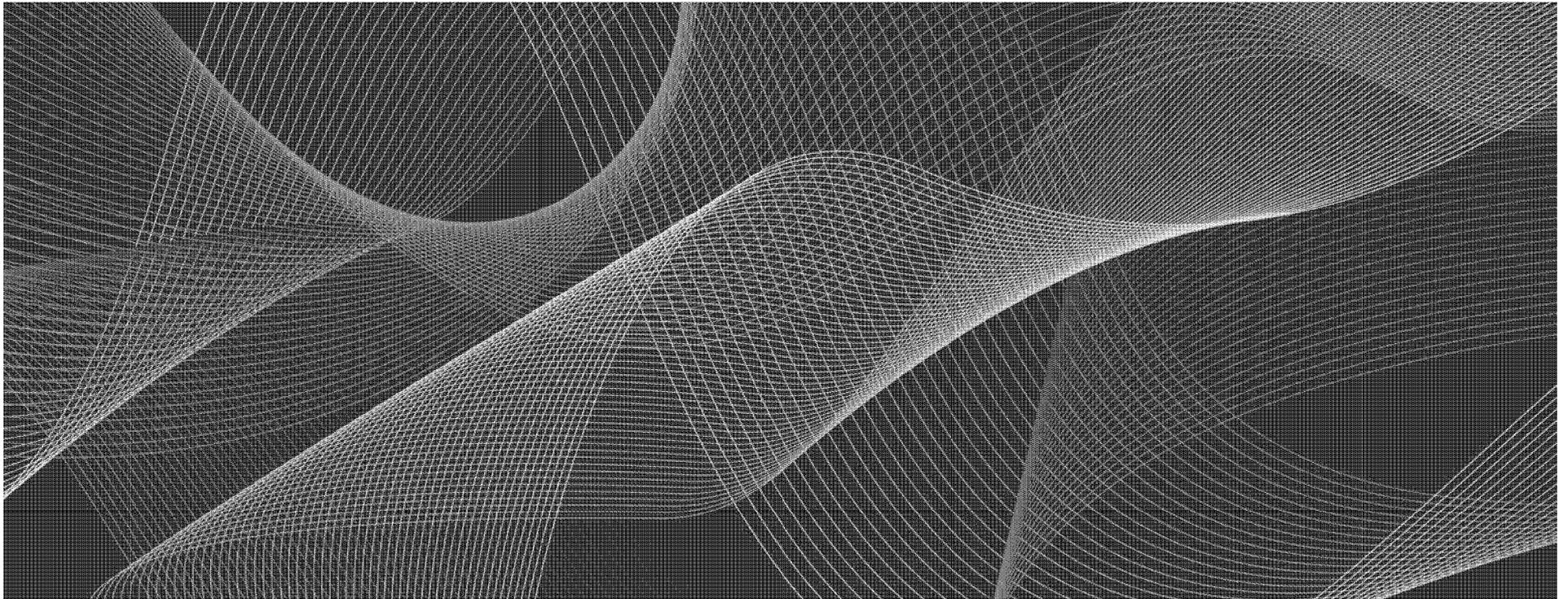
LEHMAN BROTHERS

Asia Pacific  
25 Jul 2008



**Draft – For Discussion only**

# Strategic Partnership Discussion Paper



Confidential Presentation

# Deal Structure Summary

## Involves cross-holdings of LB and CITIC Securities, JV in Asia, and JV in China

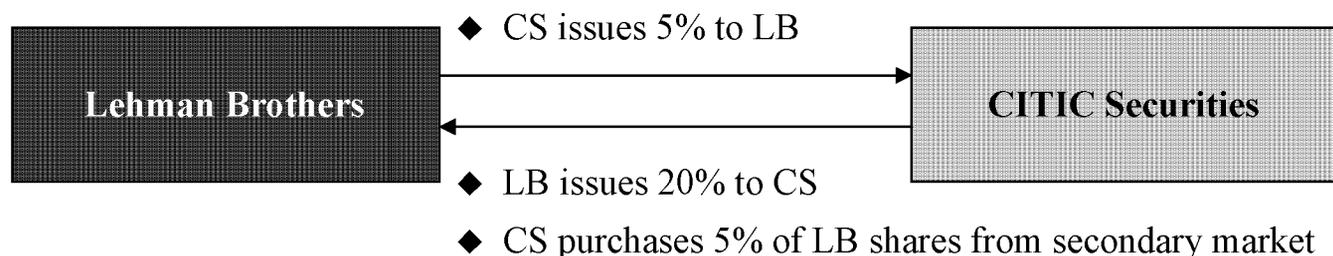
	Targeted Stake	Comment	Payment (23 Jul 08 price)
1	Parent Level cross Shareholding	LB issues 20% to CS CS issues 5% to LB CS purchases 5% LB secondary shares from mkt.	CS pays LB \$3.66bn LB pays CS \$1.24bn CS pays mkt. \$916mm
2	Asia JV (excl. China)	CS holds 33% of LB Asia	CS pays LB \$2.20bn *
3	China JV		
	- IBD JV	LB holds 33% of CS IBD	LB pays CS \$600m
	- Fund Mgmt JV	LB holds 49% of CS Fund Mgmt.	LB pays CS \$75mm

\* Valuation of fee based business only; valuation of proprietary businesses in Equities, Fixed Income, and Principal Investment Division to be discussed

- ◆ The Strategic partnership between Lehman Brothers (LB) and CITIC Securities (CS) would involve the following three components:
  - Cross-shareholding at parent level
    - LB would issue 20% of new shares (post issuance) to CS
    - CS would issue 5% of new shares (post issuance) to LB
    - CS would purchase 5% of secondary shares (post issuance) from the market
  - For Asia JV, CS would assume 33% ownership in LB Asia's franchise
  - For China JV, LB would assume:
    - 33% ownership in CS's investment banking franchise in China, and
    - 49% ownership in CS's fund management franchise in China

# Parent Level Cross-Shareholding

**LB would hold 5% of CITIC Securities, while CITIC Securities would in turn hold 25% of LB**

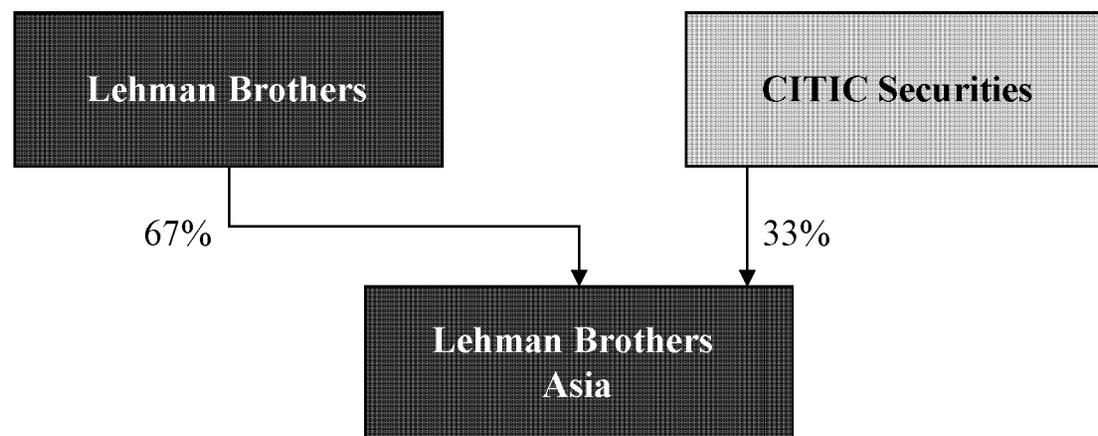


- ◆ LB and CS to cross hold each other at parent level
- ◆ CS would like to hold no less than LB employees' holdings in LB post transaction
  - LB employee ownership at ~20-25% post Jun 08 stock issuance; pre Jun 08, LB employee ownership at ~30%
- ◆ LB issuance of 20% new shares to CS would be valued at **\$3.66bn** based on 23 Jul 08 LB closing share price of \$21.10
  - If consensus Dec 08 target share price of \$38.11 were considered, the 20% stake would be valued at **\$6.62bn**
  - Post issuance, LB employee ownership would be diluted to less than 20%
- ◆ CS issuance of 5% new shares to LB would be valued at **\$1.25bn** based on 23 Jul 08 CS closing share price of \$24.18
  - If consensus Dec 08 target share price of \$36.46 were considered, the 5% stake would be valued at **\$1.96bn**
- ◆ A net payment of **\$2.42bn** would be paid by CS to LB (based on 23 Jul 08 share price), or **\$4.66bn** (based on consensus Dec 08 target price)
- ◆ In addition, CS would purchase 5% of LB secondary share from the market, valued at **\$916mm** based on 23 Jul 08 closing share price of \$21.1, or **\$1.65bn** based on consensus Dec 08 target price

# Asia Joint Venture (excluding China)

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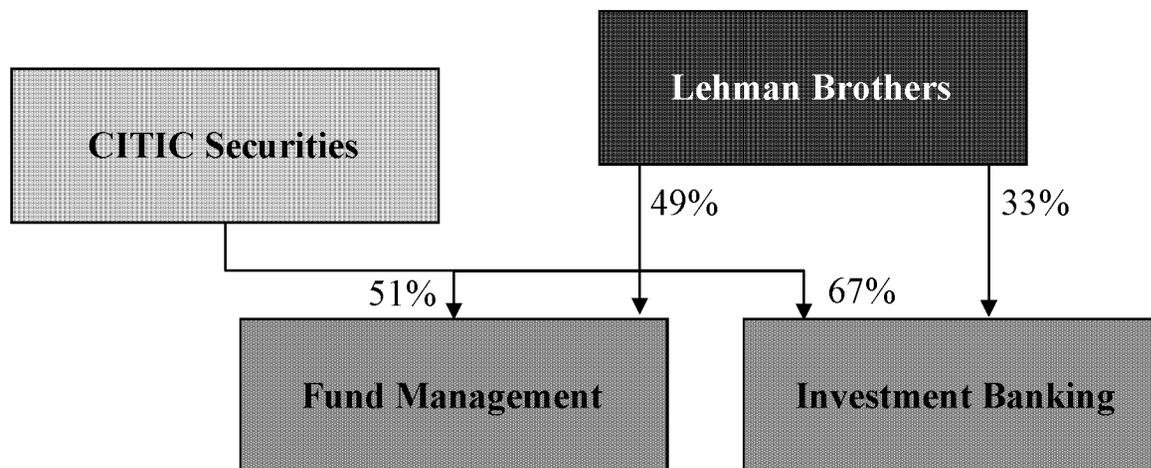
Asia JV would involve CITIC Securities holding 33% stake in LB's Asia franchise



- ◆ CITIC Securities to assume 33% ownership in LB's present Asia Pacific franchise
- ◆ Based on average earning multiple of 14.3x for comparable regional broker/investment banks (weighted based on LB's revenue in respective countries), 33% stake in LB Asia Pacific franchise would be valued at **\$2.2bn plus valuation of prop trade and principle investment businesses (to be discussed)**
  - FY07 net income for fee-based businesses only (~\$467mm)
  - If proprietary net income (\$905mm in FY07) were to be applied the same multiple, LB Asia franchise would be valued at \$12.9bn

# China Joint Venture

LB would hold 33% in CITIC Securities' China Investment Banking franchise, and 49% in its Fund Management franchise



- ◆ LB to assume 33% in CITIC Securities' investment banking only franchise and 49% in its fund management franchise
  - LB would not assume any stake in CITIC Securities' brokerage business (can explore cooperation on a consultancy service agreement basis)
- ◆ 33% stake in CITIC Securities' investment banking franchise valued at **\$600mm**
  - Investment banking franchise valued at \$1.80bn based on FY08E revenue of ~\$300mm, net margins of 40% and forward P/E of 15x
- ◆ 49% stake in CITIC Securities' fund management franchise valued at **\$70mm**
  - Franchise valued at \$142mm based on FY08E revenue of ~\$19mm, net margins of 50% and forward P/E of 15x

# Key Consideration & Clarifications

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- ◆ CS's investment in LB:
  - Approval of the Committee on Foreign Investment in the United States
  - Threshold for tender offer
- ◆ China onshore JV:
  - Extent of LB's management participation
  - How the indirect stake in CS will be accounted for by CSRC (thus potentially limiting LB's direct stake in the respective JV(s) to a level lower than the max cap)
  - CS's carving out of the brokerage business to a subsidiary or maintaining it under the list co.