

This amended and restated Offering Circular is dated as of 9 August 2006 and replaces the Offering Circular dated as of 30 August 2005 and the original Offering Circular dated as of 9 August 2006.

**LEHMAN BROTHERS FINANCE S.A.**

*(Incorporated in Switzerland)*

**LEHMAN BROTHERS SECURITIES N.V.**

*(Incorporated in The Netherlands Antilles)*

**LEHMAN BROTHERS (LUXEMBOURG) EQUITY FINANCE S.A.**

*(Incorporated in the Grand Duchy of Luxembourg)*

**LEHMAN BROTHERS BANKHAUS AG**

*(Incorporated in the Federal Republic of Germany)*

**Warrant and Certificate Programme**

Guaranteed by

**LEHMAN BROTHERS HOLDINGS INC.**

*(Incorporated in the State of Delaware)*

Under the terms of their Warrant and Certificate Programme (the "**Programme**"), Lehman Brothers Finance S.A., Lehman Brothers Securities N.V., Lehman Brothers (Luxembourg) Equity Finance S.A. and Lehman Brothers Bankhaus AG (including when acting through its London Branch) (each an "**Issuer**" and together the "**Issuers**") may from time to time issue warrants ("**Warrants**") or certificates ("**Certificates**" and, together with Warrants, "**Securities**") of any kind including, but not limited to, Warrants or Certificates relating to: a specified index or a basket of indices ("**Index Securities**"); a specified share or basket of shares or a specified depositary receipt in respect of a specified share or a basket of depositary receipts in respect of the shares of a basket of companies (together "**Share Securities**" unless otherwise specified as "**Depositary Receipt Securities**"); a specified debt instrument or basket of debt instruments ("**Debt Instrument Securities**"); a specified currency or basket of currencies ("**Currency Securities**"); a specified interest rate ("**Interest Rate Securities**"); or a specified commodity or basket of commodities ("**Commodity Securities**"). Each issue of Securities will be issued on the terms set out herein which are relevant to such Securities under "Terms and Conditions of the Securities" (the "**Conditions**") and on such additional terms as may be set out in the final terms (the "**Final Terms**") which, with respect to Warrants or Certificates which, under the Directive 2004/39/EC on Markets in Financial Instruments ("**MiFID**") are to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange or listed on any other stock exchange (including the SWX Swiss Exchange), will be delivered to such stock exchange on or prior to the date of listing of such Securities. All Securities of each Issuer are guaranteed by Lehman Brothers Holdings Inc. (the "**Guarantor**" or "**LBHI**").

None of the Securities, the Master Guarantees (as such expression is defined in the Conditions) and any securities to be delivered upon exercise or settlement of the Securities have been, nor will be, registered under the US Securities Act of 1933 (the "**Securities Act**"), or any state securities laws. Securities may not be offered, sold or delivered within the United States or to US persons (as defined in Regulation S under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Dealers may arrange for the offer and sale of the whole or a portion of the Securities of a certain series (each a "**Series**") within the United States exclusively to persons reasonably believed to be "qualified purchasers" as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the

"**Investment Company Act**") that are also (i) qualified institutional buyers ("**QIBs**") (as defined in Rule 144A under the Securities Act) in reliance on the exemption provided by Rule 144A under the Securities Act or (ii) "accredited investors" (as defined in Rule 501(a) under the Securities Act) in the United States under restrictions and other circumstances reasonably designed to preclude a distribution that would require registration of the Securities under the Securities Act, in reliance on Regulation D thereunder. See "Offering and Sale". Each purchaser of Securities offered within the United States is hereby notified that the offer and sale of such Securities to it may be being made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A. In certain circumstances, exercise or settlement of Securities will be conditional upon certification as to non-US beneficial ownership. See "Terms and Conditions of the Securities".

This amended and restated Offering Circular has been approved by the Luxembourg Commission de Surveillance du Secteur Financier (the "**CSSF**"), which is the Luxembourg competent authority for the purpose of Directive 2003/71/EC (the "**Prospectus Directive**") and relevant implementing measures in Luxembourg, as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in Luxembourg for the purpose of giving information with regard to the issue of Securities under the Programme during the period of twelve months after the date hereof. Application has been made for Securities issued under the Programme to be admitted to trading, under MiFID, on the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange.

In respect of Securities to be issued under the Programme by any Issuer and offered to the public in the European Economic Area ("**EEA**") or admitted to trading on a regulated market of an EEA stock exchange, where "regulated market" has the meaning given to such term under Article 1.13 of the Investment Services Directive (1993/22/EEC) (an "**EEA Regulated Market**"), Securities may be issued in a denomination lower than EUR1,000 (or its equivalent in any other currency).

Securities to be issued pursuant to the Programme may have a minimum denomination specified in the relevant Final Terms or Prospectus (each term as defined below), subject to compliance with the Prospectus Directive and all other applicable legal and/or regulatory and/or central bank requirements.

Each series of Securities (other than Securities sold to "accredited investors" in the United States that are not QIBs) will be represented by one or more global warrants or certificates (each a "**Global Security**"). In the event that sales of a series of Securities will not be made within the United States or to US persons, a Global Security will be issued and deposited with a common depository for Euroclear Bank S.A./N.V. of 1 Boulevard du Roi Albert 11, B1210 Brussels, Belgium, as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme, Luxembourg of 42 Avenue JF Kennedy L1855 Luxembourg, Luxembourg ("**Clearstream, Luxembourg**"), or with a common depository for any additional or alternative clearing system which is specified in an applicable Final Terms, on the date of issue of the relevant Securities. In the event of sales of Securities in the United States to QIBs, one or more Global Securities (issued pursuant to either or both of Regulation S and Rule 144A, respectively) will be required, each of which will be deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company of 55 Water Street, New York, NY 10041 USA ("**DTC**") and the Securities of such series will be cleared through DTC, Euroclear and Clearstream, Luxembourg. In the event that Securities are sold to "accredited investors" in the United States that are not QIBs, such Securities will be issued and registered in definitive form. Save as aforesaid, Definitive Securities will not be issued unless specified in the applicable Final Terms.

**Prospective investors of Securities should ensure that they understand the nature of the relevant Securities and the extent of their exposure to risks and they should consider the suitability of the relevant Securities as an investment in the light of their own circumstances and financial**

**condition. Securities involve a high degree of risk, including the potential risk of expiring worthless. Potential investors should be prepared in certain circumstances to sustain a total loss of the purchase price of their Securities. See "Risk Factors relating to Securities" on pages 14 to 24.**

Arranger and Dealer  
**LEHMAN BROTHERS**

Each Issuer and the Guarantor accepts responsibility for the information contained in this Offering Circular. Each Issuer and the Guarantor declare that having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is, to the best of their knowledge, in accordance with facts and contains no omission likely to affect its import.

The relevant Final Terms will (if applicable) specify the nature of the responsibility taken by the relevant Issuer for the information relating to the underlying asset (or basket of assets), Commodity (or basket of Commodities), Currency (or basket of Currencies), Debt Instrument (or basket of Debt Instruments), depositary receipt (or basket of depositary receipts), Index (or basket of Indices), Share (or basket of Shares) (as all such terms are defined in the Conditions) or other item(s) (the "**Underlying**") to which the Securities relate which is contained in such Final Terms.

A *pro forma* Final Terms is set out herein on pages 30 to 45. A Final Terms for an issue of Securities will specify with respect to the issue of Securities to which it relates (and where relevant), *inter alia*, the specific name of the Securities, the aggregate number and type of the Securities, the date of issue of the Securities, the issue price, the Underlying to which the Securities relate, the strike price and exercise period or date (in the case of Warrants) and certain other terms relating to the offering and sale of the Securities. The Final Terms supplements the Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, supplement, replace or modify the Conditions. The Final Terms relating to an issue of Securities will be attached to, or endorsed upon, the Global Security representing such Securities or any Securities in definitive form, as the case may be.

Each issue of Securities will entitle the holder thereof (on due exercise or settlement notification and subject to certification, where appropriate) either to receive a cash amount (if any) calculated in accordance with the relevant terms and/or to receive physical delivery of certain assets (which may be made against payment of a specified sum) all as set forth herein and in the applicable Final Terms.

No person is authorised to give any information or to make any representation not contained in or not consistent with this Offering Circular, an applicable Final Terms or any other information supplied in connection with the Programme and, if given or made, such information or representation must not be relied upon as having been authorised or made by all or any of the Issuers, the Guarantor, the Arranger, any dealer for an issue of Securities (as applicable to such issue of Securities, the "**Dealer**" and, if more than one, the "**Dealers**", and each a "**Dealer**") or the Calculation Agent (as described in the applicable Final Terms). The Dealer(s) in relation to an issue of Securities will be specified in the applicable Final Terms. This Offering Circular does not constitute an offer or solicitation, and may not be used for the purposes of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation, and no action is being taken to permit an offering of the Securities or the distribution of this Offering Circular in any jurisdiction where any such action is required.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Information Incorporated by Reference*" on page 26). This Offering Circular shall be read and construed on the basis that such Information is incorporated and forms part of this Offering Circular.

This Offering Circular (together with supplements to this Offering Circular from time to time (each a "**Supplement**" and together the "**Supplements**")) comprises four base prospectuses in respect of each of the Issuers for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regards to the Issuers and the Guarantor.

Certain series of Warrants may create options exercisable by the relevant holder. In such circumstances there is no obligation upon any holder to exercise the Warrants nor, in the absence of such exercise, any obligation upon the relevant Issuer to pay any amount to any Holder (as defined in the Conditions). The Warrants will be exercisable in the manner set forth herein and in the applicable Final Terms. Upon exercise of Warrants and as a condition of settlement of payments and deliveries in respect of Certificates, the Holder may be required to certify (in accordance with the provisions outlined in "Offering and Sale" below) that it is not a US person. Securities may be issued to a single Dealer or to more than one Dealer on a syndicated basis. Also, in certain circumstances, another company which is a subsidiary or holding company of the relevant Issuer or any subsidiary of any such holding company may be substituted as the principal obligor under the Securities and a subsidiary or holding company of the Guarantor or any subsidiary of any such holding company may be substituted as guarantor in respect of the Securities. See "Terms and Conditions of the Securities - Substitution".

Each Issuer, the Guarantor, or any Dealer or any affiliates of any of them may hold, retain, buy or sell the Underlying and may hold, retain, buy or sell the Securities of each issue and/or enter into transactions relating thereto or derived therefrom, from time to time, in such amounts, with such purchasers and/or counterparties and at such prices (including at different prices) and on such terms as any such entity may determine as part of its business and/or any hedging transactions in connection with the arrangements described in this Offering Circular or otherwise *provided, however, that* where the Issuer is Lehman Brothers Finance S.A. (1) it may not sell or offer any Securities to any person other than a bank or a securities dealer subject to State supervision within the meaning of the Swiss Stock Exchanges and Securities Trading Act of 24 March 1995 ("**SESTA**") and the Swiss Ordinance on Stock Exchanges and Securities Trading of 2 December 1996 ("**SESTO**"); (2) it may not act as a dealer or as a co-dealer for any issue of Securities; and (3) it may not act as a market maker within the meaning of SESTA and SESTO in respect of any Securities, or sell or offer any Securities on the secondary market within the meaning of SESTA and SESTO. There is no obligation upon the relevant Issuer or any Dealer to sell all of the Securities of any issue. The Securities of any issue may be offered or sold from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the relevant Issuer and/or the Dealer(s), as the case may be, subject as provided above. In addition, each Issuer or the Guarantor or any Dealer or any affiliate of any of them may enter into arrangements with Basket Companies (as defined in the Conditions) the effect or consequence of which may be to affect the price of the Underlying and/or the Securities or which otherwise may have an effect on the Underlying, the Basket Companies and/or the Securities.

Neither the Arranger nor any Dealer has separately verified the information contained herein or in any applicable Final Terms. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Arranger or any Dealer as to the accuracy or completeness of the information contained in this Offering Circular or in any applicable Final Terms or any other information provided by each Issuer and the Guarantor. Neither the Arranger nor any Dealer accepts any liability in relation to the information contained in this Offering Circular or in any applicable Final Terms or any other information provided by each Issuer and the Guarantor in connection with the Programme or any applicable Final Terms.

Neither this Offering Circular nor any other information supplied in connection with the Programme (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuers, the Guarantor, the Arranger or any Dealer or the Calculation Agent (if any) (as described in the applicable Final Terms) that any recipient of this Offering Circular (or any other information supplied in connection with the Programme) should purchase any Securities. Each investor contemplating purchasing any Securities should make its own independent investigation of the

financial condition and affairs, and its own appraisal of the creditworthiness, of each Issuer and the Guarantor. Investors should review, *inter alia*, the most recently published annual report and accounts of the relevant Issuer and the Guarantor when deciding whether or not to purchase any Securities. Neither this Offering Circular nor any other information supplied in connection with the Programme constitutes an offer or an invitation by or on behalf of each Issuer, the Guarantor, the Arranger and/or any Dealer or any person to subscribe for or to purchase any Securities.

The delivery of this Offering Circular does not at any time imply that the information contained herein concerning each Issuer and/or the Guarantor is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. Neither the Arranger nor any Dealer undertakes to review the financial condition or affairs of any of the Issuers and/or the Guarantor during the life of the Programme.

The Securities have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission in the United States nor has the Securities and Exchange Commission or any state securities commission passed upon the accuracy or the adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States.

In this Offering Circular, references to "**US Dollars**", "**US\$**", "**\$**", "**Dollars**", "**USD**" and "**cents**" are to the lawful currency of the United States of America, references to "**€**", "**EUR**" or "**euro**" are to the single currency introduced at the start of the third stage of European Economic Monetary Union pursuant to the Treaty establishing the European Communities, as amended and references to "**CHF**" and "**Swiss francs**" are to the lawful currency of Switzerland.

## CONTENTS

Summary Of This Offering Circular .....	8
Risk Factors.....	14
Available Information .....	25
Information Incorporated By Reference.....	26
General Description Of The Programme .....	29
Form Of Final Terms.....	30
Terms And Conditions Of The Securities .....	46
Use Of Proceeds .....	91
Lehman Brothers Finance S.A. ....	92
Lehman Brothers Securities N.V. ....	97
Lehman Brothers (Luxembourg) Equity Finance S.A. ....	102
Lehman Brothers Bankhaus AG.....	106
Description Of The Guarantor .....	112
Summary Financial Information Of Lehman Brothers Holdings Inc.....	114
Offering And Sale.....	116
Taxation .....	125
General Information .....	139
Appendix A .....	143

## SUMMARY OF THIS OFFERING CIRCULAR

*This summary must be read as an introduction to this Offering Circular and any decision to invest in the Securities should be based on a consideration of this Offering Circular as a whole. Following the implementation of the relevant provisions of the Prospectus Directive (Directive 2003/71/EC) in each Member State of the European Economic Area, no civil liability will attach to the responsible persons in any such Member State solely on the basis of the summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Offering Circular. Where a claim relating to the information contained in this Offering Circular is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Offering Circular before the legal proceedings are initiated.*

**Issuers:** Lehman Brothers Finance S.A., Lehman Brothers Securities N.V., Lehman Brothers (Luxembourg) Equity Finance S.A. and Lehman Brothers Bankhaus AG (including when acting through its London Branch).

A description of each Issuer is set out in the appropriate sections of this Offering Circular.

Summary financial information in respect of each Issuer is set out on pages 94 to 96, 99 to 101, 104 to 105 and 108 to 111 respectively, of this Offering Circular. The tables below sets out selected financial highlights in respect of each Issuer:

### Lehman Brothers Finance S.A.

<i>CHF Mn</i>	<i>Year ended 30 November 2005</i>	<i>Year ended 30 November 2004</i>
Net income / (loss) .....	84	(5)
Total assets .....	49,813	43,983
Shareholders' Equity .....	421	337
(Loss)/profit before taxation .....	95	(12)
Net (loss)/profit .....	84	(5)

### Lehman Brothers Securities N.V.

<i>€</i>	<i>Year ended 30 November 2005</i>	<i>Year ended 30 November 2004</i>
Net income .....	10,345	9,649
Total assets .....	165,218,624	372,523,879
Shareholders' Equity .....	122,133	111,788
(Loss)/profit before taxation .....	15,794	14,649
Net (loss)/profit .....	10,345	9,649

Lehman Brothers (Luxembourg) Equity Finance S.A.

<i>\$ Thousands</i>	<i>Year ended 30 November 2005</i>	<i>Year ended 30 November 2004</i>
Net Income .....	37	33
Total assets .....	12,207	232,531
Shareholders' Equity .....	99	73
(Loss)/profit before taxation .....	37	33
Net (loss)/profit .....	26	23

Lehman Brothers Bankhaus AG

<i>€ Mn</i>	<i>Year ended 30 November 2005</i>	<i>Year ended 30 November 2004</i>
Net Income .....	37.7	70.3
Total assets .....	4,917.9	4,428.4
Shareholders' Equity .....	357.8	357.8
Income before taxation .....	38.3	70.9
Net profit .....	0	0

**Guarantor:**

Lehman Brothers Holdings Inc.

The Guarantor, a Delaware Corporation is the ultimate parent company of the Lehman Brothers group. Lehman Brothers' principal business activities are investment banking, capital markets and investment management.

<i>\$ Mn</i>	<i>Year ended 30 November 2005</i>	<i>Year ended 30 November 2004</i>
Net Income .....	3,260	2,369
Total assets .....	410,063	357,168
Stockholders' Equity .....	16,794	14,920
Income before taxation .....	4,829	3,518
Net profit .....	3,260	2,369

The Securities to be issued by Lehman Brothers Finance S.A., Lehman Brothers Securities N.V., Lehman Brothers (Luxembourg) Equity Finance S.A. and Lehman Brothers Bankhaus AG (including when acting through its London Branch) will in each case, benefit from a guarantee agreement dated 9 August 2006 (as amended, restated and supplemented from time to time, each a "**Guarantee**" and together the "**Master Guarantees**") under which, the Guarantor guarantees the performance of the obligations of the relevant Issuer under the Securities in accordance with the Conditions.

<b>Dealers:</b>	Lehman Brothers International (Europe), Lehman Brothers Inc., Lehman Brothers Securities Asia Limited or as specified in the applicable Final Terms
<b>Principal Securities Agent:</b>	Unless otherwise specified in the applicable Final Terms (a) where the Securities are represented by a Regulation S Global Security, the Belgian Securities Agent and (b) where the Securities are represented (1) by a 144A Global Security and/or Definitive Security Certificates or (2) by a Regulation S Global Security and a 144A Global Security and/or Definitive Security Certificates, the US Securities Agent.
<b>US Securities Agent:</b>	The Bank of New York, New York
<b>Belgian Securities Agent:</b>	The Bank of New York, Brussels
<b>Luxembourg Securities Agent:</b>	The Bank of New York (Luxembourg) S.A. in respect of all Securities listed on the Luxembourg Stock Exchange
<b>Luxembourg Listing Agent:</b>	The Bank of New York Europe Limited
<b>Swiss Listing Agent:</b>	As specified in the applicable Final Terms (if relevant)
<b>Swiss Securities Agent:</b>	As specified in the applicable Final Terms (if relevant)
<b>Listing and Admission to Trading:</b>	The Securities issued under the Programme may, under MiFID, be admitted to trading on the Luxembourg Stock Exchange's regulated market and listed on the Luxembourg Stock Exchange and/or admitted to listing, trading and/or quotation on the SWX Swiss Exchange or any other listing authority, stock exchange and/or quotation system so specified in the applicable Final Terms or may be issued on the basis that they will not be admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system.
<b>Final Terms or Prospectus:</b>	Securities issued under the Programme may be issued either (1) pursuant to this Offering Circular and associated final terms (" <b>Final Terms</b> ") or (2) pursuant to a prospectus (constituted either (i) by a single document containing the necessary information relating to the Issuer and the Guarantor and the relevant Securities or (ii) by a registration document (the " <b>Registration Document</b> ") containing the necessary information relating to the Issuers and the Guarantor, a securities note (the " <b>Securities Note</b> ") containing the necessary information relating to the relevant Securities and, if necessary, a summary note) (together, a " <b>Prospectus</b> "), in each case prepared in connection with a particular series of Securities.

Any information relating to the Securities which is not included in this Offering Circular and which is required in order to complete the necessary information in relation to an issue of Securities will be contained either in the relevant Final Terms or in a Prospectus. Such information will be contained in the relevant Final Terms unless any of such information constitutes a significant new factor relating to the information contained in this Offering Circular in which case such

information, together with all of the other necessary information in relation to the relevant Securities will be contained in a Prospectus.

In addition, if the Prospectus is constituted by a Registration Document and a Securities Note, any significant new factor, material mistake or inaccuracy relating to the information included in the Registration Document which arises or is noted between the date of the Registration Document and the date of the Securities Note which is capable of affecting the assessment of the relevant Securities will be included in the Securities Note.

For a series of Securities which is the subject of Final Terms, those Final Terms will, for the purposes of that series only, supplement the Conditions of the Securities and this Offering Circular and must be read in conjunction with this Offering Circular. The terms and conditions applicable to a particular series of Securities which is the subject of Final Terms are the Conditions of the Securities as supplemented, amended and/or replaced to the extent described in the relevant Final Terms.

The terms and conditions applicable to a particular series of Securities which is the subject of a Prospectus will be the Conditions of the Securities as supplemented, amended and/or replaced to the extent described in the relevant Prospectus. In the case of a series of Securities which is the subject of a Prospectus, each reference in this Offering Circular to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Prospectus.

**Issue Price:**

Such amount as may be decided by the relevant Issuer and as indicated in the applicable Final Terms. Each Dealer reserves the right, in its sole discretion, at any time and from time to time, to purchase and sell the Securities at one or more prices that differ from the Issue Price.

The Securities may be issued with such denominations as may be decided by the relevant Issuer and as indicated in the applicable Final Terms, save that, in relation to Lehman Brothers Bankhaus AG (including when acting through its London Branch), the minimum denomination of the Securities will be EUR 1,000 or an amount in any other currency which is at least equal to EUR 1,000 on the issue date or the Securities will give the right to acquire any transferable securities or to receive a cash amount, as a consequence of their being converted or the rights conferred by them being exercised, provided that Lehman Brothers Bankhaus AG is not the issuer of the underlying securities or an entity belonging to the group of the latter issuer (with the exception of Securities which are not be admitted to trading and listing on a regulated market within the meaning of MiFID in an EEA Member State or publicly offered in an EEA Member State) and, further, such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations

applicable to the relevant specified currency.

Save as set out above, Securities may be issued in a denomination lower than EUR1,000 (or its equivalent in any other currency). It is expected that the CSSF shall be the competent authority in respect of the relevant Issuer of such series of Securities issued.

**Form of Securities:**

Each series of Securities other than those sold to "accredited investors" in the United States that are not QIBs will be represented by one or more global securities (each a "**Global Security**"). In the event that sales of a series of Securities will not be made within the United States or to US persons, a Global Security will be issued and deposited with a common depository for Euroclear Bank S.A./N.V. of 1 Boulevard de Roi Albert 11, B-1210 Brussels, Belgium as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme, Luxembourg of 42 Avenue JF Kennedy L-1855 Luxembourg, Luxembourg ("**Clearstream, Luxembourg**"), or with a common depository for any additional or alternative clearing system which is specified in an applicable Final Terms, on the date of issue of the relevant Securities. In the event of sales of Securities in the United States to QIBs, two Global Securities (issued pursuant to each of Regulation S and Rule 144A, respectively) will be required, each of which will be deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company of 55 Water Street, New York, NY 10041 USA ("**DTC**"). In the event that Securities are sold to "accredited investors" in the United States that are not QIBs, such Securities will be issued and registered in definitive form. Save as aforesaid, Definitive Securities will not be issued unless specified in the applicable Final Terms.

**Status of Master  
Guarantees:**

The obligations of the Guarantor under the Master Guarantees, will constitute direct, unsubordinated, unsecured and irrevocable obligations of the Guarantor and will rank *pari passu* with all other direct, unsubordinated and unsecured obligations of the Guarantor.

**Taxation:**

Purchasers of Securities may be required to pay stamp taxes and/or charges in connection with the Securities, in addition to the issue (or purchase) price and Strike Price (where relevant) of each Security.

**Selling Restrictions:**

With the exception of the approval by the CSSF of this Offering Circular as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in Luxembourg, no action has been or will be taken in any country or jurisdiction by the Issuer or the Dealers that would permit a public offering of Securities, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Each Dealer and each purchaser of Securities must observe all applicable laws and regulations in any jurisdiction in which it may offer, sell or deliver Securities or distribute this Offering Circular or any offering material in relation to Securities. The Offering Circular contains a summary of certain selling restrictions in the United States,

the United Kingdom, The Netherlands Antilles, Luxembourg and the European Economic Area. These are set out in more detail on pages 116 to 124 of this Offering Circular.

**Governing Law:**

English Law, except for the Master Guarantees, which are governed by the laws of the State of New York.

**Risk Factors:**

No person should deal in the Securities unless that person understands the nature of the relevant transaction and the extent of that person's exposure to potential loss. Holding Securities involves a high degree of risk, which may include interest rate, corporate, market, foreign exchange, time value and/or political risks. Some Securities may expire worthless or be redeemable without any payment. The relevant Issuer may vary the settlement in respect of a particular series of Securities and the Calculation Agent may be entitled to make adjustments to the Terms and Conditions of the Securities and/or the Securities may be cancelled following the occurrence of certain events, each as described in such Terms and Conditions and/or the applicable Final Terms. If further Securities relating to a particular Underlying are subsequently issued or sold, this may cause the price at which the Securities trade in the secondary market to decline significantly. Prospective purchasers intending to purchase Securities to hedge against the market risk associated with investing in the Underlying should recognise the complexities of utilising Securities in this manner. There can be no assurance that an active secondary market for the Securities will come into being. The Securities are not standardised options of the type traded on various options exchanges. The market value of the Securities may not have a direct relationship with the prevailing price of the Underlying. The Issuers, the Guarantor and their subsidiaries or affiliates may engage in transactions involving the Underlying for their proprietary accounts and/or for accounts under their management or clients. Such transactions may have a positive or negative effect on the value of the Underlying and consequently on the value of the Securities.

Additionally, Lehman Brothers' financial condition and results of operations may be affected by uncertain or unfavourable economic, market, legal and other conditions. These conditions include but are not limited to market and competitive risk, changes in investor sentiment, liquidity risk, changes to credit ratings, credit exposure and operational risk and legal regulatory risk. These risks are set out in more detail on pages 14 to 24 of this Offering Circular.

## **RISK FACTORS**

*Certain capitalised terms used in this section are defined in the Terms and Conditions of the Securities and/or the applicable Final Terms.*

### **Important Considerations**

The information set out in this Offering Circular is included for the purpose of assisting prospective purchasers and their advisers to make an informed assessment of the terms and conditions of the Securities, general risks of investing in the Securities and the capacity of the relevant Issuer and the Guarantor to fulfil their respective obligations in respect of the Securities. No person should deal in the Securities unless that person understands the nature of the relevant transaction and the extent of that person's exposure to potential loss.

Prospective purchasers of Securities should be experienced with respect to options and derivatives transactions, should understand the risks of transactions involving the relevant Securities and should reach an investment decision only after careful consideration, with their advisers, of the suitability of such Securities in the light of their particular financial circumstances, the information set forth herein and the information regarding the relevant Securities and the particular Underlying to which the value of the relevant Securities may relate.

Notwithstanding its capability to understand and make independent decisions regarding investing in the Securities, by purchasing Securities, a purchaser of Securities implicitly represents and warrants to the relevant Issuer that, and is willing to assume that, the complexity and risks inherent in the Securities are suitable for its objectives and the size, nature and condition of its business, regardless of whether the same have been disclosed to the relevant Issuer, the Guarantor, the Dealers or the Arranger.

### **RISKS RELATING TO THE SECURITIES**

#### **General Risk**

Holding Securities involves a high degree of risk, which may include interest rate, corporate, market, foreign exchange, time value and/or political risks. Prospective purchasers of Securities should recognise that their Securities, other than any Securities having a minimum expiration or redemption value, may expire worthless or be redeemable without any payment and, therefore, purchasers should in such circumstances be prepared to sustain a total loss of the purchase price of Securities. In particular purchasers of Warrants must understand that, other factors held constant, the value of Warrants tends to decline over time and Warrants may become worthless when they expire (except to the extent of any minimum expiration value). See "Certain Factors Affecting the Value and Trading Price of Warrants" below. Assuming all other factors are held constant, the more a Warrant is "out of the money" and the shorter its remaining term to expiration, the greater the risk that purchasers of such Warrants will lose all or part of their investment.

The risk of the loss of some or all of the purchase price of a Security upon expiration or redemption means that, in order to recover and realise a return upon his/her investment, a purchaser of a Security must generally have correctly anticipated the direction, timing and magnitude of an anticipated change in the value of the Underlying. With respect to Securities which are European Style Warrants or Certificates, the only means through which a holder can realise value from such Security prior to the Expiration Date (in relation to such Warrant) or the Redemption Date (in relation to such Certificate) is to sell it at its then market price in a secondary market (if available). See "Possible Illiquidity of the Secondary Market" below.

Each Issuer and its respective affiliates perform a wide range of hedging activities in relation to the Underlying and such hedging activities might affect the value of the Underlying and therefore the value of the Securities.

Securities can be volatile financial instruments and may involve the risk of expiring worthless. Securities are subject to a number of risks, including (i) sudden and large falls in value, (ii) changes in the price, market value or level of the relevant Underlying or the reference basis of the Securities and/or changes in the circumstances of the issuers of any securities comprising the Underlying or of the reference basis of the Securities, (iii) changes in the rates of exchange of any of the currencies in which the underlying securities or reference basis of the Securities are denominated and (iv) a complete or partial loss of the investment in the Securities.

### **Fluctuation in the value of Underlying**

Fluctuations in the value of the relevant Index or Basket of Indices will affect the value of Index Securities. Fluctuations in the price of the relevant Share or value of the Basket of Shares will affect the value of Share Securities. Fluctuations in the price or yield of the relevant Debt Instrument or value of the Basket of Debt Instruments will affect the value of Debt Instrument Securities. Also, due to the character of the particular markets on which Shares and Debt Instruments are traded, the absence of last sale information and the limited availability of quotations for such Shares or Debt Instruments may make it difficult for many investors to obtain timely, accurate data for the price or yield of such Shares or Debt Instruments. Fluctuations in the value of the relevant Commodity or Basket of Commodities will affect the value of Commodity Securities. Purchasers of Securities risk losing their entire investment if the value of the relevant Underlying does not move in the anticipated direction.

Fluctuations in exchange rates of the relevant Currency (or Basket of Currencies) will affect the value of Currency Securities. Furthermore, investors who intend to convert gains or losses from the exercise or sale of Currency Securities into their home currency may be affected by fluctuations in exchange rates between their home currency and the relevant Currency (or Basket of Currencies). Currency values may be affected by complex political and economic factors, including governmental action to fix or support the value of a currency, regardless of other market forces. Purchasers of Currency Securities risk losing their entire investment if exchange rates of the relevant Currency (or Basket of Currencies) do not move in the anticipated direction.

Fluctuations in interest rates affecting the relevant Subject Interest Rate will affect the value of Interest Rate Securities. Interest rates may be affected by complex political and economic factors, including governmental action to raise or lower interest rates regardless of other market forces. Purchasers of Interest Rate Securities risk losing their entire investment if interest rates do not move or remain in the anticipated direction.

### **Adjustments and Cancellation**

Pursuant to Condition 10, the relevant Issuer may, if specified in the applicable Final Terms, vary the settlement in respect of a particular series of Securities and thereby at its sole and unfettered discretion elect not to pay the relevant Holders the Cash Settlement Amount or to deliver or procure delivery of the Physical Settlement Amount to the relevant Holders, as the case may be, and in lieu thereof, deliver or procure delivery of the Physical Settlement Amount or make payment of the Cash Settlement Amount on the Settlement Date or, as the case may be, Redemption Date to the relevant Holders.

Pursuant to Conditions 11, 14 and 15 and/or in other circumstances as specified in the applicable Final Terms the Calculation Agent may be entitled to make adjustments to the Terms and Conditions of the

Securities and/or the Securities may be cancelled following the occurrence of certain events, as described in such Terms and Conditions and/or the applicable Final Terms.

### **Certain Factors Affecting the Value and Trading Price of Warrants**

The Cash Settlement Amount (in the case of Cash Settled Warrants) or the difference in the value of the Physical Settlement Amount and the Strike Price (the "**Physical Settlement Value**") (in the case of Physical Delivery Warrants) at any time prior to expiration is typically expected to be less than the trading price of such Warrants at that time. The difference between the trading price of Warrants and the Cash Settlement Amount or the Physical Settlement Value, as the case may be, will reflect, among other things, a "time value" for the Warrants. Warrants offer hedging and investment diversification opportunities but also pose some additional risks with regard to time value. The time value of the Warrants varies with the price and/or level of the Underlying, as well as by a number of other interrelated factors, including the length of the period remaining to expiration and expectations concerning the value of the Underlying.

Before exercising or selling Warrants, Holders should carefully consider, among other things, (i) the trading price of the Warrants, (ii) the value and volatility of the Underlying, (iii) the time remaining to expiration, (iv) in the case of Cash Settled Warrants, the probable range of Cash Settlement Amounts, (v) any change(s) in interim interest rates and dividend yields, (vi) any change(s) in currency exchange rates, (vii) the depth of the market or liquidity of the Underlying and (viii) any related transaction costs.

If further Securities relating to a particular Underlying are subsequently issued the supply of such Series of Securities in the market will increase, which may cause the price at which the Securities trade in the secondary market to decline significantly.

### **Limitations on Exercise and Settlement**

If so indicated in the applicable Final Terms for a series of Warrants, the relevant Issuer will have the option to limit the number of Warrants exercisable on any date by any person or group of persons (whether or not acting in concert) to the maximum number specified in the applicable Final Terms. In the event that the total number of Warrants being exercised on any date exceeds such maximum number and the relevant Issuer elects to limit the number of Warrants exercisable on such date, a Holder may not be able to exercise on such date all Warrants that such holder desires to exercise. Warrants to be exercised on such date will be selected at the discretion of the relevant Issuer or in any other manner specified in the applicable Final Terms. Unless otherwise specified in the applicable Final Terms, the Warrants tendered for exercise but not exercised on such date will be automatically exercised on the next date on which Warrants may be exercised, subject to the same daily maximum limitation and delayed exercise provisions.

If so indicated in the applicable Final Terms for a series of Warrants, a Holder must tender a specified minimum number of Warrants and integral multiples of Warrants thereafter at any one time in order to exercise. Thus, Holders with fewer than the specified minimum number of Warrants or specified multiples thereof will either have to sell their Warrants or purchase additional Warrants, incurring transaction costs in each case, in order to realise their investment. Furthermore, holders of such Warrants incur the risk that there may be differences between the trading price of such Warrants and the Cash Settlement Amount (in the case of Cash Settled Warrants) or the Physical Settlement Value (in the case of Physical Delivery Warrants) of such Warrants.

If specified in the applicable Final Terms, Securities which are Physical Delivery Securities may only be exercised (in the case of Warrants) or redeemed (in the case of Certificates) in such amounts as will ensure that the number of Relevant Assets to be delivered is equal to an integral multiple of the

minimum of a Board Lot. Where the exercise or redemption of a holding of Physical Delivery Securities would not result in the delivery of a number of Relevant Assets equal to an integral multiple of the relevant Board Lot, delivery of the maximum number of Relevant Assets equivalent to the maximum integral multiple of a Board Lot will be required together with a payment in lieu at the option of the relevant Issuer in respect of the remaining Relevant Assets unless any such payment is of a de minimis amount, in which case no such amount will be payable. To avoid such possibility Holders entitled to delivery under Physical Delivery Securities will, therefore, either have to sell their Securities or purchase additional Securities, incurring transaction costs in each case, in order to realise their investment.

### **Certain Considerations Regarding Hedging**

Prospective purchasers intending to purchase Securities to hedge against the market risk associated with investing in the Underlying should recognise the complexities of utilising Securities in this manner. For example, the value of the Securities may not exactly correlate with the value of the Underlying. Due to fluctuating supply and demand for the Securities, there is no assurance that their value will correlate with movements of the Underlying.

### **Time Lag After Exercise and Delays**

Unless otherwise specified in the applicable Final Terms, in the case of any exercise of Warrants, there will be a time lag between the time a Holder gives instructions to exercise and the time the applicable Cash Settlement Amount (in the case of Cash Settled Warrants) or the Physical Settlement Amount (in the case of Physical Delivery Warrants) relating to such exercise is determined. However, such time lag could be significantly longer, particularly in the case of a delay in exercise of Warrants arising from any daily maximum exercise limitation, or following the imposition of any exchange controls, other similar regulations affecting the ability to obtain or exchange any relevant currency (or basket of currencies) or if there is any Market Disruption Event on the Valuation Date or any Settlement Interruption. The redemption of Certificates may also be delayed in such circumstances. The value of the applicable Cash Settlement Amount or the Physical Settlement Amount, as the case may be, may change significantly during any such delay and any adverse movement may reduce the value of the Cash Settlement Amount or the Physical Settlement Amount, as the case may be, to zero.

### **Possible Illiquidity of the Secondary Market**

The Securities may or may not be listed on any stock exchange as specified in the applicable Final Terms. If the Securities are not listed, a purchaser of Securities will not have the option to buy or sell the Securities through a stock exchange platform, pricing information for the Securities may be more difficult to obtain and the liquidity of the Securities may be adversely affected. If the Securities are listed, in the event of a delisting or suspension of trading of the Securities on such exchange, the relevant Issuer will use all reasonable efforts to list the relevant Securities on another exchange. Purchasers of Securities should understand there can be no assurance that an active secondary market for the Securities will come into being and if one does come into being, that it will be sustained throughout the life of the Securities. Also, to the extent Warrants are exercised, the number of Warrants outstanding will decrease, resulting in a lessening of the liquidity of the Warrants. A lessening of the liquidity of the Warrants may cause, in turn, an increase in the volatility associated with the price of the Warrants. To the extent that the secondary market in an issue of Warrants becomes illiquid, an investor may have to exercise such Warrants to realise any value thereof.

### **Disrupted Day and Other Events**

If the Calculation Agent determines that a Disrupted Day, Index Adjustment Event, Potential Adjustment Event, Extraordinary Event, Additional Disruption Event, or other adjustment event applicable in respect of the relevant Securities has occurred, any consequential postponement of (or any alternative provisions for) valuation provided for any Securities and/or any adjustment or other amendments to the Terms and Conditions may have an adverse effect on the value of such Securities.

### **Value of Baskets**

The value of a Basket may be affected by the number of components of such Basket. Generally, the value of a Basket that includes securities of a number of companies or a number of other components and which gives relatively equal weight to each component will be less affected by changes in the value of any particular component included therein than a Basket that includes fewer components or that gives greater weight to some components. In addition, if the securities or other components of a Basket are all identified with a particular industry, the value of such a Basket will be more affected by the economic, financial and other factors affecting that industry than if the components included in the Basket are identified with various industries that are affected by different economic, financial or other factors or are affected by such factors in different ways.

### **Other Factors Affecting Value**

If the volatility of the Underlying increases, the trading value of a Security is expected to increase; if the volatility decreases, the trading value of a Security is expected to decrease.

If the dividend rates on the Underlying, where applicable, increase, the trading value of a Put Warrant or similar Security (a "**Put Security**") is expected to increase and the trading value of a Call Warrant or similar Security (a "**Call Security**") is expected to decrease. Increased dividend rates may, however, positively affect the value of the Underlying and the trading value of a Put Security could then be expected to decrease and the trading value of a Call Security could then be expected to increase. If such dividend rates decrease, the trading value of a Put Security is expected to decrease and the trading value of a Call Security is expected to increase. Decreased dividend rates may, however, adversely affect the value of the Underlying, and the trading value of a Put Security could then be expected to increase and the trading value of a Call Security could then be expected to decrease. Spread Securities are also affected by the relative movements of the spread on which they are based.

### **Securities Not Standardised Options**

Purchasers of Securities must understand that the Securities are not standardised options of the type traded on various options exchanges. For example, unlike purchasers of standardised options issued in the United States by the Options Clearing Corporation or standardised options issued outside the United States by similar non-U.S. options exchanges, who obtain the credit benefits of guarantees and margin and collateral deposits by the options exchange's clearing members to protect the options exchange from a clearing member's failure, purchasers of the Securities must look solely to the relevant Issuer (failing which to the Guarantor) for performance of the relevant Issuer's obligations to pay the Cash Settlement Amount or to deliver the Physical Settlement Amount, as applicable, upon the exercise or redemption of the Securities. Further, the market for the Securities is not generally expected to be as liquid as the market for some exchange-traded standardised options. See "Possible Illiquidity of the Secondary Market" above.

### **Issuer's Option to Vary Settlement**

If specified in the applicable Final Terms, the Issuer may have sole and unfettered discretion to vary the method of settlement or redemption in respect of the Securities. The exercise of such option by the Issuer may have an adverse effect on the value of the relevant Securities.

### **Consequences of Settlement Interruption**

In the case of Physical Delivery Securities, if Settlement Interruption occurs on any Settlement Date or Redemption Date, settlement may be indefinitely postponed if delivery of the Relevant Asset(s) cannot be effected in any other commercially reasonable manner. The occurrence of such postponement may have an adverse effect on the value of the Securities.

### **Consequences of Securities in Global Form**

For so long as the Securities are Global Securities, the Securities will be held and traded through the relevant Clearing System. For the purposes of payments and delivery of notices required to be made by the Issuer to Holders of Securities, such payments and notices will be given by delivery to the Clearing System for delivery and communication by the Clearing System to the entitled clearing members. Therefore holders of Securities will have to rely on their clearing members to credit their respective accounts with payments and/or to distribute to the holders notices which such clearing members receive through the Clearing System from the Issuer. The Issuer will not be responsible for any failure or default by a clearing member to fulfil its obligations to the Holders.

### **Investing in the Securities is Not the Same as Investing in the Underlying**

The market value of the Securities may not have a direct relationship with the prevailing price of the Underlying, in that changes in the prevailing price of the Underlying will not necessarily result in a comparable change in the market value of the Securities. In addition, prospective purchasers of Physical Delivery Securities should be aware that unless and until the Securities are settled or redeemed by the delivery of the Physical Settlement Amount they will not have any voting rights, rights to receive dividends or other distributions or any other rights that holders of the Underlying would have.

### **Potential Conflicts of Interest**

The Issuers, the Guarantor and their subsidiaries or affiliates may from time to time engage in transactions involving the Underlying for their proprietary accounts and/or for accounts under their management or clients. Such transactions may have a positive or negative effect on the value of the Underlying and consequently on the value of the Securities. Certain subsidiaries or affiliates of the Guarantor will also be the counterparty to a hedge of the relevant Issuer's obligations under an issue of Securities. In addition, the Issuers, the Guarantor and their subsidiaries or affiliates may from time to time act in other capacities with regard to the Securities (such as in an agency capacity and/or as the Calculation Agent) and may issue other competing financial instruments in respect of the Underlying and the introduction of such competing financial instruments may affect the value of the Securities. The Issuers, the Guarantor and their subsidiaries or affiliates may also (i) act as underwriter or financial adviser in connection with future offerings of shares or other securities of the issuers of any securities comprising the Underlying, their respective subsidiaries or affiliates and/or (ii) act in a commercial banking capacity for the issuer in relation to any other related security. Such activities could present certain conflicts of interest with the interest of holders of the Securities and may affect the value of the Securities. The Issuer, the Guarantor and their subsidiaries and affiliates owe no duty or responsibility to any holder of Securities to avoid such conflicts.

### **Discretion of the Calculation Agent**

The Calculation Agent has a sole and absolute discretion (i) to determine whether a Disrupted Day, Index Adjustment Event, Potential Adjustment Event, Extraordinary Event, Additional Disruption Event, Settlement Interruption and/or any other event so specified in the Terms and Conditions has occurred and (ii) to determine any resulting adjustments and calculations as described in the Terms and Conditions. Prospective purchasers should be aware that any determination made by the Calculation Agent may have an impact on the value and financial return of the Securities. Any such discretion exercised by, or any calculation made by, the Calculation Agent (in the absence of manifest error) shall be binding on the Issuer and all holders of Securities.

### **United Kingdom Stamp Duty**

Potential purchasers of Physical Delivery Securities should note that each Global Security representing Physical Delivery Securities may constitute an instrument which is subject to United Kingdom stamp duty on issue by reference to the amount of the consideration given for the Physical Delivery Securities so represented. However, each Global Security is being executed, authenticated and delivered outside the United Kingdom and should not be brought into the United Kingdom save for the purposes of enforcement. So long as a Global Security is held outside the United Kingdom, no requirement to pay United Kingdom stamp duty will arise. However, if a Global Security representing Physical Delivery Securities were brought into the United Kingdom to be used as evidence (for example, for enforcement purposes) or for any other purposes, in certain circumstances, United Kingdom stamp duty may be required to be paid on such Global Security. If stamp duty is payable on a Global Security, interest will be payable (in addition to the stamp duty) in respect of the period from 30 days after the date of execution of the Global Security to the date of payment. Furthermore penalties may also be payable if the Global Security is not stamped within 30 days of being brought into the United Kingdom. If a Global Security is subject to United Kingdom stamp duty, it would be inadmissible in evidence in an English court unless duly stamped.

### **RISKS RELATING TO THE GUARANTOR**

The Guarantor is the ultimate parent company of the Lehman Brothers group. The Master Guarantees will be solely the Guarantor's obligations, and no other entity will have any other obligation, contingent or otherwise, to make any payments in respect thereof. Because the Guarantor is a holding company whose primary assets consist of shares of stock or other equity interests in or amounts due from subsidiaries, almost all of its income is derived from those subsidiaries. The Guarantor's subsidiaries will have no obligation to pay any amount in respect of the Master Guarantees or to make any funds available therefor. Accordingly, the Guarantor will be dependent on dividends and other distributions or loans from its subsidiaries to generate the funds necessary to meet obligations with respect to the Master Guarantees. Due to covenants contained in certain of the Guarantor's debt agreements and regulations relating to capital requirements affecting certain of its more significant subsidiaries, the ability of certain subsidiaries to pay dividends and other distributions and make loans to the Guarantor is restricted. The notes to the Guarantor's financial statements included in the most recent annual report on Form 10-K set forth the amount of net assets of its subsidiaries that are restricted as to the payment of dividends to the Guarantor. Additionally, as an equity holder, the Guarantor's ability to participate in any distribution of assets of any subsidiary is subordinate to the claims of creditors of the subsidiary, except to the extent that any claims the Guarantor may have as a creditor of the subsidiary are judicially recognized. If these sources are not adequate, the Guarantor may be unable to make payments in respect of the Master Guarantees, and a holder of Securities could lose all or a part of its investment.

### **Certain of Lehman Brothers' activities may adversely affect the value of the Securities**

The Issuers or one or more of their affiliates may hedge their obligations under particular Securities by purchasing or selling the related Commodity Securities, options or futures on such Commodity Securities or other instruments linked to such Commodity Securities, and may adjust the hedge by, among other things, purchasing or selling any of the foregoing, at any time and from time to time, and by unwinding the hedge by selling any of the foregoing. The Issuers or their affiliates also may enter into, adjust and unwind hedging transactions relating to other securities whose returns are linked to the same Commodity Securities, or may engage in trading in Commodity Securities, or instruments whose returns are linked to Commodity Securities, to which particular Securities are linked, either for their or their affiliates' proprietary accounts, for other accounts under their management or to facilitate transactions on behalf of customers. In addition, affiliates of the Issuers may be a counterparty to hedges of their obligations under particular Securities that they may enter into from time to time. Any of these activities may adversely affect the market values or levels of a particular Commodity Securities and therefore the market value of the related Securities. It is possible that the Issuers or their affiliates could receive positive returns with respect to these activities while the value of the Securities may decline.

The Issuers or their affiliates also have issued, or underwritten on behalf of other issuers, and in the future may issue or underwrite, other securities or financial or derivative instruments with returns linked to changes in the level of one or more Commodity Securities to which particular securities may be linked. By introducing competing products into the marketplace in this manner, the Issuers or their affiliates could adversely affect the value of particular Securities and the amount payable on such Securities.

As a result of any of these transactions, potential conflicts of interest may exist between the Issuers or their affiliates and holders of Securities.

### **An affiliate of the Issuers may act as calculation agent on the Securities, creating a potential conflict of interest between the Issuers or their affiliates and holders of Securities**

Affiliates of the Issuers may act as calculation agent for particular Securities, and may have discretion in calculating payments or other means of settlement and certain other adjustment events. The exercise of discretion by a calculation agent that is affiliated with an Issuer could adversely affect the value of particular Securities and may present the calculation agent with a conflict of interest to the extent that the determinations made by the calculation agent in respect of the particular Securities affect the payments due from the Issuer under the Securities, due to or from the Issuer or any of its affiliates under any related hedge transaction or the value of the investments held by the Issuer or any of its affiliates' proprietary or managed accounts.

### **RISKS RELATING TO THE ISSUERS**

The risk factors set out below are not considered as likely to affect the ability of the Issuers to fulfil their respective obligations to investors under the Securities issued by them because such obligations are irrecoverably and unconditionally guaranteed by the Guarantor.

### **RISKS RELATING TO LEHMAN BROTHERS FINANCE S.A.**

Lehman Brothers Finance S.A., is part of the Lehman Brothers group and may be affected by uncertain or unfavourable economic, market, legal and other conditions that are likely to affect the Lehman Brothers group as a whole. The risks relating to the Lehman Brothers group as a whole are set out below.

## **RISKS RELATING TO LEHMAN BROTHERS SECURITIES N.V.**

Lehman Brothers Securities N.V. is part of the Lehman Brothers group and may be affected by uncertain or unfavourable economic, market, legal and other conditions that are likely to affect the Lehman Brothers group as a whole. The risks relating to the Lehman Brothers group as a whole are set out below.

## **RISKS RELATING TO LEHMAN BROTHERS (LUXEMBOURG) EQUITY FINANCE S.A.**

Lehman Brothers (Luxembourg) Equity Finance S.A. is part of the Lehman Brothers group and may be affected by uncertain or unfavourable economic, market, legal and other conditions that are likely to affect the Lehman Brothers group as a whole. The risks relating to the Lehman Brothers group as a whole are set out below.

## **RISKS RELATING TO LEHMAN BROTHERS BANKHAUS AG**

Lehman Brothers Bankhaus AG is part of the Lehman Brothers group and may be affected by uncertain and unfavourable economic, market, legal and other conditions that are likely to affect the Lehman Brothers group as a whole. The risks relating to the Lehman Brothers group as a whole are set out below.

## **RISKS RELATING TO THE LEHMAN BROTHERS GROUP**

Lehman Brothers' financial condition and results of operations of Lehman Brothers Holdings Inc. as the ultimate parent company of the Lehman Brothers group and its subsidiaries (including Lehman Brothers Finance S.A., Lehman Brothers Securities N.V., Lehman Brothers (Luxembourg) Equity Finance S.A. and Lehman Brothers Bankhaus AG) (collectively "**Lehman Brothers**") may be affected by uncertain or unfavourable economic, market, legal and other conditions. These conditions include but are not limited to:

### **Market Risk**

Changes in interest and foreign exchange rates, financial instruments and real estate valuations and increases in volatility can increase credit and market risks and may also affect customer-flow-related revenues and proprietary trading revenues as well as affect the volume of debt and equity underwritings and merger and acquisition transactions.

### **Competitive Environment**

All aspects of Lehman Brothers' business are highly competitive. Lehman Brothers' competitive ability depends on many factors, including its reputation, the quality of its services and advice, intellectual capital, product innovation, execution ability, pricing, sales efforts and the talent of its employees.

### **Business Environment**

Concerns about geopolitical developments, oil prices and natural disasters, among other things, can affect the global financial markets. Accounting and corporate governance scandals in recent years have had a significant effect on investor confidence.

### **Liquidity**

Liquidity and liquidity management are of critical importance in Lehman Brothers' industry. Liquidity could be affected by the inability to access the long-term or short-term debt, repurchase or securities-lending markets or to draw under credit facilities, whether due to factors specific to Lehman Brothers

or to general market conditions. In addition, the amount and timing of contingent events, such as unfunded commitments and guarantees, could adversely affect cash requirements and liquidity. To mitigate Lehman Brothers' risks, our liquidity and funding policies have been conservatively designed to maintain sufficient liquid financial resources to continually fund Lehman Brothers' balance sheet and to meet all expected cash outflows, for one year in a stressed liquidity environment.

### **Credit Ratings**

Lehman Brothers' access to the unsecured funding markets is dependent on its credit ratings. A reduction in its credit ratings could adversely affect Lehman Brothers' access to liquidity alternatives and its competitive position, and could increase the cost of funding or trigger additional collateral requirements.

### **Credit Exposure**

Credit exposure represents the possibility that a counterparty will be unable to honour its contractual obligations. Although Lehman Brothers actively manage credit exposure daily as part of its risk management framework, counterparty default risk may arise from unforeseen events or circumstances.

### **Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal or outsourced processes, people, infrastructure and technology, or from external events. Lehman Brothers seek to minimise these risks through an effective internal control environment.

### **Legal, Regulatory and Reputational Risk**

The securities and financial services industries are subject to extensive regulation under both federal and state laws in the U.S. and under the laws of the many other jurisdictions in which Lehman Brothers do business. Lehman Brothers also are regulated by a number of self-regulatory organizations such as the National Association of Securities Dealers, the Municipal Securities Rulemaking Board and the National Futures Association, and by national securities and commodities exchanges, including the New York Stock Exchange. As of December 1, 2005, the Guarantor became regulated by the SEC as a consolidated supervised entity ("CSE"), and as such, the Guarantor are subject to group-wide supervision and examination by the SEC, and accordingly, the Guarantor are subject to minimum capital requirements on a consolidated basis. Violation of applicable regulations could result in legal and/or administrative proceedings, which may impose censures, fines, cease-and-desist orders or suspension of a firm, its officers or employees. The scrutiny of the financial services industry has increased over the past several years, which has led to increased regulatory investigations and litigation against financial services firms.

Legislation and rules adopted both in the U.S. and around the world have imposed substantial new or more stringent regulations, internal practices, capital requirements, procedures and controls and disclosure requirements in such areas as financial reporting, corporate governance, auditor independence, equity compensation plans, restrictions on the interaction between equity research analysts and investment banking employees and money laundering. The trend and scope of increased compliance requirements may require Lehman Brothers to invest in additional resources to ensure compliance.

The trend and scope of increased compliance requirements has increased costs necessary to ensure compliance. Our reputation is critical in maintaining our relationships with clients, investors, regulators and the general public, and is a key focus in our risk management efforts.

Lehman Brothers are involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of its business, including actions brought against Lehman Brothers and others with respect to transactions in which Lehman Brothers acted as an underwriter or financial advisor, actions arising out of its activities as a broker or dealer in securities and actions brought on behalf of various classes of claimants against many securities firms and lending institutions, including Lehman Brothers.

See Part I, Item 1A, Risk Factors, in the annual report pursuant to Section 13 or 15(d) of the Exchange Act for the fiscal year ended November 30, 2004 of the Guarantor filed with the SEC on Form 10-K for additional information about these and other risks inherent in our business.

## AVAILABLE INFORMATION

The Guarantor files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). You may read and copy any document the Guarantor files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at +1 800 SEC 0330 (or +1 202 551 8090). The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The Guarantor's electronic SEC filings are available to the public at <http://www.sec.gov>.

The Guarantor's public internet site is <http://www.lehman.com>. The Guarantor makes available free of charge through its internet site, via a link to the SEC's internet site at <http://www.sec.gov>, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. The Guarantor also makes available through its internet site, via a link to the SEC's internet site, statements of beneficial ownership of the Guarantor's equity securities filed by its directors, officers, 10 per cent. or greater shareholders and others under Section 16 of the Exchange Act.

In addition, the Guarantor makes available on <http://www.lehman.com> its most recent annual report on Form 10-K, its quarterly reports on Form 10-Q for the current fiscal year, its most recent proxy statement and its most recent annual report to stockholders, although in some cases these documents are not available on that site as soon as they are available on the SEC's site.

Copies of the materials referred to in the preceding paragraph, as well as copies of any current amendment or supplement to this Offering Circular, may also be obtained from the persons set forth under "Information Incorporated By Reference".

So long as any of the Securities are outstanding and if the Guarantor ceases to be a reporting company under Section 13 or Section 15(d) of the Exchange Act, the Guarantor has agreed to furnish to a holder of Securities and a prospective purchaser designated by such holder, upon the request of such holder in connection with a transfer or proposed transfer of such Security pursuant to Rule 144A, the information required to be delivered under Rule 144A(d)(4) under the Securities Act.

## INFORMATION INCORPORATED BY REFERENCE

The following information (the "**Information Incorporated by Reference**") shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (a) The annual report pursuant to Section 13 or 15(d) of the Exchange Act for the fiscal year ended 30 November 2004 of LBHI filed with the SEC on Form 10-K including the consolidated and unconsolidated financial statements (including the auditors' report thereon and notes thereto) of LBHI in respect of the years ended 30 November 2004 and 30 November 2003;
- (b) the annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended 30 November 2005 of LBHI filed with the SEC on Form 10-K including the audited consolidated and unconsolidated financial statements (including the auditors' report thereon and notes thereto) of LBHI in respect of the years ended 30 November 2005 and 30 November 2004;
- (c) the quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended 28 February 2006 of LBHI filed with the SEC on Form 10-Q including the consolidated interim quarterly financial statements of LBHI in respect of the three months ended 28 February 2006;
- (d) the quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act for the quarterly period ended 31 May 2006 of LBHI filed with the SEC on Form 10-Q including the consolidated interim quarterly financial statements of LBHI in respect of the three months ended 31 May 2006;

Certain of the financial data set out in the Information Incorporated by Reference in items (a) to (d) above is not audited and is derived from the Lehman Brothers' internal management and accounting records or publicly available information.

- (e) the LBHI notice of 2006 Annual Meeting of Stockholders and proxy statement dated 27 February 2006 (including the details relating to the LBHI's board of directors, director independence, audit committee and shareholders set out on pages 1 to 39 respectively thereof);
- (f) the audited unconsolidated financial statements (including the auditors' report thereon and notes thereto) of Lehman Brothers Finance S.A. in respect of the years ended 30 November 2005 and 30 November 2004;
- (g) the auditor's review report on the cash flow statement of Lehman Brothers Finance S.A.;
- (h) the audited unconsolidated financial statements (including the auditors' report thereon and notes thereto) of Lehman Brothers Securities N.V. in respect of the years ended 30 November 2005 and 30 November 2004;
- (i) the audited unconsolidated financial statements (including the auditors' report thereon and notes thereto) of Lehman Brothers (Luxembourg) Equity Finance S.A. in respect of the years ended 30 November 2005 and 30 November 2004; and
- (j) the audited unconsolidated financial statements (including the auditors' reports thereon and notes thereto) of Lehman Brothers Bankhaus AG in respect of the years ended 30 November 2005 and 30 November 2004.

The table below sets out the relevant page references for the financial statements, the notes thereto and the auditors' reports for the financial statements referred to above:

	Page reference
<b>LBHI's 2004 Financial Statements (on Form 10-K)</b>	
1. Cash flow.....	72
2. Notes to Financial Statements .....	73-109
3. Auditor's Report .....	66
4. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	26-62
<b>LBHI's 2005 Financial Statements (on Form 10-K)</b>	
1. Cash flow.....	74
2. Notes to Financial Statements .....	75-110
3. Auditor's Report .....	66
4. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	27-64
<b>LBHI's 28 February 2006 Quarterly Financial Statements (on Form 10-Q)</b>	
1. Cash flow.....	6
2. Notes to Financial Statements .....	7-38
3. Auditor's Report .....	39
<b>LBHI's 31 May 2006 Quarterly Financial Statements (on Form 10-Q)</b>	
1. Cash flow.....	6
2. Notes to Financial Statements .....	7-39
3. Auditor's Report .....	40
<b>Lehman Brothers Finance S.A. 2005 Financial Statements</b>	
1. Notes to Financial Statements .....	5-7
2. Auditor's Report .....	1
<b>Lehman Brothers Finance S.A. 2004 Financial Statements</b>	
1. Notes to Financial Statements .....	5-7
2. Auditor's Report .....	1
<b>Lehman Brothers Securities N.V. 2005 Financial Statements</b>	
1. Cash flow.....	5
2. Notes to Financial Statements .....	6-8
3. Auditor's Report .....	1
<b>Lehman Brothers Securities N.V. 2004 Financial Statements</b>	
1. Cash flow.....	7
2. Notes to Financial Statements .....	8-12
3. Auditor's Report .....	3
<b>Lehman Brothers (Luxembourg) Equity Finance S.A. 2005 Financial Statements</b>	
1. Cash flow.....	4
2. Notes to Financial Statements .....	5-7
3. Auditor's Report .....	1
<b>Lehman Brothers (Luxembourg) Equity Finance S.A. 2004 Financial Statements</b>	
1. Cash flow.....	4
2. Notes to Financial Statements .....	5-7
3. Auditor's Report .....	1
<b>Lehman Brothers Bankhaus AG 2005 Financial Statements</b>	
1. Notes to Financial Statements .....	4-15
2. Auditor's Report .....	1
<b>Lehman Brothers Bankhaus AG 2004 Financial Statements</b>	
1. Notes to Financial Statements .....	5-12

Investors who have not previously reviewed the Information Incorporated by Reference should do so in connection with their evaluation of any Securities admitted to trading on the Luxembourg Stock Exchange's regulated market and listing on the Luxembourg Stock Exchange. Each Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the written or oral request of such person, a copy of any or all of the documents which are incorporated herein by reference and copies of the Final Terms (save that a Final Terms or, as the case may be, a Prospectus relating to an unlisted Security will only be available to a holder of such Security and such holder must produce evidence satisfactory to the relevant Issuer as to the identity of such holder). Written or oral requests for such documents should be directed to the relevant Issuer, for the attention of Transaction Management at Lehman Brothers Finance S.A., at Talstrasse 82, 8021 Zurich, Switzerland or for the attention of the managing director at Lehman Brothers Securities N.V., at E-Commercepark, E-Zone Vredenberg, Hoek Heelsumstraat, Hugenolzweg Z/N, Curaçao, The Netherlands Antilles or for the attention of the General Manager at Lehman Brothers (Luxembourg) Equity Finance S.A. at 1 Allee Scheffer, L-2520, Luxembourg, Luxembourg, or to the Listing Agent at The Bank of New York Europe Limited, One Canada Square, London E14 5AL or such other party at its address as may be specified as the Listing Agent in the applicable Final Terms relevant to such Securities. Copies of such documents and copies of the Final Terms will also be available (i) free of charge at the office of the Luxembourg Securities Agent at The Bank of New York (Luxembourg) S.A., 1A, Hoehenhof, L-1736 Senningerberg, Luxembourg or, in the case of Securities sold to QIBs or "accredited investors" in the United States, from The Bank of New York, 101 Barclay Street, Floor 8E, New York, New York 10286, USA, or such other party at its address as may be specified as the Securities Agent in the applicable Final Terms relevant to such Securities or (ii) on the website of the Luxembourg Stock Exchange at [www.bourse.lu](http://www.bourse.lu), in each case in relation to Securities admitted to trading on the Luxembourg Stock Exchange's regulated market and listing on the Luxembourg Stock Exchange.

So long as any series of Securities remains outstanding and is admitted, under MiFID, to trading on the Luxembourg Stock Exchange's regulated market and listed on the Luxembourg Stock Exchange the Issuers will, in the event of any significant new factor, material mistake or inaccuracy relating to the information included in this Offering Circular which is capable of affecting the assessment of the Securities, prepare a supplement to this Offering Circular for use in connection with any subsequent issue of Securities to admitted, under MiFID, to trading on the Luxembourg Stock Exchange's regulated market and listed on the Luxembourg Stock Exchange.

Any information which appears in the documents described above but which is not expressed to be incorporated by reference into this Offering Circular is given for information purposes only.

## **GENERAL DESCRIPTION OF THE PROGRAMME**

The applicable terms of any Securities will be agreed between the relevant Issuer and the relevant Dealer(s) prior to the issue of the Securities and will be set out in the Conditions of the Securities endorsed on, or annexed to, the Securities, as supplemented by the applicable Final Terms attached to, or endorsed on, such Securities. The Conditions of the Securities are set out in detail on pages 46 to 90 of this Offering Circular.

Securities issued under the Programme may be issued pursuant to this Offering Circular and associated Final Terms or pursuant to a Prospectus prepared in connection with a particular series of Securities. Accordingly references to terms and conditions and other items being as set out in this Offering Circular and applicable Final Terms should, as the context requires, be construed as being as set out in the relevant Prospectus and references to Final Terms should be construed as referring to the Prospectus as applicable.

Securities issued under the Programme will constitute direct, unsubordinated and unsecured obligations of the relevant Issuer and will rank *pari passu* among themselves and with all other direct, unsubordinated and unsecured obligations of the relevant Issuer.

## FORM OF FINAL TERMS

*The Final Terms relating to each issue of Securities will be substantially in the form set out below and will contain (without limitation) such of the following information as is applicable in respect of such Securities:*

Final Terms dated as of [•]

**[LEHMAN BROTHERS FINANCE S.A./  
LEHMAN BROTHERS SECURITIES N.V./  
LEHMAN BROTHERS (LUXEMBOURG) EQUITY FINANCE S.A./LEHMAN BROTHERS  
BANKHAUS AG [(acting through its London Branch)]]**

**Warrant and Certificate Programme**

**Guaranteed by  
LEHMAN BROTHERS HOLDINGS INC.**

*[Details of particular issue of Warrants or Certificates]*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the amended and restated Offering Circular dated 9 August 2006 [and the Supplement to the Offering Circular dated [•]] [which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Securities described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Offering Circular [as so supplemented].]<sup>1</sup> [This document constitutes the Final Terms of the Securities described herein and must be read in conjunction with such Offering Circular [as so supplemented].]<sup>2</sup> Full information on the Issuer and the offer of the Securities is only available on the basis of the combination of these Final Terms and the Offering Circular. [The Offering Circular [and the Supplement to the Offering Circular] [is/are] available for viewing at [address] [and] [website] and copies may be obtained from [address].

*[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]*

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "*Conditions*") set forth in the Offering Circular dated [*original date*] [and the Supplement to the Offering Circular dated [•]]. This document constitutes the Final Terms of the Securities described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") and must be read in conjunction with the Offering Circular dated [•] 2006 [and the Supplement to the Offering Circular dated [•]], which [together] constitute[s] a prospectus for the purposes of the Prospectus Directive, save in respect of the conditions which are extracted from the Offering Circular dated [•] [and the Supplement to the Offering Circular dated [•]] and are attached hereto. [This document constitutes the Final Terms of the Securities described herein and must be read in conjunction with such Offering Circular [as so supplemented].]<sup>3</sup> Full information on the Issuer and the offer of the Securities is only available on the basis of the combination of these Final Terms and the

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<sup>1</sup> Delete if no "Prospectus" is required for the purposes of the Prospectus Directive.

<sup>2</sup> Delete if a "Prospectus" is required for the purposes of the Prospectus Directive

<sup>3</sup> Delete if a "Prospectus" is required for the purposes of the Prospectus Directive

[Offering Circulars]. [The [Offering Circulars] [and the Supplement to the Offering Circular] [is/are] available for viewing at [address] [and] [website] and copies may be obtained from [address].

[Save as disclosed herein, neither the Issuer nor the Guarantor is involved in any litigation or arbitration proceedings which the Issuer or the Guarantor (as the case may be) believes would have a material adverse effect on the financial position of the Issuer or the Guarantor (as the case may be) nor is the Issuer or the Guarantor aware of any such proceedings pending or threatened.]

The Issuer and Guarantor accept responsibility for the information contained in this Final Terms and declare that, having taken all reasonable care to ensure that such is the case the information contained in this Final Terms is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

The information contained herein with regard to the underlying asset (or basket of assets), Commodity (or Basket of Commodities), Currency (or Basket of Currencies), Debt Instrument (or Basket of Debt Instruments), Depository Receipt (or Basket of Depository Receipts), Index (or Basket of Indices) or Share (or Basket of Shares) (as all such terms are defined in the Terms and Conditions) or other item(s) (the "**Underlying**") to which the Securities relate consists of extracts from or summaries of information that are publicly available. Except as mentioned herein, the Issuer accepts responsibility for accurately reproducing and/or summarising the information relating to the Underlying to which the Securities relate, which information is more particularly described in Part C hereto. The Issuer accepts no further or other responsibility in respect of such information.

[Lehman Brothers (Luxembourg) Equity Finance S.A. has been established, for an unlimited duration, as a *société anonyme* under the laws of the Grand Duchy of Luxembourg, by notarial deed dated 8 June 2004, which was published in the "*Mémorial, Journal Officiel du Grand-Duché de Luxembourg, Recueil Spécial des Sociétés et Associations*" ("**Memorial C**") on 8 July 2004 and registered with the Register of Commerce and Companies of Luxembourg (R.C.S. Luxembourg) under number B.101.448 on 6 July 2004. Its registered office is at 1 Allee Scheffer, L-2520, Luxembourg. <sup>4</sup>

**IN WITNESS WHEREOF, [LEHMAN BROTHERS FINANCE S.A./LEHMAN BROTHERS SECURITIES N.V./LEHMAN BROTHERS (LUXEMBOURG) EQUITY FINANCE S.A./LEHMAN BROTHERS BANKHAUS AG [(acting through its London Branch)]** has caused this Final Terms to be executed by a duly authorised officer or director.

Dated: [date]

Executed by

**[LEHMAN BROTHERS FINANCE S.A./  
LEHMAN BROTHERS SECURITIES N.V./  
LEHMAN BROTHERS (LUXEMBOURG) EQUITY FINANCE S.A./LEHMAN BROTHERS  
BANKHAUS AG [(acting through its London Branch)]**  
and signed and delivered on its behalf

By: \_\_\_\_\_

Name:

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<sup>4</sup> Include if Issuer is Lehman Brothers (Luxembourg) Equity Finance S.A.

Title:

By: \_\_\_\_\_

Name:

Title:

## Part A

### Information about the Securities

#### [Risk Factors

*Risk factors that are material to the securities being offered and/or admitted to trading need to be disclosed in order to assess the market risk associated with these securities. This must include a risk warning to the effect that investors may lose the value of their investment or part of it, as the case may be, and/or, if the investor's liability is not limited to the value of his investment, a statement of that fact, together with a description of the circumstances in which such additional liability arises and the likely financial effect.]*

#### General

1. Issuer [Lehman Brothers Finance S.A. /  
Lehman Brothers Securities N.V. /  
Lehman Brothers (Luxembourg) Equity  
Finance S.A. / Lehman Brothers  
Bankhaus AG [(acting through its  
London Branch)]]
2. Guarantor Lehman Brothers Holdings Inc.
3. Description of the Securities:
  - (a) Warrants or Certificates: The Securities are  
[Warrants/Certificates]
  - (b) Type of Securities: The Securities are  
[Index Securities]  
[Share Securities]  
[Depository Receipt Securities]  
[Debt Instrument Securities]  
[Currency Securities]  
[Commodity Securities]  
[Interest Rate Securities]  
[Specify details if other]

4.	Form of Securities:	<p>[Global Security: Subject to the Conditions, each person who is for the time being shown in the records of the relevant clearing system as the holder of a particular amount of Securities shall be treated for all purposes by the Issuer, the Guarantor, any Securities Agent and the relevant Clearing System and all other persons dealing with such person as the holder of such amount of Securities]</p> <p>[Global Security: Subject to the Conditions, each person shown in the records of DTC shall be treated by the Issuer, the Guarantor, any Securities Agent and the relevant Clearing System and all other persons dealing with such persons as the holder of such amounts of Securities]</p> <p>[Definitive Security: Subject to the Conditions, each person shown in the book-entry records of Lehman Brothers Inc. or in the register maintained by the Principal Securities Agent as the holder of a particular amount of Securities shall be treated by the Issuer, the Guarantor, any Securities Agent and all other persons dealing with such person as the holder of such amounts of Securities]</p>
5.	Description of the Underlying:	[As described in Part C (Information on the Underlying)]
6.	If Warrants, American Style Warrants, European Style Warrants or other:	[American Style] [European Style] [Specify details if other] [Not Applicable]
7.	If Warrants, Call Warrants, Put Warrants or other:	[Call Warrants] [Put Warrants] [Specify details if other] [Not Applicable]
8.	[a] Securities being issued:	[a] [Number]
	[b] Aggregate Specified Notional Amount:	[b] Not Applicable/Specify aggregate amount]
	[c] Specified Notional Amount(s) per	[c] Not Applicable/Specify Notional

Security:]	Amount(s)]
	<i>* (Details for (b) and (c) to be included if Securities are to be traded by reference to a Notional Amount (see also paragraph 24).)</i>
9. (a) Series Number:	[Number]
(b) Tranche Number:	[Number]
10. Issue Date:	[Date]
11. Issue Price(s):	[Currency][Amount]* per Security Each Dealer reserves the right, in its sole discretion, at any time and from time to time, to offer and sell the Securities at one or more prices that differ from the Issue Price  <i>*(Certificates issued by Lehman Brothers Bankhaus AG which are to be admitted to trading and listed on an EEA Regulated Market should either (a) have an issue price of at least EUR1,000 or (b) give the right to acquire transferable securities (other than those of Lehman Brothers Bankhaus AG) or to receive a cash amount).</i>
12. Minimum initial purchase of the Securities:	[Minimum initial purchase]
13. Minimum transferable number (for the purposes of Condition 1(c)):	[Minimum transferable number]
14. Last Trading Day (for the purposes of Conditions 1(c) and 9(c)):	[3 Business Days before the Actual Exercise Date (in the case of American Style Warrants) or the Expiration Date (in the case of European Style Warrants) or the commencement of the Certificate Settlement Notice Period (in the case of Certificates)]
<b>Warrants - Provisions relating to exercise</b>	
15. If American Style Warrants, the Exercise Period:	[From and including [date] to but excluding [date]] [Not Applicable]
16. If European Style Warrants, the Expiration Date:	[Date] [Not Applicable]

17. Exercise Notice Deposit Time(s) (for the purposes of Condition 5(a)): [Time][am / pm / noon] [City] time  
[Not Applicable]
18. Minimum Exercise Number (for the purposes of Condition 5(b)): [Number] Warrants  
[Not Applicable]
19. Integral multiple of Minimum Exercise Number (for the purposes of Condition 5(b)): [Number] Warrants  
[Not Applicable]
20. If Physical Delivery Warrants, any modification of minimum Board Lot requirement in relation to exercise (for the purpose of Condition 9(h)): [Specify details if applicable]  
[Not Applicable]
21. If American Style Warrants, the Maximum Exercise Number (for the purposes of Condition 5(b)): [Number] Warrants  
[Not Applicable]
22. Automatic Exercise in respect of Cash Settled Warrants (for the purposes of Condition 4(a)): [Applicable]  
[Not Applicable]

**Certificates - Provisions relating to interest**

23. Interest Payment Dates: [[Specify dates if applicable] and the Redemption Date]  
[Not Applicable]
24. Notional Amount per Certificate (for the purposes of Condition 6): [Currency][Amount]  
[Not Applicable]
25. Interest Rate (for the purposes of Condition 6): [Rate] per cent. per annum  
[Not Applicable]
26. Interest Rate Day Count Fraction (for the purposes of Condition 6): [Actual/365 or Actual/Actual (ISDA)]  
[Actual/365 (Fixed)]  
[Actual/360]  
[30/360 (Floating) or 360/360 or Bond Basis]  
[30E/360 or Eurobond Basis]  
[Not Applicable]
27. Other terms relating to the method of calculating interest (for the purposes of Condition 6): [Specify details if applicable]  
[Not Applicable]

**Provisions relating to settlement and redemption**

28. Form of Settlement (for the purposes of Condition 1(a)): [Cash Settled Securities [subject to the Holder's option to elect physical delivery]]  
[Physical Delivery Securities [subject to the Holder's option to elect cash settlement]]  
[Specify detailed terms of Holder's

- option if applicable, or for any other form of settlement applicable]*
29. Issuer's option to vary settlement in respect of the Securities (for the purposes of Conditions 1(a) and 10(c)): [Specify details if applicable]  
[Not Applicable]
30. Valuation Date: [If Certificates, Date]  
[If Warrants, Condition 28 applies or Date]
31. Averaging Dates: [Dates]  
[Not Applicable]
32. Consequence of Averaging Date Disruption (for the purposes of Condition 13(b)): [Omission][Postponement][Modified Postponement]  
[Not Applicable]
33. Valuation Time: [Time][am/pm/noon] [City] time  
[Any time which shall not be later than the Exercise Notice Deposit Time, in the case of Warrants]  
[Condition 28 applies]
34. If Warrants, the Settlement Date: [Date] [A day which should not be less than 3 Business Days following the Valuation Date]  
[Not Applicable]
35. If Certificates, the Certificate Settlement Notice Period: [From and including [date] to and including [date]]  
[Not Applicable]
36. If Certificates, the Redemption Date: [Date] [A day which should not be less than 3 Business Days following the Valuation Date]  
[Not Applicable]
37. Business Day Centre(s): [City/cities]
38. Exchange Rate, including details of when such rate is to be ascertained: [Rate] as determined by [Specify] ascertained at [the Relevant Time / specify if other] on [the Expiration Date / the Valuation Date / specify if other]  
[Not Applicable]
39. If Cash Settled Securities, Settlement Currency for the payment of the Cash Settlement Amount and/or Alternative Cash Settlement Amount: [Currency]  
[Not Applicable]
40. If Cash Settled Securities, Cash Settlement Amount or method of calculation of the Cash [Specify details if applicable]  
[Not Applicable]

- Settlement Amount (for the purposes of Condition 7 or Condition 10(a), as applicable):
41. If Physical Delivery Warrants, the Strike Price(s): [Currency][Amount] per Warrant  
[Not Applicable]
42. If Physical Delivery Securities:
- (a) the Relevant Asset(s) (for the purposes of the definition in Condition 28): [Applicable] [Not Applicable]  
[Specify details if applicable]
- (b) method of delivery of the Physical Settlement Amount (for the purposes of Condition 10(b)(i) or (ii)): [Applicable] [Not Applicable]  
[Specify details if applicable]
- [The Physical Delivery Amount shall be delivered through the Holder's account with the relevant Clearing System]
- (c) method of evidencing the Physical Delivery Amount (for the purposes of Condition 10(b)(i) or (ii)): [Applicable] [Not Applicable]  
[Specify details if applicable]
- [As shown in the Holder's account at the relevant Clearing System]
- (d) treatment of dividends payable on the Relevant Assets(s) (for the purposes of Condition 10(b)(iii)): [Not Applicable][Applicable]  
[Specify details if Condition 10(b)(iii) does not apply][Condition 10(b)(iii) applies]
43. If Physical Delivery Certificates, any modification of minimum Board Lot requirement in relation to settlement (for the purpose of Condition 9(h)): [Specify details if applicable]  
[Not Applicable]
44. Other circumstances where Holder will receive the Alternative Settlement Amount (for the purposes of Condition 10(c)): [Applicable] [Not Applicable]  
[Specify details if applicable]
45. Other additional conditions to settlement (for the purposes of Condition 10(a)(i), 10(a)(ii), 10(b)(i) and 10(b)(ii)): [Applicable] [Not Applicable]  
[Specify details if applicable]
- Other specified terms and modifications to the Conditions**
46. If Currency Securities, details of the Relevant Screen Page, the Base Currency and the relevant Subject Currency or Subject Currencies: [Applicable] [Not Applicable]  
[Specify details if applicable]
47. If Commodity Securities, provisions for calculations: [Applicable] [Not Applicable]  
[Specify details if applicable]

48. If Index Securities:
- (a) Index or Indices: [As specified in Part C of this Final Terms] [Not Applicable]
  - (b) Exchange: [*Specify relevant exchange or quotation system in relation to each Index*] [*Specify relevant Multi-exchange Index*] [Not Applicable]
  - (c) Related Exchange: [*Specify relevant exchange or quotation system in relation to each Index*][All Exchanges] [Not Applicable]
  - (d) Consequences of Index Adjustment Event (for the purposes of Condition 14(a)(ii)):
    - (i) Index Modification: [Calculation Agent Adjustment] [Cancellation and Payment] [Not Applicable]
    - (ii) Index Cancellation: [Calculation Agent Adjustment] [Cancellation and Payment] [Not Applicable]
    - (iii) Index Disruption: [Calculation Agent Adjustment] [Cancellation and Payment] [Not Applicable]
49. If Share Securities:
- (a) Share(s): [As specified in Part C of this Final Terms] [Not Applicable]
  - (b) Exchange: [*Specify relevant exchange or quotation system in relation to each Share*] [Not Applicable]
  - (c) Related Exchange: [*Specify relevant exchange or quotation system in relation to each Share*] [Not Applicable]
  - (d) Method of Adjustment (for the purposes of Condition 14(b)): [Options Exchange Adjustment] [Calculation Agent Adjustment] [Not Applicable]
  - (e) Consequences of Merger Events (for the purposes of Condition 15(a)):
    - (i) Share-for-Share: [Alternative Obligation] [Cancellation and Payment] [Options Exchange Adjustment] [Calculation Agent Adjustment] [Modified Calculation]

		Agent Adjustment] [Component Adjustment] [Not Applicable]
	(ii) Share-for-Combined:	[Alternative Obligation] [Cancellation and Payment] [Options Exchange Adjustment] [Calculation Agent Adjustment] [Modified Calculation Agent Adjustment] [Component Adjustment] [Not Applicable]
	(iii) Share-for-Other:	[Cancellation and Payment] [Options Exchange Adjustment] [Calculation Agent Adjustment] [Modified Calculation Agent Adjustment] [Component Adjustment] [Not Applicable]
(f)	Consequences of Tender Offers (for the purposes of Condition 15(b))	
	(i) Share-for-Share:	[Cancellation and Payment] [Options Exchange Adjustment] [Calculation Agent Adjustment] [Modified Calculation Agent Adjustment] [Component Adjustment] [Not Applicable]
	(ii) Share-for Combined:	[Cancellation and Payment] [Options Exchange Adjustment] [Calculation Agent Adjustment] [Modified Calculation Agent Adjustment] [Component Adjustment] [Not Applicable]
	(iii) Share-for-Other:	[Cancellation and Payment] [Options Exchange Adjustment] [Calculation Agent Adjustment] [Modified Calculation Agent Adjustment] [Component Adjustment] [Not Applicable]
(g)	Options Exchange (for the purposes of Condition 14(b)(i), Condition 15(a)(iii) or Condition 15(b)(ii), where applicable)	[Specify relevant exchange or quotation system]
50.	Additional Disruption Events:	
	(a) Applicable Additional Disruption Events:	[The following Additional Disruption Events apply:  [Change in Law] [Failure to Deliver]

		[Hedging Disruption] [Increased Costs of Hedging] [Increased Cost of Stock Borrow. For the purposes of such event, the Initial Loan Rate is [ <i>Specify details if applicable</i> ]] [Insolvency Filing]
		[Loss of Stock Borrow. For the purposes of such event, the Maximum Loan Rate is [ <i>Specify details if applicable</i> ]]
		[For the purposes of [Change in Law][and][Increased Cost of Hedging] the Initial Date is [ <i>Specify details if applicable</i> ]]
		[None]
	(b) Consequences of Additional Disruption Event:	[ <i>Specify details if applicable</i> ] [Not Applicable]
51.	Further adjustments:	
	(a) whether provisions for market disruption apply other than as provided for in Condition 13:	[Applicable][Not applicable] [ <i>Specify details if applicable</i> ]
	(b) in relation to Debt Instrument Securities, provisions dealing with the situation where one or more of the relevant Debt Instruments is redeemed (or otherwise ceases to exist before expiration of the relevant Securities):	[Applicable] [Not Applicable] [ <i>Specify details if applicable</i> ]
	(c) any supplemental adjustment provisions:	[Applicable] [Not Applicable] [ <i>Specify details if applicable</i> ]
52.	Other special conditions and any modification to the Terms and Conditions of the Securities:	[Applicable] [Not Applicable] [ <i>Specify details if applicable</i> ]
		[For the purposes of Luxembourg law, articles 86 to 94-8 (inclusive) of the Luxembourg law concerning commercial companies dated 10 August 1915, as amended, are not applicable to the Securities. The Securities are in registered form and a register of the Securities will be kept at the registered

- office of the Issuer.]<sup>5</sup>
53. Relevant Clearing System(s) (for the purposes of the definition in Condition 28): [DTC]  
[Euroclear]  
[Clearstream, Luxembourg]  
[Specify details if different]  
[[ ] shall act as common depositary for Euroclear and Clearstream, Luxembourg]
54. Calculation Agent if not the Issuer: [Insert details if applicable]  
[Not Applicable]
55. Rule 144A eligibility: [Yes/No]
56. Eligibility for private placement to other "accredited investors" in the United States: [Yes/No]
57. US Selling Restrictions and additional selling restrictions:
- (a) details of the applicable type of US Selling Restrictions including in respect of the relevant US Selling Restrictions certification required for the purposes of exercise or redemption: [Type 1A] [Type 1B] [Type 2A] [Type 2B] [Type 3A] [Type 3B] [Type 4] [Type 5]  
[Specify one category for every issue of Securities]
- (b) details of any additional selling restrictions (for the purposes of Condition 9(e)): [Applicable] [Not Applicable]  
[Specify details if applicable]

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<sup>5</sup> Include where the Issuer is Lehman Brothers (Luxembourg) Equity Finance S.A.

## Part B

### Other Information

58. (a) Listing: [Application has been made for the Securities to be listed on the (specify)/None]
- (b) Admission to Trading: [Application has been made for the Securities to be admitted to trading [, under MiFID,] on the Luxembourg Stock Exchange's regulated market] [ ] with effect from [ ]/Not Applicable]
- (Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)*
59. Notification
- The *Luxembourg Commission de Surveillance du Secteur Financier*, or CSSF, [has been requested to provide/has provided] [*include names of competent authorities in host Member States*] with a certificate of approval attesting that the Offering Circular has been drawn up in accordance with the Prospectus Directive.
60. [Interests of Natural and Legal Persons Involved in The Issue/Offer
- Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by inclusion of the following statement:*
- "Save as discussed in "Offering and Sale", so far as the Issuer is aware, no person involved in the offer of the Securities has an interest material to the offer".]*
61. (a) Method of distribution of the Securities: [Syndicated][Non-syndicated]
- (b) Names of the Dealer(s): [*Specify Dealer(s)*]
62. ISIN: [ISIN]  
[Not Applicable]
63. Common Code: [*Common Code*]  
[Not Applicable]

64. CUSIP: [CUSIP]  
[Not Applicable]
65. Telekurs number and, where any additional or alternative Clearing System(s) has/have been specified in paragraph 39(b) above, any other relevant security code: [Telekurs]  
[Security code of other Clearing System]  
[Not Applicable]
66. Principal Securities Agent: [US Securities Agent]  
[Belgian Securities Agent]  
[Luxembourg Securities Agent]  
[alternative Principal Securities Agent]  
[Specify details if applicable]
67. Whether Definitive Security Certificates may be issued as well as/instead of a Global Security: [Applicable] [Not Applicable]  
[Specify details if applicable]
- [The Securities will be at all times represented by a Global Security] [The Securities will be represented by Definitive Security Certificates]*
68. Reasons for the Offer:
- (a) Reasons for the Offer *See "Use of Proceeds" wording in Offering Circular - if reason for offer different from making profit and/or hedging certain risks will need to include these reasons here.*
69. Estimated total expenses: [Specify]
70. Estimated net proceeds: [Specify]

**Post Issuance Information**

The Issuer does not intend to provide any post issuance information, except if required by any applicable laws and regulations.

## **Part C**

### **Information on the Underlying**

*In addition, the following will be included in an annex to the Final Terms:*

1. *For the purpose of describing the Underlying to which the Securities relate:*
  - 1.1 *The exercise price or the final reference price of the underlying.*
  - 1.2 *A statement setting out the type of the underlying and details of where information on the underlying can be obtained:*
    - *an indication where information about the past and the further performance of the underlying and its volatility can be obtained;*
    - *where the underlying is a security:*
      - *the name of the issuer of the security;*
      - *the ISIN (international security identification number) or other such security identification code;*
    - *where the underlying is an index:*
      - *the name of the index and a description of the index if it is composed by the Issuer. If the Index is not composed by the issuer, where information about the index can be obtained;*
    - *where the underlying is an interest rate:*
      - *a description of the interest rate;*
    - *where the underlying is a basket of underlyings:*
      - *disclosure of the relevant weightings of each underlying in the basket.*
    - *others:*
      - *where the underlying does not fall within the categories specified above, equivalent information should be included;*
  - 1.3 *A description of any market disruption or settlement disruption events that affect the underlying.*
  - 1.4 *Adjustment rules with relation to events concerning the underlying.*

## TERMS AND CONDITIONS OF THE SECURITIES

*The following is the text of the Terms and Conditions of the Securities which will be attached to or incorporated by reference into each Global Security and/or Definitive Security Certificate, as appropriate. The Final Terms in relation to an issue of Securities supplements the following Terms and Conditions and may specify other terms and conditions which shall to the extent so specified or to the extent inconsistent with the following Terms and Conditions supplement, replace or modify the following Terms and Conditions for the purpose of such Securities.*

*In these Conditions, words and expressions not defined elsewhere have the meanings given to them in Condition 28.*

Unless otherwise specified in the relevant Global Security or Definitive Security Certificate and/or the applicable Final Terms (as defined below), the warrants ("**Warrants**") or certificates ("**Certificates**") of this series (such Warrants or Certificates being hereinafter referred to as the "**Securities**") are represented by one or more global warrants or certificates (the "**Global Security**") or, in the case of Securities to be issued in definitive form ("**Definitive Warrants**" or "**Definitive Certificates**", as the case may be, and Definitive Warrants and Definitive Certificates collectively, "**Definitive Securities**"), by one or more definitive security certificates (each a "**Definitive Security Certificate**") and are issued pursuant to a master warrant and certificate agreement as amended and restated on 9 August 2006 (the "**Securities Agency Agreement**") between Lehman Brothers Finance S.A., Lehman Brothers Securities N.V., Lehman Brothers (Luxembourg) Equity Finance S.A., Lehman Brothers Bankhaus AG (including when acting through its London Branch) (each an "**Issuer**"), The Bank of New York, New York as US warrant and certificate agent (the "**US Securities Agent**"), The Bank of New York, Brussels as Belgian warrant and certificate agent (the "**Belgian Securities Agent**") and The Bank of New York (Luxembourg) S.A. as Luxembourg warrant and certificate agent (the "**Luxembourg Securities Agent**" and, together with the US Securities Agent, the Belgian Securities Agent and any additional warrant and certificate agent appointed thereunder, the "**Securities Agents**", which expression shall include any additional or successor warrant and certificate agents). In the following provisions of these Conditions, each reference to the "**Issuer**" is a reference to whichever of Lehman Brothers Finance S.A., Lehman Brothers Securities N.V., Lehman Brothers (Luxembourg) Equity Finance S.A. or Lehman Brothers Bankhaus AG (including when acting through its London Branch) is identified as the Issuer in the applicable Final Terms. The Issuer shall undertake the duties of calculation agent (the "**Calculation Agent**") in respect of the Securities unless another entity is so specified as calculation agent in the applicable Final Terms pursuant to the terms of a master calculation agency agreement as amended and restated on 9 August 2006 (the "**Master Calculation Agency Agreement**"). The expression "**Calculation Agent**" shall, in relation to the relevant Securities, include such other specified calculation agent.

Other than Securities sold to "accredited investors" (as defined in Rule 501 under the Securities Act) in the United States that are not QIBs, no Definitive Securities will be issued unless specified in the applicable Final Terms. The Global Security in respect of a Series of Securities will be deposited with a common depository for the relevant Clearing System (the "**Common Depository**") or, in the event that such Securities are to be traded through DTC, the Global Security will be deposited with a custodian for and registered in the name of a nominee of DTC.

The Final Terms for the Securities of any Series is attached to the Global Security relating thereto or, as in the case may be, each Definitive Security Certificate relating thereto and supplements these Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, supplement, replace or modify these Conditions for the purposes of such Securities. References herein to the "**applicable Final Terms**" are to the relevant

Final Terms (including any additional Final Terms in the case of any further warrants or certificates, as the case may be, issued pursuant to Condition 23 and forming a single series with the Securities) attached to the Global Security  $\alpha$ , as the case may be, the Definitive Security Certificate relating to the Securities.

Copies of the Securities Agency Agreement (which contains the form of the Final Terms) and the master guarantee dated 9 August 2006 relating to Lehman Brothers Finance S.A., the master guarantee dated 9 August 2006 relating to Lehman Brothers Securities N.V., the master guarantee dated 9 August 2006 relating to Lehman Brothers (Luxembourg) Equity Finance S.A. and the master guarantee dated 9 August 2006 relating to Lehman Brothers Bankhaus AG (including when acting through its London Branch) provided by Lehman Brothers Holdings Inc. (the "**Guarantor**") guaranteeing the relevant Issuer's obligations under any Series of Securities (together, the "**Master Guarantees**") and the Final Terms applicable to such Securities are available for inspection at the specified office of each Securities Agent, save that if such Securities are unlisted, the applicable Final Terms will only be available for inspection by a holder of such Securities and such holder must produce evidence satisfactory to the relevant Securities Agent as to identity.

Words and expressions defined in the Securities Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated.

The Holders (as defined in Condition 1(b)) are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Securities Agency Agreement and the applicable Final Terms.

## 1. **Type, Title and Transfer**

### (a) Type

The Securities are Warrants or Certificates, and are Index Securities, Share Securities, Depositary Receipt Securities, Debt Instrument Securities, Currency Securities, Commodity Securities, Interest Rate Securities or any other or further type of securities as is specified in the applicable Final Terms.

Securities may be Cash Settled Securities or Physical Delivery Securities or may be settled by such other method as specified in the applicable Final Terms. Securities may also allow Holders to elect for settlement by way of cash payment or by way of physical delivery or by such other settlement as specified in the applicable Final Terms (which may include settlement by way of either cash payment or physical delivery in respect of the same Securities as determined by the value thereof in relation to the relevant Strike Price (if applicable) or another specified amount). Those Securities where the Holder has so elected for cash payment (or where settlement is by way of either cash payment or physical delivery and it is determined by applying the mechanism set out in the applicable Final Terms that the former will apply) will be Cash Settled Securities and those Securities where the holder has elected for physical delivery (or where settlement is by way of either cash payment or physical delivery and it is determined by applying the mechanism set out in the applicable Final Terms that the latter will apply) will be Physical Delivery Securities. The rights of a Holder as described in this Condition may be subject to the Issuer's right to vary the method of settlement if so indicated in the applicable Final Terms.

The applicable Final Terms for a Series of Warrants will indicate whether the Warrants are American Style Warrants or European Style Warrants or such other type as may be specified in

the applicable Final Terms, and whether the Warrants are Call Warrants or Put Warrants or such other type as may be specified in the applicable Final Terms.

References in these Conditions, unless the context otherwise requires, to Cash Settled Warrants or Cash Settled Certificates shall be deemed to include references to Physical Delivery Warrants or, as the case may be, Physical Delivery Certificates which include an option (as set out in the applicable Final Terms) for the Issuer to elect cash settlement of such Securities and where settlement is to be by way of cash payment and references in these Conditions, unless the context otherwise requires, to Physical Delivery Warrants or, as the case may be, Physical Delivery Certificates shall be deemed to include references to Cash Settled Warrants or, as the case may be, Cash Settled Certificates which include an option (as set out in the applicable Final Terms) for the Issuer to elect physical delivery of the Relevant Assets in settlement of such Security and where settlement is to be by way of physical delivery.

(b) Title to Securities

Subject as provided in these Conditions, each person who is for the time being shown in the records of the relevant Clearing System as the holder of a particular amount of Securities (in which regard any certificate or other document issued by the relevant Clearing System as to the amount of Securities standing to the account of any person shall be conclusive and binding for all purposes, save in the case of manifest error) shall be treated for all purposes by the Issuer, the Guarantor, any Securities Agent, the relevant Clearing System and all other persons dealing with such person as the holder of such amount of Securities.

In the case of Securities represented by a Global Security held through DTC, each such Global Security will be registered in the name of Cede & Co., as nominee for DTC, and will be held by The Bank of New York, New York as custodian for DTC. Subject as provided in these Conditions, each person shown in the records of DTC shall be treated by the Issuer, the Guarantor, any Securities Agent and the relevant Clearing System and all other persons dealing with such persons as the holder of such amounts of Securities.

In the case of Definitive Securities, each Definitive Security Certificate will be registered in the name of Lehman Brothers Inc., as nominee for the "accredited investors" or, in the case of an accredited investor not maintaining an account with Lehman Brothers Inc., registered in the name of such accredited investor. Subject as provided in these Conditions, each person shown in the book-entry records of Lehman Brothers Inc. or in the register maintained by the Principal Securities Agent as the holder of a particular amount of Securities shall be treated by the Issuer, the Guarantor, any Securities Agent and all other persons dealing with such person as the holder of such amounts of Securities.

The expressions "**Holder**", "**holder of Securities**", "**holder of Warrants**", "**holder of Certificates**" and related expressions shall be construed in accordance with the foregoing provisions of this Condition 1(b).

(c) Transfers of Securities

With the exception of Definitive Securities, all transactions in (including transfers of) the Securities, in the open market or otherwise, must be effected through an account with the relevant Clearing System, subject to and in accordance with the rules and procedures for the time being of the relevant Clearing System. Title to the Securities will pass upon registration of the transfer in the books of the relevant Clearing System or by such other means acceptable to the relevant Clearing System. Securities are transferable in such minimum number of Securities

(if any) as is specified in the applicable Final Terms. Transfers of Securities may not be effected after the date specified in the applicable Final Terms as the Last Trading Day (the "**Last Trading Day**").

In the event of sales in the United States to "accredited investors", an amount of Securities represented by a book-entry on the records of Lehman Brothers Inc. may only be transferred to the Lehman Brothers Inc. account of such person pursuant to the restrictions set forth in the letter to the Issuer, the Guarantor and Lehman Brothers Inc. substantially in the form of Schedule 8 to the Securities Agency Agreement. Securities, if any, held by "accredited investors" as a book-entry in their account with Lehman Brothers Inc. may only be sold or transferred by the then current Holder to Lehman Brothers Inc. by notifying Lehman Brothers Inc. and accompanied by a written instrument of transfer in a form satisfactory to the Issuer and (if applicable) the Principal Securities Agent, duly executed by the Holder or its duly authorised agent. If the Holder moves its account to another broker-dealer, such Holder must either sell the Securities to Lehman Brothers Inc. or maintain an account with Lehman Brothers Inc. for as long as it holds an amount of outstanding Securities. For Definitive Securities registered in the name of an accredited investor, such Definitive Securities will not be transferable otherwise than to Lehman Brothers Inc. and may only be transferred to Lehman Brothers by notifying Lehman Brothers Inc. and providing a written instrument of transfer in a form satisfactory to the Issuer and (if applicable) the Principal Securities Agent, duly executed by the Holder or its duly authorised agent, together with the relevant Definitive Security Certificate(s). Further information relating to the registration and transfer of Definitive Securities is set out in the Securities Agency Agreement.

(d) **Luxembourg Register**

For Luxembourg law purposes, and in respect of any Securities issued by Lehman Brothers (Luxembourg) Equity Finance S.A., the Issuer will maintain a register of the Securities at its registered office (the "**Luxembourg Register**"). With respect to Definitive Securities issued by Lehman Brothers (Luxembourg) Equity Finance S.A., only the holders of such Securities as mentioned in the Luxembourg Register will be treated as and deemed to be the absolute owners and holders of those Securities. In the event of any inconsistency between the Luxembourg Register and any other register of the Securities, the Luxembourg Register will prevail under Luxembourg law. With respect to Global Securities issued by Lehman Brothers (Luxembourg) Equity Finance S.A., the Luxembourg Register shall indicate the Clearing System or any nominee or depository thereof as holder of the Securities. For the purposes of Luxembourg law only the person(s) inscribed in the Luxembourg Register will be considered to be the holders of such Global Securities.

2. **Status of the Securities**

The Securities constitute direct, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and with all other direct, unsubordinated and unsecured obligations of the Issuer.

3. **The Master Guarantees**

The Guarantor will, in accordance with the terms of the Master Guarantees, guarantee the performance of the obligations of the relevant Issuer under the Securities in accordance with these Conditions. The obligations of the Guarantor under the Master Guarantees will constitute

direct, unsubordinated, unsecured and irrevocable obligations of the Guarantor and will rank *pari passu* with all other direct, unsubordinated and unsecured obligations of the Guarantor.

4. **Warrants - Exercise Rights**

*This Condition 4 applies only to Warrants.*

(a) American Style Warrants

This paragraph (a) applies only to American Style Warrants.

American Style Warrants are exercisable on any Exercise Business Day during the Exercise Period.

The "**Actual Exercise Date**" shall be the earlier of the Expiration Date and the Exercise Business Day during the Exercise Period on which an Exercise Notice is received by both the Clearing System and the Principal Securities Agent prior to the Exercise Notice Deposit Time. Any Exercise Notice which is not delivered to both the relevant Clearing System and the Principal Securities Agent prior to the Exercise Deposit Notice Time on any Exercise Business Day during the Exercise Period will be deemed to have been deposited on the next Exercise Business Day, which Exercise Business Day shall be deemed to be the Actual Exercise Date provided it occurs not later than the Expiration Date.

Any American Style Warrant with respect to which no Exercise Notice has been delivered in the manner set out in Conditions 5 and 9 at or prior to the Exercise Notice Deposit Time on the Expiration Date shall (if such American Style Warrant is a Cash Settled Warrant) be deemed by the Issuer (unless stated to the contrary in the applicable Final Terms or any certification is required pursuant to Condition 9(e)) to be exercised automatically ("**Automatic Exercise**") or, if not so deemed (as stated in the applicable Final Terms, or if such American Style Warrant is a Physical Delivery Warrant and thus not capable of being so deemed), shall become void *provided that* Automatic Exercise shall not be available where the Cash Settlement Amount in respect of such Cash Settled Warrant is negative or equal to zero.

In the case of Definitive Warrants represented by a Definitive Security Certificate, whether or not held through Lehman Brothers Inc., and save where Automatic Exercise is or is deemed to be applicable, such Definitive Warrants may only be exercised by the delivery of a duly completed Exercise Notice to Lehman Brothers Inc., with a copy to both the Issuer and the US Securities Agent, amended as appropriate and completed to the satisfaction of the Issuer and the US Securities Agent. Any Exercise Notice which is delivered to Lehman Brothers Inc., the Issuer or the US Securities Agent after the Exercise Deposit Notice Time on any Exercise Business Day during the Exercise Period will be deemed to have been deposited on the next Exercise Business Day, which Exercise Business Day shall be deemed to be the Actual Exercise Date provided it occurs not later than the Expiration Date. Any Definitive Warrants represented by a Definitive Security Certificate, whether or not held through Lehman Brothers Inc., with respect to which no Exercise Notice has been delivered in the manner set out in this Condition at or prior to the Exercise Notice Deposit Time on the Expiration Date shall (if such Warrant is a Cash Settled Warrant) be deemed by the Issuer (unless stated to the contrary in the applicable Final Terms) to be subject to Automatic Exercise or, if not so deemed (as stated in the applicable Final Terms, or if such Warrant is a Physical Delivery Warrant and thus not capable of being so deemed), shall become void *provided that* Automatic Exercise shall not be available where the Cash Settlement Amount in respect of such Cash Settled Warrant is negative or equal to zero.

(b) European Style Warrants

This paragraph (b) applies only to European Style Warrants. European Style Warrants are only exercisable on the Expiration Date.

Any European Style Warrant with respect to which no Exercise Notice has been delivered in the manner set out in Conditions 5 and 9 at or prior to the Exercise Notice Deposit Time on the Expiration Date shall (if such European Style Warrant is a Cash Settled Warrant) be deemed by the Issuer (unless stated to the contrary in the applicable Final Terms or any certification is required pursuant to Condition 9(e)) to be subject to Automatic Exercise or, if not so deemed (as stated in the applicable Final Terms, or if such European Style Warrant is a Physical Delivery Warrant and thus not capable of being so deemed), shall become void *provided that* Automatic Exercise shall not be available where the Cash Settlement Amount in respect of such Cash Settled Warrant is negative or equal to zero.

(c) American Style and European Style Warrants

Any Cash Settled Warrant not subject to Automatic Exercise (as stated in the applicable Final Terms) and with respect to which the Exercise Notice has not been duly completed in the manner set forth in Condition 5(a) on or before the Exercise Notice Deposit Time on the Expiration Date may also be deemed by the Issuer (following the procedure described in Condition 5(a) below) in its complete discretion to be exercised automatically (if the Cash Settlement Amount is greater than zero) or, if not so deemed, shall become void.

5. **Warrants - Exercise**

*This Condition 5 applies only to Warrants.*

(a) Exercise Notice

Subject to Condition 5(a)(iii), Warrants may be exercised by the delivery of a duly completed exercise notice (an "**Exercise Notice**") substantially in the form set out in the Securities Agency Agreement or in such other form as may be approved by the Issuer (copies of which form, in either case, may be obtained from the relevant Clearing System and the Securities Agents) and containing the information set out below to both the relevant Clearing System (in accordance with its rules and procedures for the time being) and the Principal Securities Agent not later than the Exercise Notice Deposit Time on (in the case of American Style Warrants) any Exercise Business Day during the Exercise Period or on (in the case of European Style Warrants) the Expiration Date:

- (i) In the case of Cash Settled Warrants, the Exercise Notice shall (or, in the case of Automatic Exercise, may be deemed by the Issuer in its complete discretion and based on such information held by it regarding the Holder and such Holder's details, to):
  - (A) specify the name(s) of the Holder(s) exercising the Warrants;
  - (B) specify the address(es) of the Holders exercising the Warrants;
  - (C) specify the number of Warrants being exercised;
  - (D) specify the number of the Holder's account at the relevant Clearing System to be debited with the Warrants being exercised;

- (E) irrevocably instruct the relevant Clearing System (i) to debit on or before the Settlement Date the Holder's account with the Warrants being exercised and (ii) to notify the Principal Securities Agent accordingly;
  - (F) specify the number of the Holder's account at the relevant Clearing System to be credited with the Cash Settlement Amount (if any) for each Warrant being exercised;
  - (G) include an undertaking to pay all Expenses with respect to such Warrants and an authority to the relevant Clearing System to deduct an amount in respect thereof from any Cash Settlement Amount due to such Holder, or, at any time after the Settlement Date, to debit a specified account of the Holder at the relevant Clearing System in respect thereof and to pay such Expenses; and
  - (H) include any certification required pursuant to Condition 9(e).
- (ii) In the case of Physical Delivery Warrants, the Exercise Notice shall:
- (A) specify the name(s) of the Holder(s) exercising the Warrants;
  - (B) specify the address(es) of the Holders exercising the Warrants;
  - (C) specify the number of Warrants being exercised;
  - (D) specify the number of the Holder's account at the relevant Clearing System to be debited with the Warrants being exercised;
  - (E) irrevocably instruct the relevant Clearing System (i) to debit on or before the Settlement Date the Holder's account with the Warrants being exercised and (ii) to notify the Principal Securities Agent accordingly;
  - (F) irrevocably instruct the relevant Clearing System (except in the event that DTC is the relevant Clearing System) to debit on or before the Settlement Date a specified account of the Holder with the relevant Clearing System with the aggregate Strike Price(s) in respect of such Warrants (together with any other amounts payable) and credit the same to the Issuer;
  - (G) include an undertaking to pay all Expenses with respect to such Warrants and an authority to the relevant Clearing System to debit on or at any time after the Settlement Date, a specified account of the Holder at the relevant Clearing System in respect thereof and to pay such Expenses;
  - (H) if applicable, specify the name and address of any person(s) into whose name evidence of the Physical Settlement Amount is to be registered and/or any bank, broker or agent to whom documents evidencing the Physical Settlement Amount are to be delivered and specify the name and the number of the Holder's account with the relevant Clearing System to be credited with any cash payable by the Issuer, in respect of any dividends relating to the Physical Settlement Amount or as a result of a Settlement Interruption or otherwise under these Conditions;

- (I) if applicable, specify the account details of the Holder's participant with the applicable clearing system to be credited with the Physical Settlement Amount; and
  - (J) include any certification required pursuant to Condition 9(e).
- (iii) In the case of Definitive Warrants or if Condition 10(c) applies, the form of Exercise Notice required to be delivered in the manner set out above will be different. Copies of such Exercise Notice may be obtained from the Principal Securities Agent or the Issuer.
- (b) **Minimum and Maximum Number of Warrants Exercisable**
- (i) The number of American Style Warrants exercisable by any Holder (or deemed by the Issuer to be subject to Automatic Exercise as the case may be) on any Actual Exercise Date, as determined by the Issuer, must be equal to the Minimum Exercise Number or any integral multiple thereof each as specified in the applicable Final Terms. Any Exercise Notice which purports to exercise Warrants in breach of this provision shall be void and of no effect.
  - (ii) If the Issuer determines that the number of American Style Warrants being exercised on any Actual Exercise Date by any Holder or a group of Holders (whether or not acting in concert) exceeds the Maximum Exercise Number (a number equal to the Maximum Exercise Number as specified in the applicable Final Terms being referred to herein as the "**Quota**"), the Issuer may deem the Actual Exercise Date for the first Quota of such Warrants, selected at the discretion of the Issuer, to be such day and the Actual Exercise Date for each additional Quota of such Warrants (and any remaining number thereof) to be each of the succeeding Business Days until all such Warrants have been attributed with an Actual Exercise Date, provided, however, that the deemed Actual Exercise Date for any such Warrants which would thereby fall after the Expiration Date shall fall on the Expiration Date.
  - (iii) The number of European Style Warrants exercisable by any Holder (or deemed by the Issuer to be subject to Automatic Exercise as the case may be) on the Expiration Date must be equal to the Minimum Exercise Number or any integral multiple thereof in each case as specified in the applicable Final Terms. Any Exercise Notice which purports to exercise Warrants in breach of this provision shall be void and be of no effect.
- (c) **Further Provisions regarding Exercise**

The exercise of Warrants is further subject to the applicable provisions of Condition 9.

6. **Certificates - Interest**

*This Condition 6 applies only to Certificates.*

(a) **Interest Amount**

If so specified in the applicable Final Terms and subject as provided in these Conditions, each Certificate pays interest from and including the Issue Date at the Interest Rate payable in arrears on each Interest Payment Date. The amount payable in respect of each Certificate on each

Interest Payment Date will be the Interest Amount for the Interest Period ending on (but excluding) such Interest Payment Date.

If an Interest Amount is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated on the basis of the number of days from and including the most recent Interest Payment Date (or, if none, the Issue Date) to but excluding the relevant payment date and the Interest Rate Day Count Fraction specified in the applicable Final Terms

(b) Accrual of Interest

Each Certificate to which Condition 6(a) applies will cease to accrue interest from and including the Redemption Date unless payment of the Cash Settlement Amount and/or delivery of any Physical Settlement Amount due on redemption is improperly withheld or refused by the Issuer in which case interest shall continue to accrue from the Redemption Date until such payment or delivery is made, as the case may be. For the avoidance of doubt, no interest on the Certificates shall accrue beyond the Redemption Date in the event that delivery of any Physical Settlement Amount is postponed due to the occurrence of a Settlement Interruption or otherwise as provided for in these Conditions or the applicable Final Terms.

(c) Definitions

"**Actual/360**" means the actual number of days in the Interest Period divided by 360.

"**Actual/365**" or "**Actual/Actual (ISDA)**" means the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366; and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365).

"**Actual/365 (Fixed)**" means the actual number of days in the Interest Period divided by 365.

"**30/360 (Floating)**" or "**360/360**" or "**Bond Basis**" means the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30<sup>th</sup> or 31st, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month or (ii) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a month comprising 30 days).

"**30E/360**" or "**Eurobond Basis**" means the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 months each comprising 30 days without regard to the date of the first day or last day of the Interest Period, unless in the case of an Interest Period ending on the Redemption Date, the Redemption Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a month comprising 30 days).

"**Interest Amount**" means, in respect of each Interest Period and each Certificate, an amount calculated by the Calculation Agent as follows:

Notional Amount per Certificate x Interest Rate x Interest Rate Day Count Fraction

"**Interest Payment Date**" means each date specified in the applicable Final Terms.

**"Interest Period"** means the period commencing on (and including) the Issue Date to (but excluding) the first Interest Payment Date and each period commencing on (and including) an Interest Payment Date to (but excluding) the next following Interest Payment Date.

**"Interest Rate"** means the rate specified as such in the applicable Final Terms.

**"Notional Amount per Certificate"** means the amount specified as such in the applicable Final Terms.

7. **Certificates - Redemption**

*This Condition 7 applies only to Certificates.*

Subject as provided in these Conditions (including without limitation any applicable certification requirement under Condition 9(e)) and as specified in the applicable Final Terms, each Certificate will be redeemed by the Issuer:

- (i) in the case of a Cash Settled Certificate, by payment of the Cash Settlement Amount calculated by the Calculation Agent (which shall not be less than zero) as specified in the applicable Final Terms; or
- (ii) in the case of a Physical Delivery Certificate, by delivery of the Physical Settlement Amount,

such redemption to occur in either case, and subject as provided in these Conditions, on the Redemption Date.

8. **Certificates - Certificate Settlement Notice**

*This Condition 8 applies only to Certificates.*

(a) Certificate Settlement Notice

Save in relation to Cash Settled Certificates in respect of which certification of non-US beneficial ownership as contemplated in Condition 9(g) is not required, in order to obtain payment of the Cash Settlement Amount or delivery of the Physical Settlement Amount in respect of any Certificate, the Holder must deliver a duly completed settlement notice (a "**Certificate Settlement Notice**") substantially in the form set out in the Securities Agency Agreement or in such other form as may be approved by the Issuer (copies of which form, in either case, may be obtained from the relevant Clearing System and the Securities Agents) and containing the information set out below to both the relevant Clearing System (in accordance with its rules and procedures for the time being) and the Principal Securities Agent during the Certificate Settlement Notice Period:

- (i) In the case of Cash Settled Certificates, the Certificate Settlement Notice shall (or may be deemed by the Issuer in its complete discretion and based on such information held by it regarding the Holder and such Holder's details, to):
  - (A) specify the name(s) of the relevant Holder(s) of the Certificates;
  - (B) specify the address(es) of the relevant Holders of the Certificates;
  - (C) specify the number of Certificates which are the subject of such notice;

- (D) specify the number of the Holder's account at the relevant Clearing System to be debited with such Certificates;
  - (E) irrevocably instruct the relevant Clearing System (i) to debit on or before the Redemption Date the Holder's account with the Certificates which are the subject of such notice and (ii) to notify the Principal Securities Agent accordingly;
  - (F) specify the number of the Holder's account at the relevant Clearing System to be credited with the Cash Settlement Amount (if any) for each relevant Certificate;
  - (G) include an undertaking to pay all Expenses and an authority to the relevant Clearing System to deduct an amount in respect thereof from any Cash Settlement Amount due to such Holder, or, at any time after the Redemption Date, to debit a specified account of the Holder at the relevant Clearing System in respect thereof and to pay such Expenses; and
  - (H) include any certification required pursuant to Condition 9(e).
- (ii) In the case of Physical Delivery Certificates, the Certificate Settlement Notice shall:
- (A) specify the name(s) of the Holder(s) of the Certificates;
  - (B) specify the address(es) of the Holder(s) of the Certificates;
  - (C) specify the number of Certificates which are the subject of such notice;
  - (D) specify the number of the Holder's account at the relevant Clearing System to be debited with such Certificates;
  - (E) irrevocably instruct the relevant Clearing System (i) to debit on or before the Redemption Date the Holder's account with the Certificates which are the subject of such notice and (ii) to notify the Principal Securities Agent accordingly;
  - (F) include an undertaking to pay all Expenses including any applicable depository charges, transactions or exercise charges, stamp duty, stamp duty reserve tax and/or other taxes or duties arising from the delivery or transfer of the Physical Settlement Amount to or to the order of such Holder and an authority to the relevant Clearing System to debit on or at any time after the Settlement Date, a specified account of the Holder at the relevant Clearing System in respect thereof and to pay such Expenses;
  - (G) if applicable, specify the name and address of any person(s) into whose name evidence of the Physical Settlement Amount is to be registered and/or any bank, broker or agent to whom documents evidencing the Physical Settlement Amount are to be delivered and specify the name and the number of the Holder's account with the relevant Clearing System to be credited with any cash payable by the Issuer, in respect of any dividends relating to the Physical Settlement Amount or as a result of a Settlement Interruption or otherwise under these Conditions;

- (H) if applicable, specify the account details of the Holder's participant with the applicable clearing system to be credited with the Physical Settlement Amount; and
  - (I) include any certification required pursuant to Condition 9(e).
- (iii) In the case of Definitive Certificates or if Condition 10(c) applies, the form of Certificate Settlement Notice required to be delivered in the manner set out above will be different. Copies of such Certificate Settlement Notice may be obtained from the Principal Securities Agent or the Issuer.
- (b) Further provisions regarding Certificate Settlement Notices
- Certificate Settlement Notices are further subject to the applicable provisions of Condition 9.

9. **Verification, Determinations and Restrictions**

(a) Verification

Upon receipt of an Exercise Notice or a Certificate Settlement Notice (which must be delivered to both the Clearing System and the Principal Securities Agent), the relevant Clearing System (except in the event that DTC is the relevant Clearing System) shall verify that the person exercising the Warrants or delivering the Certificate Settlement Notice, as the case may be, is the holder of the Securities to which such notice relates according to the records of the relevant Clearing System. Subject thereto, and by 11.00 a.m. (Luxembourg time) on the Business Day immediately following receipt, the relevant Clearing System (except in the event that DTC is the Relevant Clearing System) will confirm to the Principal Securities Agent the number of Warrants being exercised or the number of Certificates in respect of which a Certificate Settlement Notice has been received, as the case may be, and if the Securities are Cash Settled Securities the account details, if applicable, for the payment of the Cash Settlement Amount in respect of each such Security or, if the Securities are Physical Delivery Securities, the details for the delivery of the Physical Settlement Amount for each Security being exercised or to be redeemed. Upon receipt of such confirmation, the Principal Securities Agent will inform the Issuer thereof. In the event that DTC is the relevant Clearing System or in the event that the Securities are Definitive Securities, the Principal Securities Agent will verify that the person exercising the Warrant or delivering a Certificate Settlement Notice in respect of any Certificates, as the case may be, is the holder thereof and will inform the Issuer of the relevant details. The relevant Clearing System will on or before the Settlement Date or Redemption Date, as the case may be, debit the account of the relevant Holder with the relevant Securities. If the Securities are American Style Warrants, upon exercise of less than all the Warrants constituted by the Global Security, the Common Depositary or the custodian for DTC, upon receipt of instructions from the Principal Securities Agent, will note such exercise on the Schedule to the Global Security and the number of Warrants so constituted shall be reduced by the cancellation *pro tanto* of the Warrants so exercised.

(b) Determinations

Any determination as to whether an Exercise Notice or a Certificate Settlement Notice is duly completed and in proper form shall be made by the relevant Clearing System (except in the case of Securities held directly through DTC and Definitive Securities) in consultation with the Principal Securities Agent and shall be conclusive and binding on the Issuer, the Securities Agents and the relevant Holder. Subject as set out below, if (i) the number of Securities

specified in an Exercise Notice or Certificate Settlement Notice, as the case may be, exceeds the number of such Securities held in the relevant account or (ii) any Exercise Notice or Certificate Settlement Notice, as the case may be, is determined to be incomplete or not in proper form, or is not copied to the Principal Securities Agent subsequent to being delivered or sent to the relevant Clearing System (except in the case of Securities held directly through DTC and Definitive Securities) as provided in Condition 5 or Condition 8, as the case may be, such Exercise Notice or Certificate Settlement Notice, as the case may be, shall be null and void.

The Issuer shall request the relevant Clearing System (except in the case of Securities held directly through DTC and Definitive Securities) to use its best efforts promptly to notify the Holder submitting an Exercise Notice or a Certificate Settlement Notice, as the case may be, if, in consultation with the Principal Securities Agent, it has determined that such notice is incomplete or not in proper form. None of the Issuer and the Securities Agents shall be liable to any person with respect to any such determination or any action taken or omitted to be taken by such Clearing System in connection with the notification of such determination to a Holder.

If any such notice is subsequently corrected to the satisfaction of the relevant Clearing System (except in the case of Securities held directly through DTC and Definitive Securities) in consultation with the Principal Securities Agent, or is copied to the Principal Securities Agent, as the case may be, it shall be deemed to be a new notice submitted at the time such correction was delivered to the relevant Clearing System (except in the case of Securities held directly through DTC and Definitive Securities) and the Principal Securities Agent or such time as the relevant notice is copied to the Principal Securities Agent, as the case may be.

In the case of Securities held directly through DTC and Definitive Securities, any determination as to whether an Exercise Notice or Certificate Settlement Notice, as the case may be, is duly completed and in proper form shall be made by the Principal Securities Agent and shall be conclusive and binding on the Issuer and the relevant Holder. The Principal Securities Agent will use its best efforts promptly to notify the Holder who has submitted an Exercise Notice or Certificate Settlement Notice, as the case may be, if it has determined that such notice is incomplete or not in proper form. If such notice is subsequently corrected to the satisfaction of the Principal Securities Agent, it shall be deemed to be a new notice submitted at the time such correction was delivered to the Principal Securities Agent.

(c) Restriction on Transfer

No Holder may transfer or attempt to transfer:

- (i) any Security after the Last Trading Day; or
- (ii) any Physical Delivery Security the subject of an Exercise Notice or a Certificate Settlement Notice after delivery of such notice.

Notwithstanding the above, if any Holder transfers or attempts to transfer any Securities in the circumstances stated in (i) or (ii) above, the Holder will be liable to the Issuer for any losses, costs and expenses suffered or incurred by the Issuer, including, without limitation, those suffered or incurred as a consequence of it having terminated any related hedging transactions in reliance on the occurrence of the Last Trading Day or the delivery of the relevant Exercise Notice or, as the case may be, Certificate Settlement Notice and subsequently (i) entering into replacement hedging transactions in respect of such Securities or (ii) paying any amount on the subsequent settlement of such Securities without having entered into any replacement hedging transactions.

(d) Exercise and Settlement Risk

Exercise and settlement of Warrants and redemption of Certificates are subject to all applicable laws, regulations and practices in force on the relevant Actual Exercise Date and/or on the relevant Settlement Date or Redemption Date, as the case may be, and neither the Issuer nor the Securities Agents shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts as a result of any such laws, regulations or practices. None of the Issuer, the Guarantor, the Calculation Agent, the Dealer(s) and the Securities Agents shall under any circumstances be liable for any acts or defaults of the relevant Clearing System in relation to the performance of their duties in relation to the Securities.

(e) Selling Restrictions

If the applicable Final Terms for any Securities indicates that Type 3A or Type 3B US Selling Restrictions apply, then (i) in the case of Warrants, the exercise of such Warrants shall be conditional on the person exercising such Warrants providing to the US Securities Agent a certification in the form set out in Condition 9(f) and (ii) in the case of Certificates, redemption of such Certificates will be conditional on the Holder providing to the US Securities Agent a certification in the form set out in Condition 9(g).

If the applicable Final Terms for any Securities indicates that Type 4 or Type 5 US Selling Restrictions apply, then such Securities may not be offered, sold or delivered in the United States or to US persons, nor may any US person at any time trade or maintain a position in the Securities and (A) in the case of Warrants, the exercise of such Warrants shall be conditional on the person exercising such Warrants providing to the US Securities Agent a certification in the form set out in Condition 9(f) and (B) in the case of Certificates, redemption of such Certificates will be conditional on the Holder providing to the US Securities Agent a certification in the form set out in Condition 9(g).

In certain circumstances specified in the applicable Final Terms, additional selling restrictions or certification requirements may apply.

(f) Type 3A, Type 3B, Type 4 and Type 5 US Selling Restrictions Certification for Warrants

"[Identify Warrant]

This notice certifies that neither the person exercising the Warrants referred to in this notice, nor any person on whose behalf (either directly or indirectly) the Warrants are being exercised is a US person or a person located within the United States (as such terms are used in Regulation S under the Securities Act).

We understand that this notice is required in connection with certain securities and commodities laws and regulations in the United States. If administrative or legal proceedings are commenced or threatened in connection with which this notice is or might be relevant we irrevocably authorise you to produce this notice or a copy thereof to any interested party in such proceedings."

(g) Type 3A, Type 3B, Type 4 and Type 5 US Selling Restrictions Certification for Certificates

"[Identify Certificate]

This notice certifies that neither the Holder of the Certificates referred to in this notice, nor any person on whose behalf (either directly or indirectly) the Holder holds or is acting in connection

with the Certificates is a US person or a person located within the United States (as such terms are used in Regulation S under the Securities Act).

We understand that this notice is required in connection with certain securities and commodities laws and regulations in the United States. If administrative or legal proceedings are commenced or threatened in connection with which this notice is or might be relevant we irrevocably authorise you to produce this notice or a copy thereof to any interested party in such proceedings."

(h) Minimum Board Lot for Physical Delivery Securities

Notwithstanding Condition 5(b) and unless otherwise provided in the applicable Final Terms, Physical Delivery Warrants may only be exercised, and the Issuer shall only be liable to redeem Physical Delivery Certificates by delivery of Relevant Assets, in such amounts as will ensure that the number of Relevant Assets to be delivered is equal to an integral multiple of a Board Lot (as defined below). Relevant Assets will be delivered by the Issuer (in the case of Call Warrants or other Securities under which delivery by the Issuer is provided for) or the Holder (in the case of Put Warrants or other Securities under which delivery by the Holder is provided for) only in integral multiples of the minimum board lot for the trading of the Relevant Assets on the relevant stock exchange as from time to time specified by such stock exchange (the "**Board Lot**"). In circumstances where Physical Delivery Securities are not capable of being exercised or are not redeemable, as the case may be, in amounts which would result in the purchase or delivery of a number of Relevant Assets equal to an integral multiple of the relevant Board Lot, the Issuer may at its option pay to the Holder (in the case of Call Warrants or other Securities under which delivery by the Issuer is provided for) or require the Holder to pay to the Issuer (in the case of Put Warrants or other Securities under which delivery by the Holder is provided for), upon delivery of the Physical Settlement Amount in respect of the Physical Delivery Securities, an amount (a "**Board Lot Payment**") equal to:

$$(B - D) \times C \times E$$

where

- B : the number of Warrants which the Holder wishes to exercise on the Actual Exercise Date or the number of Certificates to be redeemed, as the case may be;
- C : the number of Relevant Assets to be delivered in respect of a Security on exercise or redemption, as the case may be;
- D : the maximum number of Securities, the exercise or redemption of which would result in the delivery of Relevant Assets equal to an integral multiple of the relevant Board Lot;
- E : the market value of the Relevant Assets on the Valuation Date as determined by the Calculation Agent

unless the amount of any such a Board Lot Payment is of a *de minimis* amount, in which case no Board Lot Payment will be payable in respect of the Securities which are not exercisable or redeemable in amounts which would result in the delivery of a number of Relevant Assets equal to an integral multiple of the relevant Board Lot.

10. **Settlement**

(a) Cash Settled Securities

(i) *Cash Settled Warrants*

Subject as provided in these Conditions, the Issuer shall on the Settlement Date pay or cause to be paid the Cash Settlement Amount (if any) for each duly exercised Warrant to the Holder's account specified in the relevant Exercise Notice for value on the Settlement Date less any Expenses.

Subject as provided in these Conditions including, where appropriate, to certification as required pursuant to Condition 9(e), for any Cash Settled Warrant with respect to which the Exercise Notice has not been duly completed in the manner set out in Condition 5(a) on or before the Exercise Notice Deposit Time on the Expiration Date and which is subject to Automatic Exercise, the Issuer shall on the Settlement Date pay or cause to be paid the Cash Settlement Amount (if any) for each automatically exercised Warrant to the person who is for the time being shown in the records of the relevant Clearing System as the holder of a particular amount of Warrants for value on the Settlement Date less any Expenses.

If, with respect to any Warrant which has been duly exercised or which is subject to Automatic Exercise, the satisfaction of any additional condition to settlement specified in the applicable Final Terms is delayed, the due date for payment of the Cash Settlement Amount in relation to such Warrant shall be deferred by such period as the Issuer determines to be appropriate provided that the additional condition to settlement is satisfied within 30 Business Days after the Settlement Date. If such additional condition to settlement is not satisfied within 30 Business Days after the Settlement Date such Warrant shall become void.

(ii) *Cash Settled Certificates*

Subject as provided in these Conditions including, where appropriate, to certification as required pursuant to Condition 9(e), in respect of Cash Settled Certificates the Issuer shall on the Redemption Date pay or cause to be paid the Cash Settlement Amount (if any) for each Certificate in respect of which a Certificate Settlement Notice (if required) has been duly delivered to the Holder's account specified in the relevant Certificate Settlement Notice for value on the Settlement Date less any Expenses.

Subject as provided in these Conditions including, where appropriate, certification as required pursuant to Condition 9(e), for any Cash Settled Certificate with respect to which a Certificate Settlement Notice has not been duly completed in the manner set out in Condition 8(a) during the Certificate Settlement Notice Period, the Issuer shall on the Redemption Date pay or cause to be paid the Cash Settlement Amount (if any) to the person who is for the time being shown in the records of the relevant Clearing System as the holder of a particular amount of Certificates for value on the Settlement Date less any Expenses.

If the satisfaction of any additional condition to settlement specified in the applicable Final Terms is delayed, the due date for payment of the Cash Settlement Amount in relation to the relevant Certificates shall be deferred by such period as the Issuer

determines to be appropriate provided that the additional condition to settlement is satisfied within 30 Business Days after the Redemption Date. If such additional condition to settlement is not satisfied within 30 Business Days after the Settlement Date such Certificates shall become void.

(iii) *Conversion and Rounding*

Any Cash Settlement Amount shall, if an Exchange Rate is specified in the applicable Final Terms, be converted into the Settlement Currency at that Exchange Rate. The Cash Settlement Amount will be rounded to the nearest two decimal places (or, in the case of Japanese Yen, the nearest whole unit) in the relevant Settlement Currency, 0.0005 (or in the case of Japanese Yen, half a unit) being rounded downwards, with Securities of the same Holder being aggregated for the purpose of determining the aggregate Cash Settlement Amount payable in respect of such Securities

(b) Physical Delivery Securities

(i) *Physical Delivery Warrants*

Subject as provided in these Conditions including, where appropriate, to certification as to non-US beneficial ownership, and subject to payment of the applicable Strike Price(s) and any Expenses with regard to the relevant Warrants, the Issuer shall on the Settlement Date deliver, or procure the delivery of, the Physical Settlement Amount for each duly exercised Warrant to or to the order of the Holder as specified in the Exercise Notice. The Physical Settlement Amount shall be delivered and evidenced in such manner as shall be specified in the applicable Final Terms.

If, with respect to any Physical Delivery Warrant which has been duly exercised (including the satisfaction of the certification requirement pursuant to Condition 9(e)), the satisfaction of any additional condition to settlement (additional to payment of the applicable Strike Price(s) and Expenses) specified in the applicable Final Terms is delayed, the Issuer will pay to such Holder the Alternative Settlement Amount without any further payment of interest or otherwise with respect to each Security held by such Holder on a date the Issuer determines to be appropriate provided that the additional condition to settlement is satisfied within 30 Business Days after the Settlement Date. If such additional condition to settlement is not satisfied within 30 Business Days after the Settlement Date such Warrant shall become void.

(ii) *Physical Delivery Certificates*

Subject as provided in these Conditions including, where appropriate, to certification as to non-US beneficial ownership and to payment of any Expenses with regard to the relevant Certificates, the Issuer shall on the Redemption Date deliver, or procure the delivery of, the Physical Settlement Amount for each relevant Certificate to or to the order of the Holder as specified in the Certificate Settlement Notice. The Physical Settlement Amount shall be delivered and evidenced in such manner as shall be specified in the applicable Final Terms.

If the provision of a Certificate Settlement Notice and/or any required certification pursuant to Condition 9(e) is delayed and/or the satisfaction of any additional condition to settlement specified in the applicable Final Terms is delayed, the Issuer will pay to such Holder the Alternative Settlement Amount without any further

payment of interest or otherwise with respect to each Security held by such Holder on a date the Issuer determines to be appropriate provided that the additional condition to settlement is satisfied within 30 Business Days after the Redemption Date. If such additional condition to settlement is not satisfied within 30 Business Days after the Settlement Date such Certificates shall become void.

(iii) *Dividends*

Unless otherwise specified in the applicable Final Terms, in respect of Physical Delivery Securities where the Relevant Assets consist of shares, all dividends on the relevant shares to be delivered will be payable to the party that would receive such dividend according to market practice for a sale of the shares executed on the relevant Actual Exercise Date (in the case of Warrants) or the date which precedes the Redemption Date by the customary settlement period for such a sale (in the case of Certificates) to be delivered in the same manner as such shares. Any such dividends will be paid to the account specified by the Holder in the relevant Exercise Notice or Certificate Settlement Notice (or, in the absence of such notice, to the person who is for the time being shown in the records of the relevant Clearing System as the holder of a particular amount of Certificates for value on the Redemption Date). In respect of Physical Delivery Securities where the Relevant Assets consist of depositary receipts, arrangements in respect of dividend payments under depositary receipts will be set out in the applicable Final Terms.

(iv) *Modification of settlement procedures*

The Calculation Agent may from time to time by notice to the Issuer and the Principal Securities Agent modify or supplement the procedures and requirements for settlement of Physical Delivery Securities in these Conditions where the Calculation Agent determines that the relevant modification or supplement is necessary or desirable. Notice thereof shall be given to the Holders in accordance with Condition 21.

(c) Issuer's Option to Vary Settlement

If the applicable Final Terms indicates that the Issuer has an option to vary settlement or redemption in respect of the Securities, the Issuer may at its sole and absolute discretion elect not to pay the relevant Holders the Cash Settlement Amount or to deliver or procure delivery of the Physical Settlement Amount to the relevant Holders (as the case may be) but, in lieu thereof, to deliver or procure delivery of the Physical Settlement Amount or make payment of the Cash Settlement Amount on the Settlement Date or, as the case may be, the Redemption Date to the relevant Holders (as the case may be). Notification of such election will be given to Holders in accordance with details specified in the Exercise Notice or, as the case may be, Certificate Settlement Notice (as applicable) no later than 10.00 a.m. (local time in the location of the specified office of the Principal Securities Agent) on the second Business Day immediately preceding the Settlement Date or, as the case may be, the Redemption Date.

(d) General

(i) The purchase of Securities does not confer on the Holder any rights (whether in respect of voting, distributions or otherwise) attaching to any Relevant Asset.

- (ii) If the date for payment of any amount in respect of the Securities is not a Currency Business Day, payment will instead be made on the next following Currency Business Day without any further payment, of interest or otherwise, in respect of such delay.

**11. Force majeure**

Notwithstanding any other provision of these Conditions, the Issuer shall have the right to terminate its obligations under the Securities, subject to the following sentence, if the Issuer shall have determined that the performance of such obligations shall have become impracticable, in whole or in part, in particular as a result of compliance with any applicable present or future law, rule, regulation, judgment, order or directive of any governmental, administrative, legislative or judicial authority or power. In such circumstances, the Issuer will, however, pay to each Holder in respect of each Security held by it the Alternative Settlement Amount. Payment will be made in such manner as shall be notified to the Holders in accordance with Condition 21.

**12. Purchases**

The Issuer and any of its affiliates shall have the right to purchase or otherwise acquire Securities at such times, in such manner and for such consideration as it may deem appropriate. Any Securities so purchased may be held or resold or surrendered for cancellation and, if cancelled, may be reissued by the Issuer at such time and in such manner as it may deem appropriate *provided, however, that* where the Issuer is Lehman Brothers Finance S.A. (1) it may not sell or offer any Securities to any person other than a bank or a securities dealer subject to State supervision within the meaning of the Swiss Stock Exchanges and Securities Trading Act of 24 March 1995 ("**SESTA**") and the Swiss Ordinance on Stock Exchanges and Securities Trading of 2 December 1996 ("**SESTO**"); (2) it may not act as a dealer or as a co-dealer for any issue of Securities; and (3) it may not act as a market maker within the meaning of SESTA and SESTO in respect of any Securities, or sell or offer any Securities on the secondary market within the meaning of SESTA and SESTO.

**13. Consequences of Disrupted Days**

*This Condition 13 applies only to Index Securities and Share Securities.*

**(a) Valuation Dates**

If, as determined by the Calculation Agent in its sole and absolute discretion, any Valuation Date is a Disrupted Day, then:

- (i) in the case of Securities relating to a single Index or a single Share, the Valuation Date shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day, provided that (A) the Valuation Date shall be not later than and deemed to be the earlier of (i) the eighth Scheduled Trading Day immediately following the Scheduled Valuation Date and (ii) the Third Weekday, notwithstanding the fact that such day is a Disrupted Day, and (B) the Calculation Agent shall determine (1) in the case of Securities relating to a single Index, the level of the Index as of the Valuation Time on that eighth Scheduled Trading Day or Third Weekday (as applicable) in accordance with the formula for and method of calculating the Index last in effect prior to the occurrence of the first Disrupted Day using the Exchange traded or quoted price as of the Valuation Time on that eighth Scheduled Trading Day or Third Weekday (as applicable) of each security or other property comprised in the Index (or, if an event

giving rise to a Disrupted Day has occurred in respect of the relevant security or property on that eighth Scheduled Trading Day or Third Weekday (as applicable), its good faith estimate of the value for the relevant security or property as of the Valuation Time on that eighth Scheduled Trading Day or Third Weekday (as applicable) and (2) in the case of Securities relating to a single Share, its good faith estimate of the value for the Share as of the Valuation Time on that eighth Scheduled Trading Day or Third Weekday (as applicable);

(ii) in the case of Securities relating to a Basket of Indices, the Valuation Date for each Index not affected by the occurrence of a Disrupted Day shall be the Scheduled Valuation Date, and the Valuation Date for each Index affected by the occurrence of a Disrupted Day shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day relating to the Index, provided that (A) the Valuation Date shall be not later than and deemed to be the earlier of (i) the eighth Scheduled Trading Day immediately following the Scheduled Valuation Date and (ii) the Third Weekday, notwithstanding the fact that such day is a Disrupted Day, and (B) the Calculation Agent shall determine the level of that Index as of the Valuation Time on that eighth Scheduled Trading Day or Third Weekday (as applicable) in accordance with the formula for and method of calculating that Index last in effect prior to the occurrence of the first Disrupted Day using the Exchange traded or quoted price as of the Valuation Time on that eighth Scheduled Trading Day or Third Weekday (as applicable) of each security or other property comprised in that Index (or, if an event giving rise to a Disrupted Day has occurred in respect of the relevant security or other property on that eighth Scheduled Trading Day or Third Weekday (as applicable), its good faith estimate of the value for the relevant security or property as of the Valuation Time on that eighth Scheduled Trading Day or Third Weekday (as applicable)); or

(iii) in the case of Securities relating to a Basket of Shares, the Valuation Date for each Share not affected by the occurrence of a Disrupted Day shall be the Scheduled Valuation Date, and the Valuation Date for each Share affected by the occurrence of a Disrupted Day shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day relating to that Share, provided that (A) the Valuation Date shall be not later than and deemed to be the earlier of (i) the eighth Scheduled Trading Day immediately following the Scheduled Valuation Date and (ii) the Third Weekday, notwithstanding the fact that such day is a Disrupted Day, and (B) the Calculation Agent shall determine its good faith estimate of the value for that Share as of the Valuation Time on that eighth Scheduled Trading Day or Third Weekday (as applicable).

(b) Averaging Dates

If Averaging Dates are specified as applicable in the applicable Final Terms, then notwithstanding any other provisions of these Conditions, if any such day is a Disrupted Day as determined by the Calculation Agent in its sole and absolute discretion and the consequence specified under "Consequence of Averaging Date Disruption" in the applicable Final Terms is:

(i) "Omission", then such date will be deemed not to be a relevant Averaging Date for the purposes of the relevant determination provided that if through the operation of this provision no Averaging Date would occur with respect to the relevant Valuation Date, then the provisions of (a) above will apply for purposes of determining the

relevant level, price or amount on the final Averaging Date in respect of that Valuation Date as if such Averaging Date were a Valuation Date that was a Disrupted Day; or

- (ii) "Postponement", then the provisions of (a) above will apply for the purposes of determining the relevant level, price or amount on that Averaging Date as if such Averaging Date were a Valuation Date that was a Disrupted Day irrespective of whether, pursuant to such determination, that deferred Averaging Date would fall on a day that already is or is deemed to be an Averaging Date; or
- (iii) "Modified Postponement" then:
  - (A) where the Securities relate to a single Index or a single Share, the Averaging Date shall be the first succeeding Valid Date. If the first succeeding Valid Date has not occurred as of the Valuation Time on the earlier of the eighth Scheduled Trading Day immediately following the original date or the Third Weekday (as applicable) that, but for the occurrence of another Averaging Date or Disrupted Day, would have been the final Averaging Date in respect of the relevant Scheduled Valuation Date, then (1) the earlier of (i) that eighth Scheduled Trading Day and (ii) the Third Weekday shall be deemed to be the Averaging Date (irrespective of whether that eighth Scheduled Trading Day is already an Averaging Date), and (2) the Calculation Agent shall determine the relevant level for that Averaging Date in accordance with the provisions of (a) above; or
  - (B) where the Securities relate to a Basket of Indices or a Basket of Shares, the Averaging Date for each Index or Share not affected by the occurrence of a Disrupted Day shall be the date specified in the applicable Final Terms as an Averaging Date in respect of the relevant Valuation Date and the Averaging Date for an Index or Share affected by the occurrence of a Disrupted Day shall be the first succeeding Valid Date in relation to such Index or Share. If the first succeeding Valid Date in respect of such Index or Share has not occurred as of the Valuation Time on the earlier of the eighth Scheduled Trading Day immediately following the original date or the Third Weekday (as applicable) that, but for the occurrence of another Averaging Date or Disrupted Day, would have been the final Averaging Date in relation to the relevant Scheduled Valuation Date, then (1) the earlier of (i) that eighth Scheduled Trading Day and (ii) the Third Weekday (as applicable) shall be deemed the Averaging Date (irrespective of whether that eighth Scheduled Trading Day or Third Weekday is already an Averaging Date) in respect of such Index or Share, and (2) the Calculation Agent shall determine the relevant level, price or amount for that Averaging Date in accordance with the provisions of (a) above.

If any Averaging Dates in relation to a Valuation Date occur after that Valuation Date as a result of the occurrence of a Disrupted Day, then (x) the relevant Settlement Date or Redemption Date, as the case may be, or (y) the occurrence of an Index Adjustment Event, Potential Adjustment Event or Extraordinary Event shall be determined by reference to the last such Averaging Date as though it were that Valuation Date.

**14. Adjustments relating to Index Securities and Share Securities**

*This Condition 14 applies only to Index Securities and Share Securities.*

(a) Index Securities

(i) *Successor Index*

If, in relation to Index Securities, an Index is (A) not calculated and announced by the Index Sponsor but is calculated and announced by a successor sponsor acceptable to the Calculation Agent in its sole and absolute discretion or (B) replaced by a successor index using, in the sole determination of the Calculation Agent, the same or a substantially similar formula for and method of calculation as used in the calculation of that Index, then in each case that index (the "**Successor Index**") will be deemed to be the Index.

(ii) *Index Adjustment Event*

If, in relation to Index Securities, (A) on or prior to a Valuation Date or an Averaging Date and as determined by the Calculation Agent in its sole and absolute discretion, a relevant Index Sponsor announces that it will make a material change in the formula for or the method of calculating a relevant Index or in any other way materially modifies that Index (other than a modification prescribed in that formula or method to maintain that Index in the event of changes in constituent stock and capitalisation, contracts, commodities or other property and other routine events) (an "**Index Modification**"), or permanently cancels a relevant Index and no Successor Index exists (an "**Index Cancellation**"), or (B) on any Valuation Date or Averaging Date and as determined by the Calculation Agent in its sole and absolute discretion, the Index Sponsor fails to calculate and announce a relevant Index (an "**Index Disruption**" and, together with an Index Modification and an Index Cancellation, each an "**Index Adjustment Event**"), then:

- (1) if "Calculation Agent Adjustment" is specified in the applicable Final Terms as the consequence of any such Index Adjustment Event, the Calculation Agent will determine in its sole and absolute discretion if such Index Adjustment has a material effect on the Securities and, if so, shall make any relevant calculation using, in lieu of a published level for that Index, the level for that Index as at that Valuation Date as determined by the Calculation Agent in its sole and absolute discretion in accordance with the formula for and method of calculating that Index last in effect prior to the change, failure or cancellation, but using only those securities that comprised that Index immediately prior to that Index Adjustment Event; or
- (2) if "Cancellation and Payment" is specified in the applicable Final Terms as the consequence of any such Index Adjustment Event, then the Issuer shall have the right to cancel its obligations under the Securities as of such date as the Issuer shall determine by notice given to the Holders in accordance with Condition 21 and in the event of such cancellation the Issuer will pay to each Holder the Alternative Settlement Amount with respect to each Security held by such Holder. Payment will be made in such manner as shall be notified to the Holders in accordance with Condition 21.

(b) Share Securities

If, in relation to Share Securities:

(i) "Options Exchange Adjustment" is specified as the Method of Adjustment in the applicable Pricing Final Terms, then following each adjustment to the exercise, settlement, payment or other terms of the options on any relevant Shares traded on any Options Exchange, the Calculation Agent will in its sole and absolute discretion make the corresponding adjustments, if any, to any one or more of the Strike Price, the Cash Settlement Amount, the Physical Settlement Amount and, in any case, any other variable relevant to the exercise, settlement, payment or other terms of the Securities, as determined by the Calculation Agent in its sole and absolute discretion, which adjustment will be effective as of the date determined by the Calculation Agent to be the effective date of the corresponding adjustment made by the Options Exchange. If options on the relevant Shares are not traded on the Options Exchange, the Calculation Agent in its sole and absolute discretion will make such adjustment, if any, to any one or more of the relevant variables referred to above or any other variable relevant to the exercise, settlement, payment or other terms of the Securities as the Calculation Agent determines appropriate, with reference to the rules of and precedents (if any) set by the Options Exchange, to account for the diluting or concentrative effect of any event that, in the sole determination of the Calculation Agent, would have given rise to an adjustment by the Options Exchange if such options were so traded; or

(ii) "Calculation Agent Adjustment" is specified as the Method of Adjustment in the applicable Final Terms, then following the declaration by the Issuer of the terms of any Potential Adjustment Event as determined by the Calculation Agent in its sole and absolute discretion, the Calculation Agent will determine whether such Potential Adjustment Event has a diluting or concentrative effect on the theoretical value of the relevant Shares and, if so, will (A) make the corresponding adjustment(s), if any, to any one or more of the Strike Price, the Cash Settlement Amount, the Physical Settlement Amount and, in any case, any other variable relevant to the exercise, settlement, payment or other terms of the Securities as the Calculation Agent in its sole and absolute discretion determines appropriate to account for that diluting or concentrative effect (provided that no adjustments will be made to account solely for changes in volatility, expected dividends, stock loan rate or liquidity relative to the relevant Share) and (B) determine the effective date(s) of the adjustment(s). The Calculation Agent may (but need not) determine the appropriate adjustment(s) by reference to the adjustment(s) in respect of such Potential Adjustment Event made by an options exchange to options on the relevant Shares traded on such options exchange.

(c) Corrections of Share Prices and Index Levels

In the event that any price or level published on the Exchange or by the Index Sponsor and which is utilised for any calculation or determination made under the Securities is subsequently corrected and the correction is published by the Exchange or the Index Sponsor within the earlier of (i) one Settlement Cycle after the original publication and (ii) the Third Weekday and the Calculation Agent in its sole and absolute discretion determines that it is practicable to effect an adjustment of any payment or delivery in respect of the Securities determined by reference to such calculation or determination the Calculation Agent will make such adjustment of such payment or delivery as it determines to be appropriate in its sole and absolute discretion.

15. **Consequences of Extraordinary Events**

*This Condition 15 applies only to Share Securities.*

(a) Merger Event

If a Merger Event occurs as determined by the Calculation Agent in its sole and absolute discretion and the consequence specified in the applicable Final Terms is:

- (i) "Alternative Obligation", then except in respect of a Reverse Merger, on or after the relevant Merger Date, the New Shares and/or the amount of Other Consideration, if applicable (as subsequently modified in accordance with any relevant terms and including the proceeds of any redemption, if applicable), and their issuer (if any) will be deemed the "Shares" and the "Basket Company" or "Share Company", as the case may be, respectively, and, if the Calculation Agent considers it necessary, the Calculation Agent will adjust any relevant terms in its sole and absolute discretion (provided however that no adjustments will be made to account solely for changes in volatility, expected dividends, stock loan rate or liquidity relevant to the Shares or the Securities);
- (ii) "Cancellation and Payment", then the Issuer shall have the right to cancel its obligations under the Securities as of such date as the Issuer shall determine by notice given to the Holders in accordance with Condition 21 and in the event of such cancellation the Issuer will pay to each Holder the Alternative Settlement Amount with respect to each Security held by such Holder. Payment will be made in such manner as shall be notified to the Holders in accordance with Condition 21;
- (iii) "Options Exchange Adjustment", then following each adjustment to the settlement terms of options on any relevant Shares traded on any Options Exchange, the Calculation Agent will in its sole and absolute discretion make one or more adjustments as provided in Condition 14(b)(i) (without regard to the words "diluting or concentrative" in the second sentence);
- (iv) "Calculation Agent Adjustment", then, on or after the relevant Merger Date, the Calculation Agent shall either (A)(1) make such adjustment to the exercise, settlement, payment or any other terms of the Securities as the Calculation Agent in its sole and absolute discretion determines appropriate to account for the economic effect on the Securities of such Merger Event (provided that no adjustments will be made to account solely for changes in volatility, expected dividends, stock loan rate or liquidity relevant to the Shares or to the Securities), which may, but need not, be determined by reference to the adjustment(s) made in respect of such Merger Event by an options exchange to options on the relevant Shares traded on such options exchange and (2) determine the effective date of that adjustment, or (B) if the Calculation Agent in its sole and absolute discretion determines that no adjustment that it could make under (A) will produce a commercially reasonable result, notify the Issuer thereof in which event "Cancellation and Payment" will be deemed to be the consequence specified in the applicable Final Terms;
- (v) "Modified Calculation Agent Adjustment", then, on or after the relevant Merger Date, the Calculation Agent shall either (A)(1) make such adjustment to the exercise, settlement, payment or any other terms of the Securities as the Calculation Agent in its sole and absolute discretion determines appropriate to account for the economic effect

on the Securities of such Merger Event (including adjustments to account for changes in volatility, expected dividends, stock loan rate or liquidity relevant to the Shares or to the Securities), which may, but need not, be determined by reference to the adjustments(s) made in respect of such Merger Event by an options exchange to options on the relevant Shares traded on such options exchange and (2) determine the effective date of that adjustment, or (B) if the Calculation Agent in its sole and absolute discretion determines that no adjustment that it could make under (A) will produce a commercially reasonable result, notify the Issuer thereof in which event "Cancellation and Payment" will be deemed to be the consequence specified in the applicable Final Terms; or

- (vi) "Component Adjustment", then, in respect of a Share-for-Combined Merger Event, the consequence specified opposite "Share-for-Share" shall apply to that portion of the consideration that consists of New Shares (as determined by the Calculation Agent in its sole and absolute discretion) and the consequence specified opposite "Share-for-Other" shall apply to that portion of the consideration that consists of Other Consideration (as determined by the Calculation Agent in its sole and absolute discretion).

(b) Tender Offer

If a Tender Offer occurs as determined by the Calculation Agent in its sole and absolute discretion and if the consequence specified in the applicable Final Terms is:

- (i) "Cancellation and Payment", then the Issuer shall have the right to cancel its obligations under the Securities as of such date as the Issuer shall determine by notice given to the Holders in accordance with Condition 21 and in the event of such cancellation the Issuer will pay to each Holder the Alternative Settlement Amount with respect to each Security held by such Holder. Payment will be made in such manner as shall be notified to the Holders in accordance with Condition 21;
- (ii) "Options Exchange Adjustment", then following each adjustment to the settlement terms of options on any relevant Shares traded on any Options Exchange, the Calculation Agent will in its sole and absolute discretion make one or more adjustments as provided in Condition 14(b)(i) (without regard to the words "diluting or concentrative" in the second sentence);
- (iii) "Calculation Agent Adjustment", then, on or after the relevant Tender Offer Date the Basket Company or the Share Company (as the case may be) and the Shares will not change but the Calculation Agent shall either (A)(1) make such adjustment to the exercise, settlement, payment or any other terms of the Securities as the Calculation Agent in its sole and absolute discretion determines appropriate to account for the economic effect on the Securities of such Tender Offer (provided that no adjustments will be made to account solely for changes in volatility, expected dividends, stock loan rate or liquidity relevant to the Shares or to the Securities), which may, but need not, be determined by reference to the adjustment(s) made in respect of such Tender Offer by an options exchange to options on the relevant Shares traded on such options exchange and (2) determine the effective date of that adjustment, or (B) if the Calculation Agent determines in its sole and absolute discretion that no adjustment that it could make under (A) will produce a commercially reasonable result, notify the

Issuer thereof in which event "Cancellation and Payment" will be deemed to be the consequence specified in the applicable Final Terms;

- (iv) "Modified Calculation Agent Adjustment", then, on or after the relevant Tender Offer Date, the Shares and the Share Company or Basket Company, as the case may be, will not change, but the Calculation Agent shall either (A)(1) make such adjustment to the exercise, settlement, payment or any other terms of the Securities as the Calculation Agent determines appropriate to account for the economic effect on the Securities of such Tender Offer (including adjustments to account for changes in volatility, expected dividends, stock loan rate or liquidity relevant to the Shares or to the Securities), which may, but need not, be determined by reference to the adjustments(s) made in respect of such Tender Offer by an options exchange to options on the relevant Shares traded on such options exchange and (2) determine the effective date of that adjustment, or (B) if the Calculation Agent determines that no adjustment that it could make under (A) will produce a commercially reasonable result, notify the Issuer thereof in which event "Cancellation and Payment" will be deemed to be the consequence specified in the applicable Final Terms; or
  - (v) "Component Adjustment", then, in respect of a Share-for-Combined Tender Offer, the consequence specified opposite "Share-for-Share" shall apply to that portion of the consideration that consists of New Shares (as determined by the Calculation Agent in its sole and absolute discretion) and the consequence specified opposite "Share-for-Other" shall apply to that portion of the consideration that consists of Other Consideration (as determined by the Calculation Agent in its sole and absolute discretion).
- (c) Settlement Following a Merger Event or Tender Offer
- (i) If Other Consideration is required to be valued in relation to Cash Settled Securities that have been adjusted following a Merger Event or Tender Offer, the Other Consideration will be valued by the Calculation Agent in its sole and absolute discretion on each Valuation Date or Averaging Date, as the case may be. For the avoidance of doubt, the provisions of Condition 13 will not apply to Other Consideration.
  - (ii) If New Shares are required to be delivered in relation to Physical Delivery Securities that have been adjusted following a Merger Event or Tender Offer, then the deliverer will deliver the relevant New Shares in accordance with the terms of settlement set out in the applicable Final Terms, provided that if on the relevant Settlement Date or Redemption Date, as the case may be, a holder of the Shares would not yet have received the New Shares to which it is entitled, the Settlement Date or Redemption Date, as the case may be, with respect to such New Shares will be postponed to the first Clearing System Business Day falling on or after the first day on which a holder of the relevant Shares, having received the New Shares, would be able to deliver such New Shares in accordance with the settlement procedures applicable to the Securities.
  - (iii) If Other Consideration is required to be delivered in relation to Physical Delivery Securities that have been adjusted following a Merger Event or Tender Offer, then the deliverer will deliver the relevant Other Consideration in a commercially reasonable manner as soon as reasonably practicable after the later of (i) the relevant Settlement Date or Redemption Date, as the case may be, and (ii) the first day on which a holder

of the relevant Shares, having received the Other Consideration, would be able to deliver such Other Consideration to another party.

(iv) In respect of any Share-for-Combined Merger Event or Share-for-Combined Tender Offer:

(A) to the extent that the composition of the Combined Consideration could be determined by a holder of Shares determined by the Calculation Agent to be equal to the number of Shares to which one Security (or, if applicable, the Minimum Exercise Number of Securities) relates, and a holder could receive New Shares as part of the Combined Consideration, the Combined Consideration shall be deemed to be New Shares to the maximum value permitted; and

(B) if a holder could make any other election with respect to the composition of Combined Consideration other than New Shares, the Calculation Agent will, in its sole and absolute discretion, determine the composition of the Combined Consideration.

(d) Nationalisation, Insolvency or Delisting

If Nationalisation, Insolvency or Delisting occurs as determined by the Calculation Agent in its sole and absolute discretion, the Securities will be cancelled as of such date as the Issuer shall determine and notify to the Holders in accordance with Condition 21 and the Issuer will pay to each Holder the Alternative Settlement Amount with respect to each Security held by such Holder. Payment will be made in such manner as shall be notified to the Holders in accordance with Condition 21.

#### **16. Consequences of Additional Disruption Events**

If an Additional Disruption Event occurs as determined by the Calculation Agent in its sole and absolute discretion the Securities shall be subject to the provisions set out in the applicable Final Terms.

#### **17. Consequences of Settlement Interruption**

If, in the sole opinion of the Issuer, delivery of the Physical Settlement Amount in respect of any Physical Delivery Securities is not practicable by reason of a Settlement Interruption on any Settlement Date or Redemption Date in respect of such Securities, then such Settlement Date or, as the case may be, Redemption Date will be the first succeeding date on which delivery of the Physical Settlement Amount can take place through the relevant Clearing System unless, in the opinion of the Issuer, a Settlement Interruption prevents settlement (i) on each of the eight relevant Clearing System Business Days immediately following the original date or (ii) before the Third Weekday that, but for the Settlement Interruption, would have been the Settlement Date or, as the case may be, the Redemption Date. In that case (a) if the Physical Settlement Amount can be delivered in any other commercially reasonable manner, then the Settlement Date or, as the case may be, the Redemption Date will be the first day on which settlement of a sale of the Physical Settlement Amount executed on that eighth relevant Clearing System Business Day or (if earlier) the Third Weekday customarily would take place using such other commercially reasonable manner of delivery (which other manner will be deemed the relevant Clearing System for the purposes of delivery of the Physical Settlement Amount); and (b) if in the sole opinion of the Issuer the Physical Settlement Amount cannot be delivered in any other

commercially reasonable manner, then such Settlement Date or, as the case may be, Redemption Date will be postponed until delivery can be effected through the relevant Clearing System or in any other commercially reasonable manner. If as a result of a Settlement Interruption some but not all of the Relevant Assets comprising the Physical Settlement Amount are affected, the Settlement Date or, as the case may be, the Redemption Date for the Relevant Assets not affected by the Settlement Interruption will be the original Settlement Date or, as the case may be, Redemption Date and the Settlement Date or, as the case may be, Redemption Date for the Relevant Assets affected by the Settlement Interruption shall be determined as provided above. In the event that a Settlement Interruption will result in delivery of some but not all Relevant Assets comprising the Physical Settlement Amount, the Calculation Agent shall determine in its sole and absolute discretion the appropriate pro rata portion of the amount (in the case of Warrants, of the Strike Price) payable by the Holder.

**18. Additional Adjustment**

The Securities shall be subject to such additional provisions for the adjustment of the terms of the Securities and/or cancellation thereof as may be specified in the applicable Final Terms, which provisions may without limitation include provisions similar to those specified in Conditions 13, 14 and 15 (in the case of Securities which are not Index Securities or Share Securities) and/or provisions applicable in any other circumstances (in the case of any Securities).

**19. Notice of Disrupted Day and Other Matters**

- (a) The Calculation Agent shall notify the Issuer and the Principal Securities Agent (i) as soon as practicable after becoming aware of the same of (x) the occurrence of a Disrupted Day on any day that, but for the occurrence of a Disrupted Day would have been an Averaging Date or a Valuation Date and (y) the occurrence of an Index Adjustment Event, Potential Adjustment Event or other event in connection with which the Calculation Agent is required or entitled to make any adjustment under these Conditions and (ii) as soon as practicable of any such adjustment made by the Calculation Agent.
- (b) The Issuer shall as soon as practicable after becoming aware of the same notify the Principal Securities Agent of the occurrence of an Extraordinary Event or any applicable Additional Disruption Event stating the occurrence of such event, giving details thereof and the action proposed to be taken in relation thereto.
- (c) The Principal Securities Agent shall give notice as soon as practicable to the Holders in accordance with Condition 21 of any notification received under (a) or (b) above.

**20. Securities Agents, Calculation Agent, Determinations and Modifications**

- (a) Securities Agents

The specified offices of the Securities Agents are as set out at the end of these Conditions.

The Issuer reserves the right at any time to vary or terminate the appointment of any Securities Agent and to appoint further or additional Securities Agents provided that no termination of appointment of any Securities Agent shall become effective until a replacement Securities Agent shall have been appointed and provided that, so long as any of the Securities are listed on a stock exchange, there shall be a Securities Agent having a specified office in each location required by the rules and regulations of the relevant stock exchange. Notice of any termination

of appointment and of any changes in the specified office of any Securities Agent will be given to Holders in accordance with Condition 21. In acting under the Securities Agency Agreement, each Securities Agent acts solely as agent of the Issuer and does not assume any obligation or duty to, or any relationship of agency or trust for or with, the Holders and any Securities Agent's determinations and calculations in respect of the Securities shall (save in the case of manifest error) be final and binding on the Issuer and the Holders.

(b) Calculation Agent

In relation to each issue of Securities where there is a Calculation Agent (whether it be the Issuer or a third party), it acts solely as agent of the Issuer and does not assume any obligation or duty to, or any relationship of agency or trust for or with the Holders.

All calculations and determinations made by the Calculation Agent shall (save in the case of manifest error) be made in its sole and absolute discretion and shall be final, conclusive and binding on the Issuer, the Guarantor, the Securities Agents and the Holders. The Calculation Agent may, with the consent of the Issuer, delegate any of its obligations and functions to a third party as it deems appropriate.

(c) Determinations by the Issuer

Any determination made by the Issuer pursuant to these Conditions shall (save in the case of manifest error) be final, conclusive and binding on the Issuer, the Guarantor, the Securities Agents and the Holders.

(d) Modifications

The Issuer may modify these Conditions and the parties to the Securities Agency Agreement may amend the Securities Agency Agreement, in each case without the consent of the Holders, (i) in order to correct an ambiguity, manifest error or other mistake, or to correct or supplement any provision contained herein or therein that may be defective or inconsistent with any other provision or where such modification or amendment is of a formal, minor or technical nature or (ii) to make any other provision which the Issuer or, as the case may be, such parties deem necessary or desirable provided that, in the reasonable opinion of the Issuer or, as the case may be, such parties, the modification or amendment will not materially adversely affect the interests of the Holders. Any such modification or amendment shall be effective upon notification by the Issuer to the relevant Principal Securities Agent or, as the case may be, agreement between the parties to the Securities Agency Agreement. Notice of any such modification or amendment will be given to the Holders in accordance with Condition 21 but failure to give, or non-receipt of, such notice will not affect the validity thereof.

21. **Notices**

All notices to Holders will be valid if delivered to the relevant Clearing System or in the case of Securities held directly through DTC or Definitive Securities, to the US Securities Agent, for communication by them to the Holders and, if and so long as the Securities are admitted to trading, under MiFID, on the Luxembourg Stock Exchange's regulated market and listed on the Luxembourg Stock Exchange (or any other stock exchange) as specified in the applicable Final Terms and so long as a publication in a daily newspaper with general circulation in Luxembourg is required by the rules of the Luxembourg Stock Exchange, in the *d'Wort* or on the Internet site of the Luxembourg Stock Exchange [www.bourse.lu](http://www.bourse.lu) (or such other publication required by the relevant stock exchange). Any such notice shall be deemed to have been given on the

second Business Day following such delivery or, if earlier, the date of such publication or, if published more than once, on the date of the first such publication.

22. **Taxation**

The Issuer shall not be liable for, or otherwise obliged to pay, any tax, duty, withholding or other payment which may arise as a result of the ownership, transfer, exercise or redemption of any Securities and/or the resulting transfer of any Reference Assets and all payments made by the Issuer to the Holders shall be made subject to any tax, duty, withholding or other payment which may be required.

23. **Further Issues**

The Issuer shall be at liberty from time to time, without the consent of Holders to create and issue further Securities so as to form a single series with existing Securities.

24. **Substitution**

The Issuer, or any previous substitute company, shall be entitled at any time and from time to time, without the consent of the Holders, to substitute any subsidiary or holding company of the Issuer or any subsidiary of any such holding company (the "**New Issuer**") in place of the Issuer, as obligor under the Securities, provided that the New Issuer shall assume all obligations of the Issuer in relation to the Holders under or in relation to the Securities. Further, the Guarantor, or any previous substitute company, shall be entitled at any time and from time to time, without the consent of the Holders, to substitute any subsidiary or holding company of the Guarantor or any subsidiary of any such holding company (the "**New Guarantor**") in place of the Guarantor as guarantor in respect of the Securities provided that (a) the creditworthiness of the New Guarantor at such time is at least equal to the creditworthiness of the Guarantor, or any previous substitute under this Condition, as determined by the Calculation Agent and (b) the New Guarantor enters into a guarantee in substantially the same form as the Guarantee and any other documents which may be necessary to give full effect to such substitution (such Guarantee and any such documents to be held by the Principal Securities Agent for so long as any relevant Securities remain outstanding). In the event of any such substitution, any reference in these Conditions to the Issuer shall be construed as a reference to the New Issuer and any reference to the Guarantor shall be construed as a reference to the New Guarantor. Any such substitution shall be promptly notified to the Holders in accordance with Condition 21. In connection with such right of substitution neither the Issuer nor the Guarantor shall be obliged to have regard to the consequences of the exercise of such right for individual Holders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory, and no Holder shall be entitled to claim from the Issuer, the New Issuer, the Guarantor and/or the New Guarantor any indemnification or payment in respect of any tax consequence of any such substitution upon such Holder.

25. **Financial Information**

As soon as reasonably practicable after they are available after the close of each fiscal year during the term of the Programme, the Issuer and the Guarantor shall provide each Securities Agent with copies of their respective accounts for such fiscal year. Copies of such accounts, together with copies of the constitutional documents of the Issuer and of the Guarantor and the quarterly reports of the Guarantor, shall be made available to Holders and prospective Holders at the specified office of each Securities Agent during the term of the Programme.

26. **Rights of Third Parties**

No person shall have any right to enforce any term or condition of the Securities under the Contracts (Rights of Third Parties) Act 1999.

27. **Law and Jurisdiction**

(a) Governing law

The Securities, any Global Security, any Definitive Security Certificates and all matters arising from or connected with them are governed by, and shall be construed in accordance with, English law. The Master Guarantees shall be governed by and construed in accordance with the laws of the State of New York.

(b) English courts

The courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Securities.

(c) Appropriate forum

The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) Rights of the parties to take proceedings outside England

Condition 27(b) is for the benefit of the Holders only. As a result, nothing in this Condition 27 prevents any Holder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Holders may take concurrent Proceedings in any number of jurisdictions.

(e) Service of process

The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Lehman Brothers International (Europe) at its offices for the time being (being at the date hereof 25 Bank Street London, E14 5LE, England) or at any address of the Issuer in Great Britain at which service of process may be served on it in accordance with Part XXIII of the Companies Act 1985. Nothing in this paragraph shall affect the right of any Holder to serve process in any other manner permitted by law. This paragraph applies to Proceedings in England and to Proceedings elsewhere.

28. **Definitions**

For the purposes of these Conditions, the following general definitions will apply:

"**Actual Exercise Date**" means the Expiration Date (in the case of European Style Warrants) or subject to Condition 4(a) the date during the Exercise Period on which the Warrant is actually or is deemed exercised (in the case of American Style Warrants) (as more fully set out in Condition 4);

"**Additional Disruption Event**" means the occurrence of any of Change of Law, Failure to Deliver, Hedging Disruption, Increased Cost of Hedging, Increased Cost of Stock Borrow,

Insolvency Filing and Loss of Stock Borrow, in each case if specified in the applicable Final Terms and as the Calculation Agent may in its sole and absolute discretion determine;

"**Affected Shares**" means Shares affected by a Merger Event or a Tender Offer, as the case may be;

"**Affiliate**" means in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For these purposes "control" means ownership of a majority of the voting power of an entity;

"**Alternative Settlement Amount**" means, in respect of any Securities, an amount in the Settlement Currency equal to the fair market value of such Securities, less the cost to the Issuer and/or its Affiliates of unwinding any related hedging arrangements, all as determined by the Calculation Agent in its sole and absolute discretion as of the date so determined by the Calculation Agent to be the appropriate date in the circumstances;

"**American Style Warrants**" means Warrants designated in the applicable Final Terms as "**American Style**" and being Warrants exercisable on any Exercise Business Day during the Exercise Period specified in the applicable Final Terms;

"**Automatic Exercise**" has the meaning assigned thereto in Condition 4(a);

"**Averaging Date**" means each date specified as such or otherwise determined as provided in the applicable Final Terms or, if any such date is not a Scheduled Trading Day, the immediately following Scheduled Trading Day, subject to adjustment in accordance with Condition 13 or the provisions (if any) of the applicable Final Terms, as applicable;

"**Base Currency**" means a base currency as specified in the applicable Final Terms;

"**Basket**" means a basket of Shares, Depositary Receipts, Debt Instruments, Indices, Subject Currencies or Commodities, as the case may be, as specified in the applicable Final Terms;

"**Basket Company**" means a company whose shares (in the case of Securities relating to a Basket of Shares), Depositary Receipts (in the case of Securities relating to a Basket of Depositary Receipts) or Debt Instruments (in the case of Securities relating to a Basket of Debt Instruments) are included in the relevant Basket and "**Basket Companies**" means all such companies;

"**Board Lot**" shall have the meaning assigned thereto in Condition 9(h);

"**Business Day**" means a day (other than a Saturday or Sunday) on which banks are open for business in the relevant Business Day Centre(s) and the relevant Clearing System(s) is/are open for business;

"**Business Day Centre(s)**" means the location(s) as specified in the applicable Final Terms;

"**Call Warrants**" means Warrants designated as "Call Warrants" in the applicable Final Terms;

"**Cash Settled Security**" means a Security which is settled by way of a cash payment;

"**Cash Settlement Amount**" means, in relation to Cash Settled Securities, the amount to which the Holder is entitled in the Settlement Currency as determined by the Calculation Agent

pursuant to Condition 10(a)(i) (in the case of Warrants) or Condition 7 (in the case of Certificates), as applicable;

**"Certificate Settlement Notice"** shall have the meaning assigned thereto in Condition 8(a);

**"Certificate Settlement Notice Period"** shall mean the period during which a Certificate Settlement Notice is required to be delivered as specified in the applicable Final Terms;

**"Change in Law"** means that, on or after the Initial Date (a) due to the adoption of or any change in any applicable law or regulation (including, without limitation, any tax law), or (b) due to the promulgation of or any change in the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law or regulation (including any action taken by a taxing authority), the Issuer determines in its sole and absolute discretion that (i) it has become illegal to hold, acquire or dispose of, any relevant security or other property comprised in an Index (in the case of Index Securities), any relevant Share (in the case of Share Securities), any relevant Depositary Receipt (in the case of Depositary Receipt Securities) or any relevant Debt Instrument (in the case of Debt Instrument Securities), or (ii) the Issuer will incur a materially increased cost in performing its obligations under the Securities (including, without limitation, due to any increase in tax liability, decrease in tax benefit or other adverse effect on its tax position);

**"Clearing System"** means, as appropriate, DTC, Euroclear or Clearstream, Luxembourg and/or such other clearing system, as the case may be, through which interests in Securities are to be held and through an account at which the Securities are to be cleared specified in the applicable Final Terms or, as the case may be and in respect of Physical Delivery Securities, the clearing system through which delivery of any Relevant Assets is to be effected in respect of such Securities, as determined by the Issuer;

**"Clearing System Business Day"** means, in respect of a Clearing System, any day on which such Clearing System is (or, but for the occurrence of a Settlement Interruption, would have been) open for the acceptance and execution of settlement instructions;

**"Combined Consideration"** means New Shares in combination with Other Consideration;

**"Commodity"** means a commodity as specified in the applicable Final Terms;

**"Commodity Securities"** means Securities relating to a specified Commodity or a Basket of Commodities;

**"Component Security "** and **"Component Securities"** mean, in relation to an Index, any security or securities which comprise such Index;

**"Currency"** means any currency specified as Base Currency or Subject Currency in the applicable Final Terms;

**"Currency Business Day"** means any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the principal financial centre for the relevant currency or, if the Settlement Currency is euro, any day on which the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) system is open;

**"Currency Securities"** means Securities relating to a specified currency or a basket of currencies;

**"Dealer"** means the dealer, if any, appointed by the Issuer in connection with the issue of a particular series of Securities, as specified in the applicable Final Terms;

**"Debt Instrument"** means a debt instrument as specified in the applicable Final Terms;

**"Debt Instrument Company"** means the Company whose debt instruments relate to a particular series of Securities;

**"Debt Instrument Securities"** means Securities relating to a specified Debt Instrument or a Basket of Debt Instruments;

**"Delisting"** means, in respect of any relevant Shares, that the Exchange announces that pursuant to the rules of such Exchange, such Shares cease (or will cease) to be listed, traded or publicly quoted on the Exchange for any reason (other than a Merger Event or Tender Offer) and are not immediately re-listed, re-traded or re-quoted on an exchange or quotation system located in the same country as the Exchange (or, where the Exchange is within the European Union, in a member state of the European Union);

**"Depository Receipt"** means a depository receipt as specified in the applicable Final Terms;

**"Depository Receipt Securities"** means Securities relating to a specified Depository Receipt or Basket of Depository Receipts;

**"Disrupted Day"** means (a) except with respect to a Multi-exchange Index, any Scheduled Trading Day on which a relevant Exchange or any Related Exchange fails to open for trading during its regular trading session or on which a Market Disruption Event has occurred, and (b) with respect to any Multi-exchange Index, any Scheduled Trading Day on which (i) the Index Sponsor fails to publish the level of the Index; (ii) the Related Exchange fails to open for trading during its regular trading session or (iii) a Market Disruption Event has occurred;

**"Early Closure"** means the closure on any Exchange Business Day of the Exchange in respect of any Component Security or the Related Exchange prior to its Scheduled Closing Time unless such earlier closing is announced by such Exchange or Related Exchange (as the case may be) at least one hour prior to the earlier of: (i) the actual closing time for the regular trading session on such Exchange or Related Exchange (as the case may be) on such Exchange Business Day; and (ii) the submission deadline for orders to be entered into such Exchange or Related Exchange system for execution at the relevant Valuation Time on such Exchange Business Day;

**"European Style Warrants"** means Warrants designated in the applicable Final Terms as "European Style" and being Warrants exercisable only on the Expiration Date;

**"Exchange"** means:

- (a) (i) in respect of Index Securities and in relation to an Index other than a Multi-exchange Index, each exchange or quotation system specified as such for such Index in the applicable Final Terms, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in the securities or other property comprised in such Index has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to the securities or other property comprised in such Index on such temporary substitute exchange or quotation system as on the original Exchange), and (ii) with respect to any Multi-exchange Index, and in respect of each Component Security, the principal

stock exchange on which such Component Security is principally traded, as determined by the Calculation Agent; and

- (b) in respect of Share Securities and in relation to a Share, each exchange or quotation system specified as such for such Share in the applicable Final Terms, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in the Share has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to such Share on such temporary substitute exchange or quotation system as on the original Exchange);

**"Exchange Business Day"** means (a) except with respect to a Multi-exchange Index, any Scheduled Trading Day on which each Exchange and Related Exchange are open for trading during their respective regular trading sessions, notwithstanding any such Exchange or Related Exchange closing prior to its Scheduled Closing Time and (b) with respect to any Multi-exchange Index, any Scheduled Trading Day on which (i) the Index Sponsor publishes the level of the Index and (ii) the Related Exchange is open for trading during its regular trading session, notwithstanding any Exchange or the Related Exchange closing prior to its Scheduled Closing Time;

**"Exchange Disruption"** means any event (other than an Early Closure) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general to effect transactions in, or obtain market values for, (i) any Component Security on the Exchange in respect of such Component Security; or (ii) futures or options contracts relating to the Index on the Related Exchange;

**"Exchange Rate"** means the applicable rate of exchange for conversion of any amount into the relevant settlement currency for the purposes of determining the Cash Settlement Amount, as specified in the applicable Final Terms;

**"Exercise Business Day"** means a day which is a Business Day and a Scheduled Trading Day.

**"Exercise Notice"** shall have the meaning assigned thereto in Condition 5(a);

**"Exercise Notice Deposit Time(s)"** means the time(s) as specified in the applicable Final Terms, being the time(s) by which the relevant Clearing System(s) require an Exercise Notice to have been deposited with it/them for that Exercise Notice to be deemed to have been deposited with it/them on that Business Day;

**"Exercise Period"** means, in the case of American Style Warrants, the period during which the Warrants can be exercised as specified in the applicable Final Terms;

**"Expenses"** means, with respect to any Securities, all expenses including any applicable depositary charges, transaction or exercise charges, stamp duty, stamp duty reserve tax and/or other taxes or duties arising from (if the Securities are Warrants) the exercise of such Securities and/or (if the Securities are Physical Delivery Securities) the delivery or transfer of the Physical Settlement Amount;

**"Expiration Date"** means, in relation to American Style Warrants, the last day of the Exercise Period and, in relation to European Style Warrants, the date specified as such in the applicable Final Terms (or, if such date is not a Scheduled Trading Day, the next following Scheduled Trading Day), unless such date is a Disrupted Day due to the occurrence of an event giving rise to a Disrupted Day prior to the Exercise Notice Deposit Time on such date. If such date is a

Disrupted Day due to the occurrence of such an event, then the Expiration Date shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day, provided that the Expiration Date shall be not later than and deemed to be the earlier of (i) the eighth Scheduled Trading Day immediately following the original date or (ii) the Third Weekday (as applicable) that, but for the occurrence of a Disrupted Day would have been the Expiration Date is a Disrupted Day, notwithstanding the fact that such day is a Disrupted Day. Notwithstanding the foregoing, if Warrants are exercised on a Scheduled Trading Day that would have been an Expiration Date but for the occurrence of an event giving rise to a Disrupted Day, such Scheduled Trading Day shall be deemed to be the Expiration Date for the purpose of determining whether an Actual Exercise Date has occurred during the Exercise Period.

**"Extraordinary Event"** means a Merger Event, Tender Offer, Nationalisation, Insolvency or Delisting;

**"Failure to Deliver"** means the failure by the Issuer to deliver, when due, any Relevant Assets under the Securities, where such failure to deliver is due to illiquidity in the market for such Relevant Assets;

**"Final Terms"** means the supplement or prospectus with respect to each issue of Securities which sets out terms and conditions which are additional to or supplemental to these Conditions;

**"Guarantor"** means Lehman Brothers Holdings Inc. as guarantor of the relevant Issuer's obligations under any series of Securities pursuant to the Master Guarantees;

**"Hedging Disruption"** means that the Issuer and/or any of its Affiliates is unable, after using commercially reasonable efforts, to (a) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the equity or other price risk of the Issuer issuing and performing its obligations with respect to the Securities, or (b) realise, recover or remit the proceeds of any such transaction(s) or asset(s);

**"Hedging Securities"** means the number or quantity of Shares (in the case of Share Securities), securities or other property comprised in an Index (in the case of Index Securities), Depositary Receipts (in the case of Depositary Receipt Securities) or Debt Instruments (in the case of Debt Instrument Securities) that the Issuer deems necessary to hedge the equity or other price risk of entering into and performing its obligations with respect to the Securities;

**"Holder"**, **"holder of Securities"**, **"holder of Warrants"** and **"holder of Certificates"** shall have the meaning assigned thereto in Condition 1(b);

**"Increased Cost of Hedging"** means that the Issuer and/or any of its Affiliates would incur a materially increased (as compared with circumstances existing on the Initial Date) amount of tax, duty, expense or fee (other than brokerage commissions) to (a) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the equity or other price risk of the Issuer issuing and performing its obligations with respect to the Securities, or (b) realise, recover or remit the proceeds of any such transaction(s) or asset(s), provided that any such materially increased amount that is incurred solely due to the deterioration of the creditworthiness of the Issuer and/or any of its Affiliates shall not be deemed an Increased Cost of Hedging;

**"Increased Cost of Stock Borrow"** means that the Issuer and/or any of its Affiliates would incur a rate to borrow any Share(s) (in the case of Share Securities), any security or other property comprised in an Index (in the case of Index Securities), any Depositary Receipt (in the

case of Depositary Receipt Securities) or any Debt Instrument (in the case of Debt Instrument Securities) that is greater than the Initial Loan Rate;

"**Index**" and "**Indices**" mean, subject to adjustment in accordance with these Conditions, the index or indices specified in the applicable Final Terms and related expressions shall be construed accordingly;

"**Index Adjustment Event**", "**Index Cancellation**", "**Index Disruption**" and "**Index Modification**" shall have the respective meanings assigned thereto in Condition 14(a);

"**Index Sponsor**" means, in relation to an Index, the corporation or other entity that (a) is responsible for setting and reviewing the rules and procedures and the methods of calculation and adjustments, if any related to such Index and (b) announces (directly or through an agent) the level of such Index on a regular basis during each Scheduled Trading Day;

"**Index Securities**" means Securities relating to a specified index or Basket of indices;

"**Initial Date**" means the date specified as such in the applicable Final Terms or, if no date is so specified, the Issue Date;

"**Initial Loan Rate**" means the rate specified as such in the applicable Final Terms;

"**Insolvency**" means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceeding affecting a Basket Company or the Share Company, as the case may be, (i) all the Shares of that Basket Company or the Share Company, as the case may be, are required to be transferred to a trustee, liquidator or other similar official or (ii) holders of the Shares of that Basket Company or the Share Company, as the case may be, become legally prohibited from transferring them;

"**Insolvency Filing**" means that a relevant Share Company, Basket Company or Debt Instrument Company institutes or has instituted against it by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, or it consents to a proceeding seeking a judgement of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation by it or such regulator, supervisor or similar official or it consents to such a petition, provided that proceedings instituted or petitions presented by creditors and not consented to by the Share Company, Basket Company or Debt Instrument Company shall not be deemed an Insolvency Filing;

"**Interest Rate Securities**" means Securities relating to a Subject Interest Rate;

"**Issue Date**" means the date on which the Securities are issued, as specified in the applicable Final Terms;

"**Last Trading Day**" shall have the meaning assigned thereto in Condition 1(c) and shall be the day specified as such in the applicable Final Terms;

"**Loss of Stock Borrow**" means that the Issuer and/or any Affiliate is unable, after using commercially reasonable efforts, to borrow (or maintain a borrowing of) any relevant Share (in the case of Share Warrants), any relevant securities or other property comprised in an Index (in the case of Index Warrants), any relevant Depositary Receipt (in the case of Depositary Receipt

Securities) or any relevant Debt Instrument (in the case of Debt Instrument Securities) in an amount equal to the Hedging Securities at a rate equal to or less than the Maximum Loan Rate;

**"Market Disruption Event"** means either:

- (a) in respect of a Share or an Index which is not a Multi-exchange Index:
  - (A) the occurrence or existence at any time during the one hour period that ends at the relevant Valuation Time of:
    - (1) any suspension of or limitation imposed on trading by the relevant Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the relevant Exchange or Related Exchange or otherwise (x) in the case of Share Securities, relating to the Share on the Exchange (or, in the case of Index Securities, on any relevant Exchange(s) relating to securities or other property that comprise 20 per cent. or more of the level of the relevant Index), or (y) in futures or options contracts relating to the relevant Index on any relevant Related Exchange; or
    - (2) any event (other than an event described in (B) below) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general (x) to effect transactions in, or obtain market values for, in the case of Share Securities, the Shares on the Exchange (or, in the case of Index Securities, on any relevant Exchange(s) in securities or other property that comprise 20 per cent. or more of the level of the relevant Index), or (y) to effect transactions in, or obtain market values for, futures or options contracts relating to the Share or the relevant Index on any relevant Related Exchange,

which in either case the Calculation Agent determines is material; or

- (B) the closure on any Exchange Business Day of the relevant Exchange (or, in the case of Index Securities, any relevant Exchange(s) relating to securities or other property that comprise 20 per cent. or more of the level of the relevant Index) or any Related Exchange(s) prior to its Scheduled Closing Time unless such earlier closing time is announced by such Exchange(s) or Related Exchange(s) at least one hour prior to the earlier of (1) the actual closing time for the regular trading session on such Exchange(s) or such Related Exchange(s) on such Exchange Business Day and (2) the submission deadline for orders to be entered into the Exchange or Related Exchange system for execution at the Valuation Time on such Exchange Business Day, or
- (b) with respect to any Multi-exchange Index either:
    - (i) (A) the occurrence or existence, in respect of any Component Security, of:
      - (1) a Trading Disruption in respect of such Component Security, which the Calculation Agent determines is material, at any time during the one hour period that ends at the relevant Valuation Time in respect of the Exchange on which such Component Security is principally traded;

- (2) an Exchange Disruption in respect of such Component Security, which in either case the Calculation Agent determines is material, at any time during the one hour period that ends at the relevant Valuation Time in respect of the Exchange on which such Component Security is principally traded; or
  - (3) an Early Closure in respect of such Component Security; and
- (B) the aggregate of all Component Securities in respect of which a Trading Disruption, an Exchange Disruption or an Early Closure occurs or exists comprises 20 per cent. or more of the level of the Index; or
- (ii) the occurrence or existence, in respect of futures or options contracts relating to the Index, of: (A) a Trading Disruption, (B) an Exchange Disruption, which in either case the Calculation Agent determines is material, at any time during the one hour period that ends at the relevant Valuation Time in respect of the Related Exchange; or (C) an Early Closure.

For the purposes of determining whether a Market Disruption Event in respect of an Index exists at any time, if a Market Disruption Event occurs in respect of a Component Security or other property included in the Index at any time, then the relevant percentage contribution of that Component Security or property to the level of the Index shall be based on a comparison of (i) the portion of the level of the Index attributable to that Component Security or property to (ii) the overall level of the Index, in each case immediately before the occurrence of such Market Disruption Event;

**"Master Guarantees"** means each of the master guarantees dated 9 August 2006 relating to Lehman Brothers Finance S.A., the master guarantee dated 9 August 2006 relating to Lehman Brothers Securities N.V., the master guarantee dated 9 August 2006 relating to Lehman Brothers (Luxembourg) Equity Finance S.A. and the master guarantee dated 9 August 2006 relating to Lehman Brother Bankhaus AG (including when acting through its London Branch) made by the Guarantor in favour of Holders in respect of the relevant Issuer's obligations in relation to any Securities issued by it under the Programme;

**"Maximum Exercise Number"** means, in relation to American Style Warrants, the maximum number of Warrants that may be exercised on any day by any Holder or group of Holders as specified in the applicable Final Terms;

**"Maximum Loan Rate"** means the rate specified as such in the applicable Final Terms;

**"Merger Date"** means the closing date of a Merger Event or, where a closing date cannot be determined under the local law applicable to such Merger Event, such other date as determined by the Calculation Agent in its sole and absolute discretion;

**"Merger Event"** means, in respect of any relevant Shares, any (a) reclassification or change of such Shares that results in a transfer of or an irrevocable commitment to transfer all of such Shares outstanding to another entity or person, (b) consolidation, amalgamation, merger or binding share exchange of a Basket Company or Share Company, as the case may be, with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Basket Company or Share Company, as the case may be, is the

continuing entity and which does not result in a reclassification or change of all of such Shares outstanding), (c) takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100 per cent. of the outstanding Shares of the Basket Company or Share Company, as the case may be, that results in a transfer of or an irrevocable commitment to transfer all such Shares (other than such Shares owned or controlled by such other entity or person), or (d) consolidation, amalgamation, merger or binding share exchange of the Basket Company or its subsidiaries or the Share Company or its subsidiaries, as the case may be, with or into another entity in which the Basket Company or Share Company, as the case may be, is the continuing entity and which does not result in a reclassification or change of all such Shares outstanding but results in the outstanding Shares (other than Shares owned or controlled by such other entity) immediately prior to such event collectively representing less than 50 per cent. of the outstanding Shares immediately following such event (a "**Reverse Merger**"), in each case if the Merger Date is on or before (i) in the case of Physical Delivery Securities, the Settlement Date or, as the case may be, Redemption Date or (ii) in the case of Cash Settled Securities, the Valuation Date (or final Valuation Date, if more than one) or where Averaging is specified in the applicable Final Terms, the final Averaging Date;

"**Method of Adjustment**" means a method for determining the appropriate adjustment to make to the terms of Share Securities upon the occurrence of an event having, in the determination of the Calculation Agent, a diluting or concentrative effect on the theoretical value of the relevant Shares;

"**Minimum Exercise Number**" means the minimum number of Warrants that may be exercised on any day by any Holder as specified in the applicable Final Terms;

"**Multi-exchange Index**" means any Index specified as such in the relevant Final Terms;

"**Nationalisation**" means that all the Shares or all or substantially all the assets of a Basket Company or the Share Company, as the case may be, are nationalised, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof;

"**New Issuer**" shall have the meaning assigned thereto in Condition 24;

"**New Shares**" means ordinary or common shares, whether of the entity or person (other than the relevant Basket Company or Share Company) involved in the Merger Event or the making of the Tender Offer or a third party, that are, or that as of the Merger Date or Tender Offer Date are promptly scheduled to be, (a) publicly quoted, traded or listed on an exchange or quotation system located in the same country as the Exchange (or, where the Exchange is within the European Union, in any member state of the European Union) and (b) not subject to any currency exchange controls, trading restrictions or other trading limitations;

"**Offering Circular**" means the amended and restated offering circular dated as of 9 August 2006 published by Lehman Brothers Finance S.A., Lehman Brothers Securities N.V., Lehman Brothers (Luxembourg) Equity Finance S.A. and Lehman Brothers Bankhaus AG (including when acting through its London Branch) in connection with their Programme for the issue of Securities;

"**Options Exchange**" means the exchange or quotation system specified as such in the applicable Final Terms, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in options contracts relating to the relevant Share

has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to such options contracts on such temporary substitute exchange or quotation system as on the original Options Exchange) or, if no such exchange or quotation system is specified in the applicable Final Terms, the Related Exchange (if such Related Exchange trades options contracts relating to the relevant Share) or, if more than one such Related Exchange is specified in the applicable Final Terms, the Related Exchange selected by the Calculation Agent as the primary market for listed options contracts relating to the relevant Share;

**"Other Consideration"** means cash and/or any securities (other than New Shares) or assets (whether of the entity or person (other than the relevant Basket Company or Share Company) involved in the Merger Event or the making of the Tender Offer or a third party);

**"Potential Adjustment Event"** means any of the following:

- (a) a subdivision, consolidation or reclassification of relevant Shares (unless resulting in a Merger Event) or a free distribution or dividend of any such Shares to existing holders by way of bonus, capitalisation or similar issue;
- (b) a distribution, issue or dividend to existing holders of the relevant Shares of (i) such Shares or (ii) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of a Basket Company or the Share Company, as the case may be, equally or proportionately with such payments to holders of such Shares or (iii) share capital or other securities of another issuer acquired or owned (directly or indirectly) by a Basket Company or the Share Company, as the case may be, as a result of a spin-off or other similar transaction or (iv) any other type of securities, rights or warrants or other assets, in any case for payment (in cash or in other consideration) at less than the prevailing market price as determined by the Calculation Agent;
- (c) an extraordinary dividend as determined by the Calculation Agent;
- (d) a call by a Basket Company or the Share Company, as the case may be, in respect of relevant Shares that are not fully paid;
- (e) a repurchase by a Basket Company or the Share Company, as the case may be, or any of its subsidiaries of relevant Shares whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise;
- (f) in respect of a Basket Company or the Share Company, as the case may be, an event that results in any shareholder rights being distributed or becoming separated from shares of common stock or other shares of the capital stock of such Basket Company or the Share Company, as the case may be, pursuant to a shareholder rights plan or arrangement directed against hostile takeovers that provides upon the occurrence of certain events for a distribution of preferred stock, warrants, debt instruments or stock rights at a price below their market value as determined by the Calculation Agent, provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights; or
- (g) any other event having, in the opinion of the Calculation Agent, a diluting or concentrative effect on the theoretical value of the relevant Shares;

**"Physical Delivery Security"** means a Security which is settled by way of physical delivery of the Relevant Asset or Relevant Assets, as the case may be;

**"Physical Settlement Amount"** means, in relation to a Physical Delivery Security, the quantity of the Relevant Asset or the Relevant Assets, as the case may be, which a Holder is entitled to receive on the Settlement Date or, as the case may be, Redemption Date in respect of each such Security following payment of any sums payable (including the Expenses and, in the case of Warrants, the Strike Price), rounded down to the nearest whole unit of the Relevant Asset or each of the Relevant Assets, as the case may be, as determined by the Calculation Agent, including any documents evidencing such Physical Settlement Amount;

**"Put Warrants"** means Warrants designated as "Put Warrants" in the applicable Final Terms;

**"Quota"** shall have the meaning assigned thereto in Condition 5(b);

**"Redemption Date"** means the Redemption Date specified in the applicable Final Terms;

**"Related Exchange"** means, in respect of Index Securities and in relation to an Index or in respect of Share Securities and in relation to a Share, each exchange or quotation system specified as such for such Index or Share in the applicable Final Terms, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in futures or options contracts relating to such Index or Share has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to the futures or options contracts relating to such Index or Share on such temporary substitute exchange or quotation system as on the original Related Exchange) Provided that where "All Exchanges" is specified as the Related Exchange in the applicable Final Terms, **"Related Exchange"** shall mean each exchange or quotation system where trading has a material effect (as determined by the Calculation Agent) on the overall market for futures or options contracts relating to such Index or such Share;

**"Relevant Asset"** or **"Relevant Assets"** means, in the case of Physical Delivery Securities, the relevant asset or relevant assets to which the Securities relate as specified in the applicable Final Terms;

**"Relevant Screen Page"** means the relevant screen page as specified in the applicable Final Terms;

**"Reverse Merger"** shall have the meaning assigned thereto in the definition of Merger Event above;

**"Scheduled Closing Time"** means, in respect of an Exchange or Related Exchange and a Scheduled Trading Day, the scheduled weekday closing time of such Exchange or Related Exchange on such Scheduled Trading Day, without regard to after hours or any other trading outside of the regular trading session hours;

**"Scheduled Trading Day"** means (a) except with respect to a Multi-exchange Index, any day on which each Exchange and each Related Exchange are scheduled to be open for trading for their respective regular trading session, and (b) with respect to any Multi-exchange Index, any day on which (i) the Index Sponsor is scheduled to publish the level of the Index and (ii) the Related Exchange is scheduled to be open for trading for its regular trading session;

**"Scheduled Valuation Date"** means any original date that, but for the occurrence of an event causing a Disrupted Day, would have been a Valuation Date;

**"Securities Agency Agreement"** means the amended and restated master warrant and certificate agreement between Lehman Brothers Finance S.A., Lehman Brothers Securities N.V., Lehman Brothers (Luxembourg) Equity Finance S.A., Lehman Brothers Bankhaus AG and the Securities Agents dated 9 August 2006;

**"Series"** means a series of Securities;

**"Settlement Currency"** means the settlement currency for the payment of the Cash Settlement Amount, as set out in the applicable Final Terms;

**"Settlement Cycle"** means, in respect of Share Securities or Index Securities, the period of Clearing System Business Days following a trade in the relevant Shares or shares underlying a relevant Index, as the case may be, on the Exchange in which settlement will customarily occur according to the rules of such Exchange (or, if there are multiple Exchanges in respect of an Index, the longest such period);

**"Settlement Date"** means the Settlement Date specified in the applicable Final Terms;

**"Settlement Interruption"** means an event beyond the control of the Issuer as a result of which the Issuer cannot make delivery of the Physical Settlement Amount using the Clearing System or other method specified in the applicable Final Terms;

**"Share"** and **"Shares"** mean, subject to adjustment in accordance with these Conditions, the share or shares as specified in the applicable Final Terms;

**"Share Company"** means, with respect to a Share, the issuer of such Share;

**"Share-for-Combined"** means, in respect of a Merger Event or Tender Offer, that the consideration for the relevant Shares consists of Combined Consideration;

**"Share-for-Other"** means, in respect of a Merger Event or Tender Offer, that the consideration for the relevant Shares consists solely of Other Consideration;

**"Share-for-Share"** means (i) in respect of a Merger Event or Tender Offer, that the consideration for the relevant Shares consists (or, at the option of the holder of such Shares, will consist) solely of New Shares, and (ii) a Reverse Merger;

**"Share Securities"** means Securities relating to a specified Share or a Basket of Shares;

**"Strike Price"** means the Strike Price specified in the applicable Final Terms;

**"Subject Currency"** means a subject currency as specified in the applicable Final Terms;

**"Subject Interest Rate"** means the subject interest rate to which the Securities relate as specified in the applicable Final Terms;

**"Successor Index"** shall have the meaning assigned thereto in Condition 14(a)(i);

**"Tender Offer"** means a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person that results in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10 per cent. and less than 100 per cent. of the outstanding voting shares of the Basket Company or Share Company, as the case may be, as determined by the Calculation Agent, based upon the making

of filings with governmental or self-regulatory agencies or such other information as the Calculation Agent deems relevant;

**"Tender Offer Date"** means, in respect of a Tender Offer, the date on which voting shares in the amount of the applicable percentage threshold are actually purchased or otherwise obtained (as determined by the Calculation Agent);

**"Third Weekday"** means the third weekday (meaning any week day excluding any Saturdays and Sundays) prior to the Redemption Date or Settlement Date (as applicable);

**"Trading Disruption"** means any suspension of or limitation imposed on trading by the Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the Exchange or Related Exchange or otherwise: (i) relating to any Component Security on the Exchange in respect of such Component Security; or (ii) in futures or options contracts relating to the Index on the Related Exchange;

**"Underlying"** shall have the meaning assigned thereto in the applicable Final Terms;

**"Valid Date"** means a Scheduled Trading Day that is not a Disrupted Day and on which another Averaging Date in respect of the relevant Valuation Date does not or is not deemed to occur;

**"Valuation Date"** means, subject as provided in these Conditions (including Condition 13(a)) or in the applicable Final Terms:

- (i) in respect of any European Style Warrant exercised (or deemed to be exercised under Condition 4(b)) on the Expiration Date, the Expiration Date;
- (ii) in respect of any American Style Warrant exercised (or deemed to be exercised under Condition 4(a)) on any day during the Exercise Period, the Actual Exercise Date; and
- (iii) in respect of a Certificate, the Valuation Date specified in the applicable Final Terms,

or, if any such date is not a Scheduled Trading Day, the next following Scheduled Trading Day; and

**"Valuation Time"** means (a) except with respect to a Multi-exchange Index, the time specified in the applicable Final Terms or, if no time is specified, the Scheduled Closing Time on the relevant Exchange in relation to each Index, Share, depositary receipt or other Underlying to be valued. If the relevant Exchange closes prior to its Scheduled Closing Time and the specified Valuation Time is after the actual closing time for its regular trading session, then the Valuation Time shall be such actual closing time and (b) with respect to any Multi-exchange Index, (i) for the purposes of determining whether a Market Disruption Event has occurred, (1) in respect of any Component Security, the Scheduled Closing Time on the Exchange in respect of such Component Security and (2) in respect of any options contracts or future contracts on the Index, the close of trading on the Related Exchange; and (ii) in all other circumstances, the time at which the official closing level of the Index is calculated and published by the Index Sponsor.

**US SECURITIES AGENT**

**The Bank of New York**

101 Barclay Street,  
Floor 8E  
New York, New York  
10286  
USA

**BELGIAN  
SECURITIES AGENT**

**The Bank of New York**

Avenue des Arts, 35  
Kunstlaan  
1040 Brussels  
Belgium

**LUXEMBOURG  
SECURITIES AGENT**

**The Bank of New York  
(Luxembourg) S.A.**

1A, Hoehenhof  
L-1736 Senningerberg  
Luxembourg

## **USE OF PROCEEDS**

Each Issuer intends to use the net proceeds from each issue of Securities for general purposes and for hedging the obligations created by the issuance of the Securities.

## **LEHMAN BROTHERS FINANCE S.A.**

### **INCORPORATION AND DURATION**

Lehman Brothers Finance S.A. ("**LBF**") was officially incorporated and registered in Zurich, Switzerland on 30 December 1969 as a stock corporation ("**Aktiengesellschaft**" or "**Société Anonyme**") under article 620 of the Swiss Code of Obligation for an unlimited duration. LBF then transferred its registered seat to Geneva, Switzerland on 24 November 1987 and subsequently back to Zurich on 13 January 1997. As from that day, LBF is registered in the Commercial Register of the Canton of Zurich, Switzerland, under the number CH-020.3.008.093-7.

### **REGISTERED OFFICE**

The registered office of LBF is at Talstrasse 82, 8001 Zurich, Switzerland and the telephone number is + 41 44 287 8842.

### **PURPOSE AND BUSINESS**

According to Article 2 of the Articles of Association of LBF (unofficial translation from the German original):

"The purpose of the Corporation is to provide financial services and in particular to structure, issue and enter into derivative transactions.

The Corporation may open branch offices and subsidiaries in Switzerland and abroad. It may also acquire participations in other companies in Switzerland and abroad.

The Corporation may acquire, hold, and sell real estate.

The Corporation may also engage in any commercial, financial or other activities which are related to the purpose of the Corporation."

LBF conducts a worldwide business of structuring, purchasing and selling over-the-counter ("**OTC**") derivatives and acts as issuer of warrants and certificates. LBF has a legal branch in Curaçao, The Netherlands Antilles and is represented through its affiliates in the major financial centres.

Its OTC derivatives business includes the design of a broad range of OTC products on equities and other underlyings that allow clients to manage existing portfolio risks or to create risk and return investment profiles that may not be achievable through publicly available instruments. OTC transactions are generally customised and developed for each client. LBF applies customary hedging techniques to risk manage the exposures which arise throughout the life of derivative transactions.

### **ORGANISATIONAL STRUCTURE AND CORPORATE AFFILIATES**

LBF has registered share capital of CHF 6,000,000 fully paid and held in its entirety directly by the Guarantor. Each CHF 1,000 of share capital is entitled to one vote.

As at 30 November 2005 (being the date to which the last audited financial statements of LBF were prepared), LBF has Capital and Reserves of CHF 420,600,679. LBF has made and received intra-group loans, the most significant of which are (as of 30 November 2005): (i) borrowing from Lehman Brothers International (Europe) of CHF 6,979,327,840; and (ii) loans to Lehman Brothers International (Europe) of CHF 6,979,327,840. These figures include loans made under securities borrowing and lending arrangements.

LBF acts in co-ordination with its affiliates from the group of Lehman Brothers to which certain of its operations have been delegated under the terms of service agreements. Pursuant to resolutions of certain members of the Executive Committee of the Board of Directors of the Guarantor on 9 June 2005, the Guarantor fully guarantees the payment of all liabilities, obligations and commitments of LBF. The accounts of LBF are audited by independent external auditors and additional measures are in place to prevent the abuse of LBF by the parent company.

#### **RECENT DEVELOPMENTS**

The business description contained herein is accurate at the date of this Offering Circular.

#### **MANAGEMENT OF LEHMAN BROTHERS FINANCE S.A. AND BOARD PRACTICES**

The directors of LBF are Lennie Fuller (Chairman), Sigurbjörn Thorkelsson (Director), and Eric Fiechter, (Director).

The business address of Lennie Fuller is Talstrasse 82, 8021 Zurich, Switzerland; the business address of Sigurbjörn Thorkelsson is 25 Bank Street, London, E14 5LE, England and the business address of Eric Fiechter is 2, rue Charles-Bonnet, 1211 Geneva 12, Switzerland.

LBF has taken all measures it deems necessary and appropriate to maintain good corporate governance in accordance with generally accepted market standards for the financial industry in Switzerland.

There are no known conflicts of interest between any duties of the directors of LBF and their respective private interests or other duties.

## SUMMARY FINANCIAL INFORMATION OF LBF

### Year-End Financial Information

The following tables set forth financial information of LBF for the periods indicated.

The selected financial information is extracted without material adjustment from the audited financial statements of LBF for the year ended 30 November 2005.

### PROFIT AND LOSS ACCOUNT DATA

	<b>Year ended 30 November 2005</b>	<b>Year ended 30 November 2004</b>
	<i>(in CHF)</i>	
<b>OPERATING INCOME</b>		
Income from option, warrant, swap and futures transactions	624,678,369	526,009,606
Interest and dividend income	537,004,304	531,936,263
Interest and dividend expense	(444,488,932)	(596,468,770)
Net interest and dividend income/expense (-)	92,515,372	(64,532,507)
Foreign exchange gains/losses (-)	(145,086)	3,610,077
<b>Total operating income</b>	717,048,655	465,087,176
<b>EXPENSES</b>		
Personnel and related expenses	(4,288,650)	(5,724,172)
Contributions to pension fund	(200,240)	(262,554)
Commissions and charges	(615,895,217)	(423,835,368)
Administration expenses	(1,491,172)	(1,231,111)
Depreciation of fixed assets	(564,227)	(594,321)
Foreign currency translation adjustment	0	(45,846,902)
<b>Total operating expenses</b>	(622,439,506)	(477,494,428)
<b>Loss/Profit for the year before taxes</b>	94,609,149	(12,407,252)
Taxes	(11,057,986)	7,312,408
<b>PROFIT FOR THE YEAR</b>	83,551,163	(5,094,844)

### BALANCE SHEET DATA

	<b>At 30 November 2005</b>	<b>At 30 November 2004</b>
	<i>(in CHF)</i>	
<b>ASSETS</b>		
Cash and due from banks on demand	413,252	1,288,525
Receivable from banks, brokers and customers	718,734,692	1,211,234,099
Receivable from affiliated companies and banks	38,788,949,110	20,133,069,325
Securities	6,569,620,822	15,890,019,088
Option, warrant and swap positions	3,696,223,894	6,728,207,068
Fixed assets*)	2,044,408	2,305,564
Accrued income and prepaid expenses	24,557,074	159,965

Other assets	12,751,756	16,257,965
<b>TOTAL ASSETS</b>	<b>49,813,295,008</b>	<b>43,982,541,599</b>

\* (Insurance value: CHF 7,300,000; 30 November 2004 CHF 7,300,000)

## LIABILITIES AND SHAREHOLDERS' EQUITY

### LIABILITIES

Due from banks on demand	233,801	0
Payable to banks, brokers and customers	70,235,620	1,982,210,825
Payable to affiliated companies and banks	37,173,022,358	22,297,635,655
Liabilities arising from selling securities short	8,789,383,240	10,630,949,317
Option, warrant and swap positions (note 4)	2,931,532,171	7,991,374,766
Accrued expenses and deferred income	21,279,105	376,079,046
Provisions for business risks	209,241,912	219,883,532
Other liabilities	139,856,721	147,358,942
Provisions for unrealized translation gains	57,909,401	0
<b>Total liabilities</b>	<b>49,392,694,329</b>	<b>43,645,492,083</b>

### SHAREHOLDERS' EQUITY

Share capital		
(6,000 shares of CHF 1,000 each)	6,000,000	6,000,000
Legal reserve - general (restricted)	2,070,000	2,070,000
Retained earnings:		
Carried forward	328,979,516	334,074,360
Loss/Profit for the year	83,551,163	(5,094,844)
<b>Total retained earnings</b>	<b>412,530,679</b>	<b>328,979,526</b>
<b>Total shareholders' equity</b>	<b>420,600,679</b>	<b>337,049,516</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>49,813,295,008</b>	<b>43,982,541,599</b>

## CASH FLOW DATA

	<b>Year ended 30 November 2005</b>	<b>Year ended 30 November 2004</b>
	<i>(in CHF thousands)</i>	
<b>Net Profit/(loss) for the year</b>	83,551	(5,095)
<b>Non cash components included in net loss for the year</b>	564	594
<b>Decrease/(increase) in operating assets</b>		
Receivables from non affiliates	492,499	188,557
Receivables from affiliated companies	(18,655,880)	6,914,431
Securities	9,320,398	6,293,298
Options, warrants and swap positions	3,031,983	599,696
Fixed assets	(303)	108

Accrued income and prepaid expenses	(24,397)	44
Other assets	3,507	(4,596)
<b>Net decrease/(increase) in operating assets</b>	<b>(5,832,193)</b>	<b>13,991,538</b>
<b><i>Increase/(decrease) in liabilities</i></b>		
Payables to non affiliates	(1,911,975)	1,789,388
Payables to affiliated companies	14,875,387	(8,312,697)
Liabilities from selling securities short	(1,841,566)	(9,728,337)
Options, warrants and swap positions	(5,059,843)	1,828,478
Accrued expenses and deferred income	(354,800)	332,908
Provisions for business risk	(10,642)	(44,734)
Other liabilities	(7,502)	146,192
Provisions for unrealised translation gains	57,909	0
<b>Net increase/(decrease) in the operating liabilities</b>	<b>5,746,968</b>	<b>(13,988,802)</b>
<b>Net cash flows during the period</b>	<b>(1,110)</b>	<b>(1,765)</b>
<b>Cash at beginning of period</b>	<b>1,289</b>	<b>3,054</b>
<b>Net cash at end of period</b>	<b>179</b>	<b>1,289</b>

The above cash flow data is not audited. It is extracted from LBF's management records and has been reviewed by the auditors of LBF.

## **LEHMAN BROTHERS SECURITIES N.V.**

### **INCORPORATION AND DURATION**

Lehman Brothers Securities N.V. ("**LBS**") was incorporated as a limited liability company (a "naamloze vennootschap" or "N.V.") under the laws of The Netherlands Antilles in Curaçao, The Netherlands Antilles, on 31 October 2003 for an unlimited duration. LBS is registered with the Curaçao Chamber of Commerce and Industry under number 93301. LBS operates under an exemption granted pursuant to the Ordinance on the Supervision of Banking and Credit Institutions 1994 (PB 1994, no.#4). The statutory regulations governing a "naamloze vennootschap" or "N.V." are contained in Book 2, Title 5 of the Civil Code of The Netherlands Antilles.

### **REGISTERED OFFICE**

The registered office of LBS is at E-Commercepark, E-Zone Vredenberg, Hoek Heelsumstraat, Hugenolzweg Z/N, Curaçao, The Netherlands Antilles and the telephone number is + 5999 461 8415.

### **PURPOSE AND BUSINESS**

According to Article 2 of the Articles of Association, LBS may do all and any of the following: (unofficial translation from the Dutch original):

- "1.
  - (a) to issue securities including, but not limited to, warrants, certificates and debt instruments linked to the performance of equities, funds, indices, foreign exchange, fixed income, commodities, real estate or other assets;
  - (b) to enter into Over the Counter (OTC) derivatives transactions;
  - (c) to enter into hedging transactions with affiliates and third parties and to invest its resources in securities and other assets;
  - (d) to borrow money or to execute such other funding transaction to conduct its business;
  - (e) to lend money to group companies only and to provide security in any form for the benefit of the corporation as well as for the benefit of affiliates and third parties;
  - (f) to render administrative and management services to other Lehman Brothers group entities and affiliates;
  - (g) to participate in and to manage enterprises and corporations;
  - (h) to acquire, hold and sell real estate.
2. The corporation is authorized to perform everything requisite or profitable to the accomplishment of its purpose or incidental thereto or connected therewith in the widest sense of the word.
3. Furthermore, for the protection of its capital the corporation is entitled to revocably or irrevocably transfer all or part of its assets in trust to one or more trustees or agents by any Anglo American legal system or to effect such transfer on a fiduciary basis in any form, in the sense that such assets are to be held by such trustees or agents who may be natural persons, legal persons or corporations, for the benefit of the corporation, its shareholders and creditors or other persons appointed by the board of managing directors with the assent of the general

meeting of shareholders, all the foregoing in conformity with the provisions governing the trust relation or the fiduciary ownership."

The present principal activity of the company includes the issuance of certificates and warrants on equities and other underlyings, the risk management of the foregoing security instruments and the execution of intercompany borrowing and lending transactions.

LBS operates globally and is represented through its affiliates in the major financial centres.

#### **ORGANISATIONAL STRUCTURE AND CORPORATE AFFILIATES**

LBS has an authorized share capital of USD 500,000 (USD five hundred thousand), which is divided into five hundred registered shares of one thousand USD each, numbered 1 through 500. The issued and paid-in share capital is USD 100,000 (USD one hundred thousand). The issued share capital is held in full by Lehman Brothers Asia Holdings Limited.

LBS acts in co-ordination with its affiliates from the group of Lehman Brothers to which certain of its operations have been delegated under the terms of service agreements. Pursuant to resolutions of certain members of the Executive Committee of the Board of Directors of the Guarantor on 9 June 2005, the Guarantor fully guarantees the payment of all liabilities, obligations and commitments of LBS. The accounts of LBS are audited by independent external auditors and additional measures are in place to prevent the abuse of LBS by the parent company.

#### **RECENT DEVELOPMENTS**

The business description contained herein is accurate at the date of this Offering Circular.

#### **MANAGEMENT OF LEHMAN BROTHERS SECURITIES N.V. AND BOARD PRACTICES**

The sole managing director of LBS is Jonathan Knapp. The business address of Jonathan Knapp is Lehman Brothers Securities N.V., E-Commercepark, E-Zone Vredenberg, Hoek Heelsumstraat / Hugenolweg Z/N, Curacao, Netherlands Antilles.

The managing director is supervised by the supervisory board of LBS. The supervisory board of LBS, whose powers and duties are described in the Articles of Association of LBS, consists of the following members: P. Le Marchant, T. Mackey, A. Morton, A. Whittaker and A. Rush. The business address of the members of the supervisory board is Lehman Brothers International (Europe), c/o Emily Upton, 25 Bank Street, London E14 5LE.

LBS has taken all measures it deems necessary and appropriate to maintain good corporate governance in accordance with generally accepted market standards for the financial industry in The Netherlands Antilles.

There are no known conflicts of interest between any duties of either the managing director of LBS or the Supervisory Board of LBS and their respective private interests or other duties.

## SUMMARY FINANCIAL INFORMATION OF LBS

### Year-End Financial Information

The following tables set forth financial information of LBS for the periods indicated.

The selected financial information is extracted without material adjustment from the audited financial statements of LBS for the year ended 30 November 2005.

### PROFIT AND LOSS ACCOUNT DATA

	<b>Year Ended 30 November 2005</b>	<b>Year Ended 30 November 2004</b>
	<i>(in US \$)</i>	
<b>OPERATING INCOME (LOSS)</b>		
Income from Option Warrant and Futures Transactions	0	0
Interest Income	1,786	1,188
Revenues from Affiliated Companies	154,083	148,070
	155,869	149,258
<b>OPERATING EXPENSES</b>		
General and Administration Expenses	(140,075)	(134,609)
<b>NET PROFIT BEFORE TAXATION</b>	15,794	14,649
Taxation on profit on ordinary activities	(5,449)	(5,000)
<b>PROFIT AFTER TAX ON ORDINARY ACTIVITIES</b>	10,345	9,649
<b>PROFIT FOR THE FINANCIAL YEAR</b>	10,345	9,649

### BALANCE SHEET DATA

	<b>At 30 November 2005</b>	<b>At 30 November 2004</b>
	<i>(in US \$)</i>	
<b>ASSETS</b>		
Cash due from Banks on Demand	2,845	20,002
Receivables from Affiliated Companies and Banks	42,255,728	209,785,265
Option, Warrant and Swap positions	122,960,051	162,716,934
Other Assets	-	1,678
	165,218,624	372,523,879
<b>LIABILITIES</b>		
Payables to Affiliated Companies and Banks	(42,123,520)	(209,690,188)
Option, Warrant and Swap positions (proceeds \$104,932,825)	(122,960,051)	(162,716,934)
Accrued Expenses and Deferred Income	(12,920)	(4,051)
Other Liabilities	-	(918)

**CURRENT ASSETS LESS CURRENT LIABILITIES**

122,133

111,788

**SHAREHOLDERS EQUITY**

Share Capital

(500 Shares of \$1,000 each)

500,000

500,000

Unpaid Capital

(400,000)

(400,000)

Retained Earnings

Carried Forward

11,788

2,139

Profit for the Year

10,345

9,649

122,133

111,788

## CASH FLOW DATA

	<b>Year Ended 30 November 2005</b>	<b>Year Ended 30 November 2004</b>
<b>Cash flow from operating activities</b>	<i>(in US \$)</i>	
Profit for the year	10,345	9,649
Increase (decrease) in operating assets		
Receivable from affiliated companies	167,529,537	(192,773,305)
Investment in options	39,756,883	(145,666,178)
Other assets	1,678	(1,679)
Net decrease (increase) in operating assets	207,288,098	(338,441,162)
Increase (decrease) in operating liabilities		
Payable to affiliate companies	(167,566,668)	192,697,112
Liabilities arising from selling securities short - warrants	(39,756,883)	145,648,235
Accrued expenses and deferred income	(8,869)	-
Other liabilities	(918)	3,948
Net (decrease) increase in operating liabilities	(207,315,600)	338,349,295
Net cash provided by (used in) operating activities	(17,157)	(82,218)
<b>Cash flow from financing activities</b>		
Proceeds from issuance of shares	-	-
Net increase (decrease) in cash and cash equivalents	(17,157)	(82,218)
Net cash and cash equivalents, beginning of year	20,002	102,220
<b>Net cash and cash equivalents, end of year</b>	2,845	20,002

## **LEHMAN BROTHERS (LUXEMBOURG) EQUITY FINANCE S.A.**

### **INCORPORATION AND DURATION**

Lehman Brothers (Luxembourg) Equity Finance S.A. ("**LBEF**") was incorporated as a public limited liability company (a *société anonyme*, or S.A.) under the laws of the Grand-Duchy of Luxembourg in the City of Luxembourg Grand Duchy of Luxembourg on 8 June 2004 for an unlimited duration. LBEF is registered in the Registre de Commerce et des Sociétés under the number "B 101448". A copy of LBEF's constitutional documents was published in the *Mémorial C, Recueil de Sociétés et Associations* " on 8 July 2004.

### **REGISTERED OFFICE**

The registered office of LBEF is at 1 Allee Scheffer, L-2520, Luxembourg and the telephone number is + 352 2414 33-1.

### **PURPOSE AND BUSINESS**

According to Article 3 of the Articles of Association, LBEF may do all and any of the following: (unofficial translation from the French original):

"The objects of the Company are to invest in a portfolio of domestic or foreign securities or similar instruments, including but not limited to shares, warrants and equity securities, bonds, notes, rights or participations in senior or mezzanine loans and in financial derivatives agreements and other debt instruments or securities, trade receivables or other forms of claims, obligations (including but not limited to synthetic securities obligations), to enter into any agreements relating to such portfolio and to grant pledges, guarantees or other security interests of any kind under any law to Luxembourg or foreign entities.

The Company may also:

- (a) raise funds through, including, but not limited to, the issue of bonds, notes, subordinated notes and other debt instruments or debt securities and equity instruments, the use of financial derivatives or otherwise and obtain loans or any other form of credit facility;
- (b) enter into any kind of credit derivative agreements such as, but not limited to, swap agreements;
- (c) grant loans or any financial assistance to companies of the same group;
- (d) grant security for funds raised, including bonds, obligations and notes issued, and for indemnities given by the Company;
- (e) enter into all necessary agreements, including, but not limited to underwriting agreements, marketing agreements, management agreements, advisory agreements, administration agreements and other contracts for services, selling agreements, interest and/or currency exchange agreements and other financial derivative agreements, bank and cash administration agreements, liquidity facility agreements, credit insurance agreements and any agreements creating any kind of security interest.

In addition to the foregoing, the Company can perform all legal, commercial, technical and financial investments or operation and in general, all transactions which are necessary or useful to fulfil its objects as well as all operations connected directly or indirectly to facilitating the accomplishment of its

purpose in all areas described above, however without taking advantage of the Act of 31 July 1929, on holding companies."

The present principal activity of LBEF includes the issuance of certificates and warrants on equities and other underlyings, the risk management of the foregoing security instruments and the execution of intercompany borrowing and lending transactions.

LBEF operates globally and is represented through its affiliates in the major financial centres.

#### **ORGANISATIONAL STRUCTURE AND CORPORATE AFFILIATES**

The subscribed capital of LBEF is set at fifty thousand American Dollars (USD 50,000), divided into five hundred (500) registered shares with a par value of one hundred American Dollars (USD 100) each, fully paid up (by 100%). The issued share capital is held by Lehman Brothers Holdings Inc. (499 shares) and Lehman Brothers U.K. Holdings (Delaware) Inc. (1 share).

LBEF acts in co-ordination with its affiliates from the group of Lehman brothers to which certain of its operations have been delegated under the terms of service agreements. Pursuant to resolutions of certain members of the Executive Committee of the Board of Directors of the Guarantor on 9 June 2005, the Guarantor fully guarantees the payment of all liabilities, obligations and commitments of LBEF. The accounts of LBEF are audited by independent external auditors and additional measures are in place to prevent the abuse of LBEF by the parent company.

#### **RECENT DEVELOPMENTS**

The business description contained herein is accurate at the date of this Offering Circular.

#### **MANAGEMENT OF LEHMAN BROTHERS (LUXEMBOURG) EQUITY FINANCE S.A. AND BOARD PRACTICES**

The Directors of LBEF are as follows:

- (a) Mr. Urs Bressan, whose business address is at Talstrasse 82, CH-8021 Zurich (Switzerland);
- (b) Mr. Leonard Murray Fuller, whose business address is at Talstrasse 82, CH-8021 Zurich (Switzerland);
- (c) Mr. Ian Robert Maynard, whose business address is at 25 Bank Street, London E14 5LE (Great Britain);
- (d) Jan Willem van Koeverden Brouwer, whose business address is at 1 Allee Scheffer, L-2520, Luxembourg (Grand Duchy of Luxembourg); and
- (e) TMF Corporate Services S.A., whose business address is at 1 Allee Scheffer, L-2520, Luxembourg (Grand Duchy of Luxembourg).

LBEF has taken all measures it deems necessary and appropriate to maintain good corporate governance in accordance with generally accepted market standards for the financial industry in Luxembourg. Shareholders' and board meetings take place in accordance with the rules set out in the Articles of Association of LBEF and Luxembourg company law.

There are no known conflicts of interest between any duties of the directors LBEF and their respective private interests or other duties.

## SUMMARY FINANCIAL INFORMATION OF LBEF

### PROFIT AND LOSS ACCOUNT DATA

#### Year - End Financial Information

The following tables set forth financial information of LBEF for the periods indicated.

The selected financial information is extracted without material adjustment from the audited financial statements of LBEF for the year ended 30 November 2005.

	<b>Year ended 30 November 2005</b>	<b>Year ended 30 November 2004</b>
	<i>(in US \$ thousands)</i>	
Realized result on certificates issued	(4,356)	(16,044)
Realized Result on total return swap	(710)	15,001
Unrealized result on certificates issued	0	3,020
Unrealized result on total return swap	0	(3,017)
Interest income	5,103	1,073
<b>NET PROFIT BEFORE TAXATION</b>	<u>37</u>	<u>33</u>
Taxation on profit on ordinary activities	(11)	(10)
<b>PROFIT AFTER TAX ON ORDINARY ACTIVITIES</b>	26	23
<b>PROFIT FOR THE FINANCIAL PERIOD</b>	<u><u>26</u></u>	<u><u>23</u></u>

### BALANCE SHEET DATA

	<b>At 30 November 2005</b>	<b>At 30 November 2004</b>
	<i>(in US \$ thousands)</i>	
<b>CURRENT ASSETS</b>		
Due from affiliated undertakings	12,207	232,531
	<u>12,207</u>	<u>232,531</u>
<b>CREDITORS</b> - Amounts falling due within one year		
Amounts owed to affiliated undertakings	(12,087)	(74,489)
Certificates issued	0	(154,942)
Provision for taxation	(21)	(10)
Other liabilities	(0)	(3,017)
<b>CURRENT ASSETS LESS CURRENT LIABILITIES</b>	<u><u>99</u></u>	<u><u>73</u></u>

## CAPITAL AND RESERVES

Subscribed capital	50	50
Legal reserve	5	0
Retained profit brought forward	18	0
Profit for the financial year	26	23
	99	73

## CASH FLOW DATA

	Year ended 30 November 2005	Year ended 30 November 2004
	<i>(in US \$ thousands)</i>	
<b>Cash flows from operating activities</b>		
Net Profit for the year	26	23
Adjustments for		
Interest	(5,103)	(1,073)
Increase in receivable from affiliated companies	220,324	(232,531)
Increase in liabilities arising with derivative transactions	(3,017)	3,017
Increase in amounts owed to affiliated undertakings	(62,402)	74,489
Net cash used in operating activities	149,828	(156,075)
Interest received	5,103	1,073
Increase in provision for tax liabilities	11	10
<b>Net cash used in operating activities</b>	154,942	(154,992)
<b>Cash flows from investing activities</b>		
Proceeds from (redemption)/issuance of certificates	(154,942)	154,942
<b>Net cash used in investing activities</b>	(154,942)	154,942
<b>Cash flows from financing activities</b>		
Proceeds from issuance of share capital	0	50
<b>Net cash from financing activities</b>	0	50
Net increase in cash and cash equivalents	0	0
Cash and cash equivalents at beginning of period	0	0
Net Cash at end of period	0	0

## **LEHMAN BROTHERS BANKHAUS AG**

### **General**

LBB was incorporated under German law in Frankfurt, Germany on June 3, 1987 as a private Stock Corporation ("Aktiengesellschaft") for an unlimited duration and entered into the Commercial Register of the District Court in Frankfurt am Main under the number 28139 on September 14, 1987. The principal activity of LBB is to act as a commercial bank supporting the working capital and lending requirements of various institutional clients worldwide and European subsidiaries of LBHI. In addition LBB provides financial advisory services to investment banking clients in Germany and Austria. LBB does not have any subsidiaries but also acts through its branch office in London, UK which is registered at Companies House with Branch Number BR003960. LBB opened an office in Milan, Italy on August 31, 2005. LBB had an average of 57 employees during the fiscal year.

The registered office and principal place of business of LBB is at Rathenauplatz 1, 60313 Frankfurt am Main, Germany and the telephone number is + 49-69-15307-0.

The sole shareholder of LBB is LBHI. Since 1987, LBB has operated in accordance with the rules and regulations of German Corporate and Banking laws and been supervised by the Supervisory Board of LBB and controlled by the German banking regulator.

LBHI issues consolidated financial statements for the largest group of consolidated companies. The consolidated financial statements are available from LBB.

There was a direct control and profit and loss transfer agreement with LBB's sole shareholder LB VuB until July 28, 2006. On the basis of this agreement, LBB transferred € 25.5 million to LB VuB for the fiscal year 2004 / 2005. In that fiscal year, all transactions with affiliated companies were executed on an arm's length basis consistent with transactions with third parties. No disadvantages from dealings with affiliated parties have been experienced by LBB.

LBB is a member of the Banking Association Hessen, Registered Association, the Association of Foreign Banks in Germany, Registered Association, and the Audit Association of German Banks, Registered Association. In addition, LBB participates in the Deposit Protection Fund of the Federal Association of German Banks, Registered Association.

LBB's share capital consists of 115,100 ordinary shares with a par value of EUR 512.60 per share, each of which has been allotted, called up and fully paid.

The object of LBB (which can be found at article 2 of its articles of association) is the operation of a business involving bank transactions of every type (with the exception of mortgage banking, savings and loan and investment business).

### **Directors of LBB**

Set forth below are the names and the principal occupations of the current members of the Board of Management of LBB, each of whose business address in their capacity as Director is Rathenauplatz 1, 60313 Frankfurt am Main, Germany. There are no conflicts of interest between any duties of the Board of Management of LBB to LBB and their private duties or other interests.

<b>Name</b>	<b>Principal Occupation with LBB</b>	<b>Principal Outside Activities</b>
Helmut Olivier	Director	Member of the Supervisory Board of D. Logistics AG, Hofheim, Germany.
Karl Dannenbaum	Director	

## SUMMARY FINANCIAL INFORMATION OF LEHMAN BROTHERS BANKHAUS AG

### Year-End Financial Information

The following tables set forth selected financial information of LBB for the periods indicated.

The selected financial information is extracted without material adjustment from the audited financial statements of LBB for the year ended November 30, 2005. Financial statements of LBB are consolidated in the consolidated financial statements of LBHI.

### BALANCE SHEET DATA

	Year ended November 30, 2005	Year ended November 30, 2004
<i>(in EUR thousands)</i>		
<b>Assets</b>		
Cash reserve .....	17,488	259
Loans and advances to banks.....	63,564	48,638
Loans and advances to customers .....	4,718,200	4,210,031
Shares and other variable-interest securities .....	10,678	23,324
Investments .....	1	1
Trust assets .....	76,706	83,059
Intangible assets .....	115	0
Property, plant and equipment .....	3,138	4,024
Other assets.....	25,857	57,971
Prepaid Expenses .....	2,165	1,092
<b>Total Assets.....</b>	<b>4,917,912</b>	<b>4,428,399</b>
<b>Liabilities</b>		
Liabilities to banks .....	712,814	868,810
Liabilities to customers .....	3,451,816	2,864,353
Securitized liabilities.....	82,650	31,679
Trust liabilities.....	76,706	83,059
Other liabilities.....	22,454	33,226
Deferred income .....	17,096	8,485
Accruals .....	35,286	17,130
Subordinated liabilities.....	161,241	163,808
Equity .....	357,849	357,849
<b>Total Liabilities .....</b>	<b>4,917,912</b>	<b>4,428,399</b>

## PROFIT AND LOSS ACCOUNT DATA

	Year ended November 30, 2005	Year ended November 30, 2004
<i>(in EUR thousands)</i>		
<b>Expenses</b>		
Interest expenses .....	(227,767)	(180,767)
Commission expenses .....	(5,606)	(4,787)
Net expenses from financial transactions .....	0	(1,164)
Administrative expenses .....	(29,702)	(18,978)
Other expenses .....	(7,337)	(2,897)
Profits transferred as a result of a profit transfer or a profit transfer agreement .....	(25,504)	(55,494)
Taxation .....	(12,831)	(15,435)
<b>Total expenses</b> .....	<b>(308,747)</b>	<b>(279,522)</b>
<b>Income</b>		
Interest income .....	279,063	261,581
Commission income .....	27,603	14,748
Net income (loss) from financial transactions .....	429	0
Other operating income .....	1,652	3,193
Total income .....	308,747	279,522
<b>Net Profit for the year</b> .....	<b>0</b>	<b>0</b>

Note:

1. There was a direct control and profit and loss transfer agreement with the sole shareholder Lehman Brothers Verwaltungs- und Beteiligungsgesellschaft mbH, Frankfurt am Main until July 28, 2006. On the basis of this agreement, Lehman Brothers Bankhaus Aktiengesellschaft, Frankfurt am Main, transferred €25.5m (2003/04: €55.5m) to Lehman Brothers Verwaltungs- und Beteiligungsgesellschaft mbH for the fiscal year 2004/2005.

## CASH FLOW DATA

	Year ended 30 November 2005	Year ended 30 November 2004
	<i>(in EUR thousands)</i>	
Profits for this period (including pro rata profits of minority shareholders) before extraordinary results. Items not affecting payments in profits for this period and transfers to cashflow from current business .....	25,504	55,494
Depreciation, adjustments and write ups on loans and advances tangible and financial fixed assets .....	1,029	1,545
Increase in provisions .....	33,935	22,218
Reduction in provisions .....	(1,591)	(1,062)
Other income/ expenditure affecting payments	(6,681)	14,301
Profits or losses on disposals of financial and tangible fixed assets .....	0	0
Other adjustments (net) .....	0	0
Sub-total .....	52,196	92,496
 <b>Change in assets and liabilities relating to operating activities</b>		
Loans and advances		
To banks .....	(15,018)	6,336
To customers .....	(502,252)	1,316,643
Securities (other than financial investments) .....	0	0
Other assets relating to operating activities .....	37,562	12,536
Liabilities .....		
To Banks .....	(153,218)	(565,830)
To customers .....	617,355	(457,892)
Securitised liabilities .....	51,057	(248,601)
Other liabilities from current business .....	(16,844)	(73,737)
Interest and dividends received .....	0	0
Interest paid .....	0	0
Extraordinary credits .....	0	0
Extraordinary debits .....	0	0
Tax paid on earnings .....	(7,094)	(8,827)
Cashflows from current business .....	63,745	73,124
Cash receipt from disposal of Financial fixed assets .....	0	0
Tangible assets .....	0	0
Debits from investments in Financial fixed assets .....	11,792	(20,607)
Tangible assets .....	(258)	(143)
Credits from sales of consolidated companies and other business units .....	0	0
Debits from sales of consolidated companies and other business units .....	0	0

Changes in funds relating to other investing activities (net).....	0	0
Cashflows from investments .....	11,534	(20,750)
Credits from additions to equity capital .....	0	0
Dividends to proprietors and minority shareholders .....		
Dividends paid.....	(55,494)	(84,182)
Other payments.....	(2,557)	0
Net changes in funds, capital otherwise.....	0	0
Cash flows from financial activity.....	(58,051)	(84,182)
Change in financial funds affecting payments (total of 19,25,29) .....	17,229	(31,808)
Change in financial funds due to exchange rates, scope of consolidation and valuations .....	0	0
Financial funds, opening balance .....	259	32,067
Financial funds, closing balance .....	<u>17,488</u>	<u>259</u>

\* Interest received in cash 2005:EUR 273.180 k (2004: EUR 284.654 k)

\*\* Interest paid in cash 2005: EUR 229.350 k (2004: EUR 189,015 k)

## **DESCRIPTION OF THE GUARANTOR**

### **LEHMAN BROTHERS HOLDINGS INC.**

#### **Information about LBHI**

Lehman Brothers Holdings Inc., a Delaware corporation, was incorporated on December 29, 1983, for an indefinite term, pursuant to the General Corporation Law of the State of Delaware, U.S.A., with registration number 2024634. LBHI and its subsidiaries are collectively referred to as “Lehman Brothers”. LBHI’s executive offices are located at 745 Seventh Avenue, New York, New York 10019, U.S.A., and its telephone number is + 212 526 7000. The common stock of LBHI is listed on the New York Stock Exchange and on the Pacific Exchange under the symbol “LEH”.

The stated legal purpose of LBHI is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (as set out in article 3 of LBHI’s Restated Certificate of Incorporation).

To the best of LBHI’s knowledge, it is in material compliance with the applicable corporate governance regimes in the United States of America.

LBHI also acts through its London Branch which is registered at Companies House with Branch Number BR005486.

#### **Business Overview**

Lehman Brothers, an innovator in global finance, serves the financial needs of corporations, governments and municipalities, institutional clients and individuals worldwide. Lehman Brothers provides a full array of equities and fixed income sales, trading and research, investment banking services and investment management and advisory services. Its global headquarters in New York and regional headquarters in London and Tokyo are complemented by offices in additional locations in North America, Europe, the Middle East, Latin America and the Asia Pacific region. Lehman Brothers, through predecessor entities, was founded in 1850.

Through its subsidiaries, Lehman Brothers is a global market-maker in all major equity and fixed income products. To facilitate its market-making activities, Lehman Brothers is a member of all principal securities and commodities exchanges in the United States, as well as NASD, Inc., and it holds memberships or associate memberships on several principal international securities and commodities exchanges, including the London, Tokyo, Hong Kong, Frankfurt, Paris, Milan and Australian stock exchanges.

Lehman Brothers' principal business activities are investment banking, capital markets and investment management. Through its investment banking, trading, research, structuring and distribution capabilities in equity and fixed income products, Lehman Brothers continues to build on its client flow business model, which is based on its principal focus of facilitating client transactions in all major global capital markets products and services. Lehman Brothers generates client flow revenues from institutional, corporate, government and high-net-worth customers; by (i) advising on and structuring transactions specifically suited to meet client needs; (ii) serving as a market maker and/or intermediary in the global marketplace, including having securities and other financial instrument products available to allow clients to adjust their portfolios and diversify risks across different market cycles; (iii) providing investment management and advisory services; and (iv) acting as an underwriter to clients. As part of its client flow activities, Lehman Brothers maintains inventory positions of varying amounts across a broad range of financial instruments. In addition, Lehman Brothers also takes proprietary

trading and investment positions. The financial services industry is significantly influenced by worldwide economic conditions as well as other factors inherent in the global financial markets. As a result, revenues and earnings may vary from quarter to quarter and from year to year. Lehman Brothers believes its client flow orientation helps to mitigate overall revenue volatility.

Lehman Brothers operates in three business segments: Investment Banking, Capital Markets and Investment Management. Financial information concerning Lehman Brothers for the fiscal years ended November 30, 2005 and 2004, including the amount of net revenues contributed by each segment in such periods, is set forth in the Consolidated Financial Statements and Notes thereto which are incorporated by reference in this Offering Circular.

Lehman Brothers is engaged primarily in providing financial services. Other businesses in which Lehman Brothers is engaged represent less than 10 percent of each of consolidated assets, revenues and pretax income.

### **Organizational Structure**

LBHI is the ultimate parent company of the Lehman Brothers group. Since LBHI is primarily a holding company, its cash flow and consequent ability to satisfy its obligations under the Master Guarantees are dependent upon the earnings of its subsidiaries and dividends or other distributions of those earnings or loans or other payments by those subsidiaries to LBHI. Except for the other Issuers and certain other subsidiaries as issuers of securities (and then solely with respect to the securities issued by them), LBHI's subsidiaries will have no obligation to pay any amount in respect of Securities or to make any funds available therefor. Several of LBHI's principal subsidiaries are subject to various capital adequacy requirements promulgated by the regulatory, banking and exchange authorities of the countries in which they operate and/or to capital targets established by various ratings agencies. The requirements referred to above, and certain covenants contained in various debt agreements, may restrict LBHI's ability to withdraw capital from its subsidiaries by dividends, loans or other payments. Additionally, the ability of LBHI to participate as an equity holder in any distribution of assets of any subsidiary is generally subordinated to the claims of creditors of the subsidiary.

As disclosed in the Information Incorporated by Reference, Lehman Brothers is involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of its business, including actions brought against Lehman Brothers and others with respect to transactions in which Lehman Brothers acted as an underwriter or financial advisor, actions arising out of its activities as a broker or dealer in securities and actions brought on behalf of various classes of claimants against many securities firms and lending institutions, including Lehman Brothers. Although there can be no assurance as to the ultimate outcome, Lehman Brothers generally has denied, or believe it has a meritorious defense and will deny, liability in all significant cases pending against it, including the matters described in the Documents Incorporated by Reference, and it intends to defend vigorously each such case. Based on information currently available, Lehman Brothers believes the amount, or range, of reasonably possible losses in connection with the actions against it, including the matters described in the Documents Incorporated by Reference, in excess of established reserves, in the aggregate, not to be material to Lehman Brothers' consolidated financial condition or cash flows. However, losses may be material to Lehman Brothers' operating results for any particular future period, depending on the level of its income for such period.

## SUMMARY FINANCIAL INFORMATION OF LEHMAN BROTHERS HOLDINGS INC.

The following table sets forth selected consolidated financial information on LBHI as of the dates and for the periods indicated. The selected consolidated financial information as of and for the twelve month periods ended November 30, 2005 and 2004 and as of and for the three months periods ended May 31, 2006 and February 28, 2006 is extracted without material adjustment from the audited consolidated financial statements of LBHI included in LBHI's Annual Report on Form 10-K for the twelve month period ended November 30, 2005, filed with the SEC and from the unaudited consolidated financial statements of LBHI included in LBHI's Quarterly Reports on Form 10-Q for the quarters ended May 31, 2006 and February 28, 2006, respectively.

### Consolidated Statement of Income Information

	Three months ended May 31, 2006	Three months ended February, 28 2006	Year ended November 30, 2005	Year ended November 30, 2004
	<i>(in U.S. \$ millions)</i>			
<b>Revenues:</b>				
Principal transactions .....	\$2,506	\$2,473	\$7,811	\$5,699
Investment banking .....	741	835	2,894	2,188
Commissions .....	587	472	1,728	1,537
Interest and dividends .....	7,327	6,192	19,043	11,032
Asset management and other .....	354	335	944	794
<b>Total revenues</b> .....	<b>11,515</b>	<b>10,307</b>	<b>32,420</b>	<b>21,250</b>
Interest expense .....	7,104	5,846	17,790	9,674
<b>Net revenues</b> .....	<b>4,411</b>	<b>4,461</b>	<b>14,630</b>	<b>11,576</b>
<b>Non-Interest Expenses:</b>				
Compensation and benefits .....	2,175	2,199	7,213	5,730
Other expenses .....	738	711	2,588	2,328
<b>Total non-interest expenses</b>	<b>2,913</b>	<b>2,910</b>	<b>9,801</b>	<b>8,058</b>
Income before taxes and dividends on trust preferred securities .....	1,498	1,551	4,829	3,518
Provision for income taxes .....	496	513	1,569	1,125
Dividends on trust preferred securities .....	-	-	-	24
<b>Income before cumulative effect of accounting change</b> .....	<b>1,002</b>	<b>\$1,038</b>	<b>\$3,260</b>	<b>\$2,369</b>
Net income applicable to common stock .....	986	\$1,069	\$3,191	\$2,297
<b>Earnings per common share (diluted):</b> .....	<b>1.69</b>	<b>\$3.66</b>	<b>\$10.87</b>	<b>\$7.90</b>

	<b>At May 31, 2006</b>	<b>At February 28, 2006</b>	<b>At November 30, 2005</b>	<b>At November 30, 2004</b>
	<i>(in U.S.\$ millions)</i>			
Total assets .....	\$456,202	\$439,796	\$410,063	\$357,168
Commercial paper and short-term debt .....	4,532	4,807	2,941	2,857
<b>Total long-term indebtedness:</b> .....	<b>81,379</b>	<b>66,096</b>	<b>62,309</b>	<b>56,486</b>
Total liabilities .....	438,220	422,303	393,269	342,248
<b>Total stockholders' equity</b> .....	<b>17,892</b>	<b>17,493</b>	<b>16,794</b>	<b>14,920</b>
<b>Preferred stock</b> .....	<b>1,095</b>	<b>1,095</b>	<b>1,095</b>	<b>1,345</b>
Common stock, \$0.10 par value; Shares authorized: 1,200,000,000 in 2006, 2005 and 2004 Shares issued: 608,845,822 and 607,137,946 in May 31 and Feb 28 2006 respectively; 605,337,946 in 2005 and 595,323,059 in 2004 Shares outstanding: 540,323,059 and 538,302,918 in May 31 and Feb 28 2006 respectively; 542,874,206 in 2005 and 548,318,822 in 2004 .....	61	61	61	61
Additional paid in capital.....	8,727	8,716	6,283	5,834
Accumulated other comprehensive income (net of tax) .....		(16)	(16)	(19)
Retained earnings.....	14,108	13,192	12,198	9,240
Other stockholders' equity, net.....	(1,796)	(1,448)	765	741
Common stock in treasury, at cost 68,522,763 and 68,835,028 shares as at May 31 and Feb 28 2006 62,463,740 shares in 2005 and 47,273,572 shares in 2004 .....	(4,224)	(4,107)	(3,592)	(2,282)
<b>Total capital</b> .....	<b>99,361</b>	<b>83,589</b>	<b>79,103</b>	<b>71,406</b>

## OFFERING AND SALE

Set out below are the forms of selling restrictions that will apply in respect of Securities issued under the Programme unless otherwise amended, supplemented or modified in any particular Final Terms.

### SELLING RESTRICTIONS

#### United States of America

##### Type 1A US Selling Restriction

*If the applicable Final Terms for Securities of any Series indicates that the Type 1A US Selling Restrictions apply, the US Selling Restrictions will be as follows:*

Neither the Securities nor the Master Guarantee (as such expression is defined in the Conditions) in respect of the Issuer's obligations in relation to the Securities has been or will be registered under the Securities Act and neither the Securities nor the Master Guarantee may be offered or sold within the United States or to, or for the account or benefit of, US persons except in transactions exempt from the registration requirements of the Securities Act. Each Dealer is required to agree that it will not offer or sell the Securities, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Series of which such Securities are a part, as determined and certified to the relevant Issuer by the relevant Dealer (or, in the case of a Series of Securities sold to or through more than one Dealer, by each of such Dealers as to Securities of such Series purchased by or through it, in which case the relevant Issuer shall notify each such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, US persons, and it will have sent to each dealer to which it sells Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities in the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Dealer may arrange for the offer and sale of a portion of the Securities within the United States exclusively to persons reasonably believed to be "qualified purchasers" as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended that are also (i) QIBs in reliance on the exemption from registration provided by Rule 144A under the Securities Act or (ii) "accredited investors" (as defined in Rule 501 under the Securities Act).

In addition, until 40 days after the commencement of the offering, an offer or sale of Securities within the United States by a Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is otherwise than in accordance with Rule 144A under the Securities Act or to an "accredited investor".

##### Type 1B US Selling Restriction

*If the applicable Final Terms for Securities of any Series indicates that the Type 1B US Selling Restrictions apply, the US Selling Restrictions will be as follows:*

Neither the Securities nor the Master Guarantee (as such expression is defined in the Conditions) in respect of the Issuer's obligations in relation to the Securities has been or will be registered under the Securities Act and neither the Securities nor the Master Guarantee may be offered or sold within the United States or to, or for the account or benefit of, US persons except in transactions exempt from the registration requirements of the Securities Act. Each Dealer is required to agree that it will not offer or sell the Securities, (i) as part of their distribution at any time or (ii) otherwise until one year after the completion of the distribution of the Series of which such Securities are a part, as determined and

certified to the relevant Issuer by the relevant Dealer (or, in the case of a Series of Securities sold to or through more than one Dealer, by each of such Dealers as to Securities of such Series purchased by or through it, in which case the relevant Issuer shall notify each such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, US persons, and it will have sent to each dealer to which it sells Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities in the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Dealer may arrange for the offer and sale of a portion of the Securities within the United States exclusively to persons reasonably believed to be "qualified purchasers" as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended that are also (i) QIBs in reliance on the exemption from registration provided by Rule 144A under the Securities Act or (ii) "accredited investors" (as defined in Rule 501 under the Securities Act).

In addition, until 40 days after the commencement of the offering, an offer or sale of Securities within the United States by a Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is otherwise than in accordance with Rule 144A under the Securities Act or to an "accredited investor".

#### Type 2A US Selling Restriction

*If the applicable Final Terms for Securities of any Series indicates that the Type 2A US Selling Restrictions apply, the US Selling Restrictions will be as follows:*

Neither the Securities nor the Master Guarantee (as such expression is defined in the Conditions) in respect of the Issuer's obligations in relation to the Securities has been or will be registered under the Securities Act and neither the Securities nor the Master Guarantee may be offered or sold within the United States or to, or for the account or benefit of, US persons except in transactions exempt from the registration requirements of the Securities Act. Each Dealer is required to agree that it will not offer or sell the Securities, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Series of which such Securities are a part, as determined and certified to the relevant Issuer by the relevant Dealer (or, in the case of a sale of a series of Securities sold to or through more than one Dealer, by each of such Dealers as to Securities of such Series purchased by or through it, in which case the relevant Issuer shall notify each such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, US persons, and it will have sent to each dealer to which it sells Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities in the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Securities within the United States by a Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is otherwise than in accordance with Rule 144A under the Securities Act or to an "accredited investor".

#### Type 2B US Selling Restriction

*If the applicable Final Terms for Securities of any Series indicates that the Type 2B US Selling Restrictions apply, the US Selling Restrictions will be as follows:*

Neither the Securities nor the Master Guarantee (as such expression is defined in the Conditions) in respect of the Issuer's obligations in relation to the Securities has been or will be registered under the Securities Act and neither the Securities nor the Master Guarantee may be offered or sold within the United States or to, or for the account or benefit of, US persons except in transactions exempt from the registration requirements of the Securities Act. Each Dealer is required to agree that it will not offer or sell the Securities, (i) as part of their distribution at any time or (ii) otherwise until one year after the completion of the distribution of the Series of which such Securities are a part, as determined and certified to the relevant Issuer by the relevant Dealer (or, in the case of a Series of Securities sold to or through more than one Dealer, by each of such Dealers as to Securities of such Series purchased by or through it, in which case the relevant Issuer shall notify each such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, US persons, and it will have sent to each dealer to which it sells Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities in the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Securities within the United States by a Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is otherwise than in accordance with Rule 144A under the Securities Act or to an "accredited investor".

#### Type 3A US Selling Restrictions

*If the applicable Final Terms for Securities of any Series indicates that the Type 3A US Selling Restrictions apply, the US Selling Restrictions will be as follows:*

None of the Securities, the Master Guarantee (as such expression is defined in the Conditions) in respect of the Issuer's obligations in relation to the Securities and any securities to be delivered upon exercise or redemption of the Securities have been or will be registered under the Securities Act and none of the Securities, the Master Guarantee and any securities to be delivered upon exercise or redemption of the Securities may be offered or sold within the United States or to, or for the account or benefit of, US persons except in transactions exempt from the registration requirements of the Securities Act. Exercise or redemption of a Security will be conditioned on certification that the holder (or any person on whose behalf the holder is directly or indirectly acting) is neither a US person nor located within the United States. Each Dealer is required to agree that it will not offer or sell the Securities, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Series of which the Securities are a part, as determined and certified to the relevant Issuer by the relevant Dealer (or, in the case of a Series of Securities sold to or through more than one Dealer, by each of such Dealers as to Securities of such Series purchased by or through it in which case the relevant Issuer shall notify each such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, US persons, and it will have sent to each dealer to which it sells Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities in the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Securities within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

#### Type 3B US Selling Restrictions

*If the applicable Final Terms for Securities of any Series indicates that the Type 3B US Selling Restrictions apply, the US Selling Restrictions will be as follows:*

None of the Securities, the Master Guarantee (as such expression is defined in the Conditions) in respect of the Issuer's obligations in relation to the Securities and any securities to be delivered upon exercise or redemption of the Securities has been nor will be registered under the Securities Act and none of the Securities, the Master Guarantee and any securities to be delivered upon exercise or redemption of the Securities may be offered or sold within the United States or to, or for the account or benefit of, US persons except in transactions exempt from the registration requirements of the Securities Act. Exercise or redemption of a Security will be conditioned on certification that the holder (or any person on whose behalf the holder is directly or indirectly acting) is neither a US person nor located within the United States. Each Dealer is required to agree that it will not offer or sell the Securities, (i) as part of their distribution at any time or (ii) otherwise until one year after the completion of the distribution of the Series of which such Securities are a part as determined and certified to the relevant Issuer by the relevant Dealer (or, in the case of a Series of Securities sold to or through more than one Dealer, by each of such Dealers as to Securities of such Series purchased by or through it in which case the relevant Issuer shall notify each such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, US persons, and it will have sent to each dealer to which it sells Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities in the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Securities within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

#### Type 4 US Selling Restrictions

*If the applicable Final Terms for Securities of any Series indicates that Type 4 US Selling Restrictions apply, the US Selling Restrictions will be as follows:*

None of the Securities, the Master Guarantee (as such expression is defined in the Conditions) in respect of the Issuer's obligations in relation to the Securities and any securities which may be delivered upon exercise or redemption of the Securities have been nor will be registered under the Securities Act. The Securities may not at any time be offered, sold or delivered in the United States or to, or for the account or benefit of, US persons, nor may any US person at any time or maintain a position in the Securities. Exercise or redemption of a Security will be conditioned on certification that the holder (or any person on whose behalf the holder is directly or indirectly acting) is not a US person or located within the United States.

Each Dealer is required to represent and agree that it has not acquired any Securities for the account or benefit of any US person and that it has not offered, sold, traded or delivered, and will not at any time offer, sell, trade or deliver, any Securities, whether acquired in connection with the distribution of the Securities or otherwise, in the United States or to, or for the account or benefit of, US persons.

Each Dealer is also required to agree that it will send to each securities dealer to which it sells Securities at any time a confirmation or other notice setting forth the restrictions on offers, sales and deliveries of the Securities in the United States or to, or for the account or benefit of, US persons.

#### Type 5 US Selling Restrictions

*If the applicable Final Terms for Securities of any Series indicates that Type 5 US Selling Restrictions apply, the US Selling Restrictions will be as follows:*

None of the Securities, the Master Guarantee (as such expression is defined in the Conditions) in respect of the Issuer's obligations in relation to the Securities and any securities which may be delivered upon exercise or redemption of the Securities have been nor will be registered under the Securities Act. The Securities may not at any time be offered, sold or delivered in the United States or to, or for the account or benefit of, US persons, nor may any US person at any time or maintain a position in the Securities. The Securities may only be offered, sold or delivered exclusively to persons reasonably believed to be "qualified purchasers" as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended. Exercise or redemption of a Security will be conditioned on certification that the holder (or any person on whose behalf the holder is directly or indirectly acting) is not a US person or located within the United States.

Each Dealer is required to represent and agree that it has not acquired any Securities for the account or benefit of any US person and that it has not offered, sold, traded or delivered, and will not at any time offer, sell, trade or deliver, any Securities, whether acquired in connection with the distribution of the Securities or otherwise, in the United States or to, or for the account or benefit of, US persons.

Each Dealer is also required to agree that it will send to each securities dealer to which it sells Securities at any time a confirmation or other notice setting forth the restrictions on offers, sales and deliveries of the Securities in the United States or to, or for the account or benefit of, US persons.

As used herein, the term "United States" has the meanings given to them by Regulation S under the Securities Act.

Alternative selling restrictions may apply if so indicated in the applicable Final Terms for Securities of any Series.

#### Transfer Restrictions

Each purchaser of any Security offered and sold in reliance on Rule 144A will be deemed to have represented and agreed as follows (terms used in this paragraph that are not defined herein will have the meaning given to them in Rule 144A or in Regulation S as the case may be):

- (a) the purchaser (i) is a QIB that is also a "qualified purchaser" as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended, (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring Securities for its own account or for the account of a QIB that is also a "qualified purchaser"; and
- (b) the purchaser understands that such Security is being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, such Security has not been and will not be registered under the Securities Act or any other applicable securities law and may not be offered, sold or otherwise transferred unless registered pursuant to or exempt from registration under the Securities Act or any other applicable securities law; and that (i) if in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Security, such

Security may be offered, sold, pledged or otherwise transferred only (A) to a person which the seller reasonably believes is a QIB that is also a "qualified purchaser" in a transaction meeting the requirements of Rule 144A, (B) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (C) to a "qualified purchaser" pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) and in each of such cases in accordance with any applicable securities laws of any state of the United States or any other jurisdiction, (ii) the purchaser will, and each subsequent holder of the Securities is required to, notify any purchaser of such Security from it of the resale restrictions referred to in (i) above and that (iii) no representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for resale of Securities.

Each Security offered and sold in reliance on Rule 144A will bear a legend to the following effect, in addition to such other legends as may be necessary or appropriate, unless the relevant Issuer determines otherwise in compliance with applicable law:

THIS SECURITY (OR ITS PREDECESSOR) HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER, AND WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER AND THE DEALERS THAT (A) THIS SECURITY MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) AND A QUALIFIED PURCHASER (AS DEFINED IN SECTION 2(a)(51) OF THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED) IN A TRANSACTION MEETING THE REQUIREMENTS OF SUCH RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT OR (4) TO A QUALIFIED PURCHASER PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE. NO REPRESENTATION CAN BE MADE AS TO AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THIS SECURITY.

Each purchaser of any Security offered and sold in reliance on Regulation S will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

- (a) the purchaser (i) is, and the person, if any, for whose account it is acquiring such Security is, outside the United States and is not a U.S. person, and (ii) is acquiring the offered Securities in an offshore transaction meeting the requirements of Regulation S;
- (b) the purchaser is aware that the Securities have not been and will not be registered under the Securities Act and that the Securities are being distributed and offered outside the United States in reliance on Regulation S; and
- (c) the purchaser acknowledges that the Issuers, the Dealers, their affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements.

Each Security that is offered and sold to an "accredited investor" in reliance on the exemptions set forth in Regulation D under the Securities Act or in a transaction otherwise exempt from registration under the Securities Act will bear an additional legend to the following effect, in addition to such other legends as may be necessary or appropriate, unless the relevant Issuer determines otherwise in compliance with applicable law:

THESE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 ("THE SECURITIES ACT") AND MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. FURTHER OFFERS OR SALES OF THESE SECURITIES ARE SUBJECT TO CERTAIN RESTRICTIONS, AS SET FORTH IN A LETTER TO LEHMAN BROTHERS INC. AND LEHMAN BROTHERS FINANCE S.A. EXECUTED BY OR ON BEHALF OF THE HOLDER HEREOF.

Each purchaser of Securities in reliance on the exemptions set forth in Regulation D under the Securities Act will be required to deliver to the relevant Issuer and the Principal Securities Agent an Investor Representation Letter substantially in the form prescribed in Schedule 8 to the Securities Agency Agreement, a copy of which is attached as Appendix A to this Offering Circular. The Securities sold in reliance on the exemptions set forth in Regulation D under the Securities Act will be subject to the transfer restrictions set forth in the above legend, such letter and in the Securities Agency Agreement. Inquiries concerning transfers of Securities should be made to any Dealer.

### **Luxembourg**

The Securities may not be offered or sold within the territory of the Grand-Duchy of Luxembourg unless:

- (i) a prospectus has been duly approved by the *Commission de Surveillance du Secteur Financier* (the "**CSSF**") if Luxembourg is the home member state (as defined in the Law of 10 July 2005 on prospectuses for securities and implementing Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading (the "**Law**")); or
- (ii) if Luxembourg is not the home member state, the CSSF has been notified by the competent authority in the home member state that the prospectus has been duly approved; or
- (iii) the offer benefits from an exemption to or constitutes a transaction not subject to the requirement to publish a prospectus.

## **United Kingdom**

All applicable provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") must be complied with in respect of anything done in relation to any Securities in, from or otherwise involving the United Kingdom. Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by any person in connection with the issue or sale of any Securities may only be communicated or caused to be communicated in circumstances in which section 21(1) of the FSMA does not apply to the relevant Issuer or the Guarantor.

## **Netherlands Antilles**

The Securities to be issued by LBS under the Programme have not been, directly or indirectly, offered, sold, transferred or delivered and will not be, directly or indirectly, offered, sold, transferred or delivered (including rights representing an interest in a Global Security) in The Netherlands Antilles.

Securities issued by LBS under the Programme with a denomination of less than Netherlands Antillean guilder (Naf) 100,000 (or the equivalent in any other currency) have not been, directly or indirectly, offered, sold, transferred or delivered and will not be, directly or indirectly, offered, sold transferred or delivered (including rights representing an interest in a Global Security) to the account of any person or entity other than to persons or entities which trade or invest in securities in the conduct of a profession or business, which includes banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises.

## **General**

No action has been or will be taken by the relevant Issuer or any Dealer that would permit a public offering of any Securities or possession or distribution of any offering material in relation to any Securities in any jurisdiction where action for that purpose is required. No offers, sales, resales or deliveries of any Securities or distribution of any offering material relating to any Securities may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws and regulations and which will not impose any obligation on the Issuers and/or the Guarantor and/or any Dealer.

Each Dealer will, unless prohibited by applicable law, furnish to each person to whom it offers or sells Securities a copy of the Offering Circular as then amended or supplemented or (unless delivery of the Offering Circular is required by applicable law) inform each such person that a copy will be made available upon request. No Dealer is authorised to give any information or to make any representation not contained in the Offering Circular in connection with the offer and sale of Securities to which the Offering Circular relates.

With regard to each issue of Securities, additional selling restrictions may be set out in the applicable Final Terms.

## **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") no Dealer will make an offer of Securities to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Securities to the public in that Relevant Member State:

- (a) in the period beginning on the date of publication of a prospectus in relation to those Securities which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR43,000,000 and (3) an annual net turnover of more than EUR50,000,000, all as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression "offer of Securities to the public" in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Securities to be offered so as to enable an investor to decide to purchase or subscribe the Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

## TAXATION

### 1. General

Purchasers of Securities may be required to pay stamp taxes and other taxes and/or charges in connection with the Securities, in addition to the issue (or purchase) price and Strike Price (where relevant) of each Security. Prospective purchasers of Securities should be aware that transactions involving the Securities, including the issue of any Global Security and/or any Definitive Security, any purchase or disposal of or other dealings in a Security, the abandonment of a Security, and any transaction involved in the exercise and settlement or, as the case may be, redemption of a Security, may have tax consequences in any jurisdiction (including, but not limited to, possible liabilities to stamp duties, transfer and registration taxes). Such tax consequences may depend, amongst other things, upon the status of the potential purchaser of a Security. Purchasers of Securities should consult their own tax advisers about the tax implications of purchasing and holding a Security, any transaction involving a Security, and any transaction involved in the exercise and settlement or, as the case may be, redemption of a Security.

### 2. United States Taxation

**The following discussion is not intended or written to be used, and cannot be used by any person, for the purpose of avoiding United States Federal tax penalties, and was written to support the promotion or marketing of Securities issued under the Program. Prospective purchasers of the Securities should consult their own tax advisors regarding the application of U.S. federal income tax law, as well as any state, local, foreign or other tax laws, to the purchase, ownership and disposition of Securities in light of their particular circumstances.**

A Final Terms for an issue of Securities may specify with respect to the issue of Securities to which it relates (and where relevant) the potential US federal income tax consequences to Holders of the purchase, ownership, disposition, lapse and exercise or, as the case may be, redemption of the Securities.

The relevant Issuer will not investigate and will not have access to information that would permit it to ascertain, whether any Share Company or any of the Basket Companies is a passive foreign investment company for US tax purposes.

Holders and potential purchasers of Securities that are US taxpayers are urged to consult their own tax advisers with respect to the US tax consequences to them of the purchase, ownership, disposition, lapse and exercise or, as the case may be, redemption of a Security in light of their own particular circumstances.

### 3. Swiss Taxation

Holders of Securities and prospective holders of Securities are advised to consult with their tax advisers with respect to the Swiss tax consequences of the purchase, ownership, disposition, lapse or exercise or redemption of a Security in light of their particular circumstances.

#### 3.1 Stamp Taxes

Neither the issue of Securities nor the trade of Securities which classify as pure derivatives for tax purposes are normally subject to Issue Stamp Tax and Swiss Securities Transfer Tax even if an Issuer resident in Switzerland issues the Securities. Exemptions to these rules apply to Securities which, due to specific features, are considered (debt) financing instruments, share-

like or fund-like products for purposes of Swiss tax law. If upon the exercise or redemption of a Security an underlying security is delivered to the holder of the Security, the transfer of the underlying security may be subject to Swiss Securities Transfer Tax (i) of up to 0.15% in the case of an underlying security which has been issued by a Swiss resident issuer or (ii) of up to 0.3% in the case of an underlying security which has been issued by an issuer resident abroad, provided in both cases that a Swiss securities dealer ("**Effekthändler**"), as defined in art. 13 para. 3 of the Swiss Federal Act on Stamp Duties ("**Stempelabgabengesetz**"), is a party to the Securities transaction or acts as an intermediary thereto. Certain exemptions may, *inter alia*, apply with regard to institutional investors such as mutual funds, life insurance companies and social security institutions.

### 3.2 **Swiss Withholding Tax**

Securities issued by a foreign resident issuer are not subject to Swiss withholding tax.

Payments or credit of (deemed) interest or dividends on a Security issued by a Swiss resident issuer may be subject to Swiss federal withholding tax at a rate of 35%. This may apply likewise to payments or credits of yield from Securities which classify for tax purposes as fund-like products.

The holder of a Security who is resident in Switzerland may be entitled to a full refund of or a full tax credit for the Swiss federal withholding tax, subject to conditions being met.

A non Swiss resident holder of a Security may be able to claim a full or partial refund of the Swiss federal withholding tax if such a holder is entitled to claim the benefits with regard to such a payment of a double taxation treaty between Switzerland and his or her country of residence.

### 3.3 **Income Taxation of Securities Held by Individuals as Part of Private Property**

Gains or losses realised upon a sale or other disposition by individuals holding a Security as part of their private property (private capital gains or losses) are as a rule not subject to income taxation or are not deductible from taxable income respectively. Capital gains may, however, be subject to income taxation, if a Security or a distinguishable part thereof qualifies as a bond where the predominant part of the annual yield is paid in a one time payment (*überwiegende Einmalverzinsung*). Losses arising from predominant one time interest paying bonds may be deducted from gains from similar instruments in the same tax period.

Income derived from a Security which is neither a private capital gain, as set out above, nor a repayment of paid in capital (or face value in case of shares) is generally subject to tax. This applies, *inter alia*, to any issuance discount, repayment premium, other guaranteed payments (besides repayment of capital) or any combination thereof. Payments or credits received by a holder because of dividends, interest etc. of the underlying may be subject to income tax for such holder. This may apply likewise to payments or credits derived from underlying funds.

### 3.4 **Income Taxation of Warrants and Certificates Held by Swiss Resident Entities or Individuals as Part of Business Property**

Income of any kind realised from and losses incurred for business reasons on Securities as part of the business property of individuals (including deemed securities dealers due to frequent dealing, debt financing and similar criteria [*Wertschriftenhändler*]) or entities resident in

Switzerland are subject to personal income tax or corporate income tax respectively as a part of the overall net income.

### 3.5 **Wealth Taxation of Securities Held by Swiss Resident Individuals**

Market value of Securities may be subject to wealth tax levied on overall net wealth of Swiss resident individuals, regardless of whether the instruments are held as part of the private or business property.

### 3.6 **Savings Directive**

On 26 October 2004, the European Community and Switzerland entered into an agreement on the taxation of savings income pursuant to which Switzerland adopts measures equivalent to those of the European Directive 2003/48/EC of 3 June 2003 on the taxation of savings income in the form of interest payments (see section 8 titled "*EU Savings Tax Directive*" below). The agreement came into force as of 1 July 2005.

On the basis of this agreement, Switzerland introduced a withholding tax on interest payments and other similar income paid by a paying agent within Switzerland to an individual resident in an EU member state. The withholding tax is withheld at a rate of 15% for the first three years beginning with 1 July 2005, 20% for the next three years and 35% thereafter, with the option of such an individual to have the paying agent and Switzerland provide to the tax authorities of the Member State details of the payments in lieu of the withholding. The beneficial owner of the interest payments may be entitled to a tax credit or refund of the withholding, if any, provided that that certain conditions are met.

## 4. **Netherlands Antilles Taxation**

### 4.1 **Netherlands Antilles registration tax/stamp duty**

No registration tax, stamp duty, transfer tax, or any similar levy, will be payable in The Netherlands Antilles in relation to the execution, delivery and/or enforcement by legal proceedings of the issue documents or the Securities or the performance by the Issuer of its obligations thereunder, provided these actions take place outside The Netherlands Antilles. If, however, the registration of the Securities and/or the Issue Documents takes place within The Netherlands Antilles or if such documents are brought into the courts of The Netherlands Antilles, stamp duty amounting to not more than ANG 10 (USD 5.60) per page of document and registration tax of ANG 5 (USD 2.80) per document is due. No registration tax, transfer tax, stamp duty or any other similar levy or duty by reason of the mere acquisition, ownership or disposal of the Securities will be owed in The Netherlands Antilles.

### 4.2 **Other Netherlands Antilles taxes**

Under the existing laws of The Netherlands Antilles all payments in respect of the Securities can be made clear and free of withholding of, for or on account of withholding taxes imposed, levied, withheld or assessed by The Netherlands Antilles or any political subdivision or taxing authority thereof or therein. Prospective investors are recommended to consult their personal tax advisors as to the possible other tax consequences of the purchase, ownership, sale or exercise of the Securities (please refer however to the section titled "*EU Savings Tax Directive*" below).

5. **Luxembourg Taxation**

Lehman Brothers (Luxembourg) Equity Finance S.A. has been advised that under the existing laws of Luxembourg as currently applied by the Luxembourg tax authorities and in respect of Securities issued by Lehman Brothers (Luxembourg) Equity Finance S.A.:

- (a) all payments by Lehman Brothers (Luxembourg) Equity Finance S.A. under the Securities can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with the applicable Luxembourg law, subject however to:
    - (i) the application of the Luxembourg law of 21 June 2005 implementing the European Union Savings Directive (Council Directive 2003/48/EC) and providing for the possible application of a withholding tax (15% from 1 July 2005 to 30 June 2008, 20% from 1 July 2008 to 30 June 2011 and 35% from 1 July 2011) on interest paid to certain non Luxembourg resident investors (individuals and certain types of entities called "residual entities") in the event of Lehman Brother (Luxembourg) Equity Finance S.A. appointing a paying agent in Luxembourg within the meaning of the above-mentioned directive (see, paragraph (8) "EU Savings Tax Directive" below);
    - (ii) the application as regards Luxembourg resident individuals of the Luxembourg law of 23 December 2005 which has introduced a 10% final withholding tax on savings income (i.e. with certain exemptions, savings income within the meaning of the Luxembourg law of 21 June 2005 implementing the European Union Savings Directive). This law should apply to savings income accrued as from 1 July 2005 and paid as from 1 January 2006.
- Responsibility for the withholding of tax in application of the above-mentioned Luxembourg laws of 21 June 2005 and 23 December 2005 is assumed by the Luxembourg paying agent within the meaning of these laws.
- (b) a holder of such a Security who derives income from such Security or who realises a gain on the disposal or redemption thereof will not be subject to Luxembourg taxation on income or capital gains subject to the application of the European Union Savings Directive 2003/48/EC (see, paragraph (8) "EU Savings Tax Directive" below); unless (i) such holder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or (ii) such income or gain is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative or a fixed base of business in Luxembourg;
  - (c) Luxembourg net wealth tax will not be levied on a holder of a Security unless (i) such holder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or (ii) such Security is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative or a fixed place of business in Luxembourg;
  - (d) no Luxembourg inheritance tax is levied on the transfer of such Securities upon death of a holder thereof in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes;

- (e) Luxembourg gift tax will be levied in case the gift is made pursuant to a notarial deed signed before a Luxembourg notary or in case the gift is otherwise registered;
- (f) it is not compulsory that the Securities be filed, recorded or enrolled with any court or other authority in Luxembourg or that registration tax, transfer tax, capital tax, stamp duty or any other similar tax or duty (other than court fees and contributions for the registration with the Chamber of Commerce) be paid in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Securities in accordance therewith, except that in case of court proceedings in a Luxembourg court (including but not limited to a Luxembourg insolvency proceeding), registration of the Securities may be ordered by the court, in which case the Securities will be subject to an ad valorem duty or fixed duty of EUR 12, depending of the nature of the Securities to be registered. Registration would in principle further be ordered, and the same registration duties could be due, when the Securities are produced, either directly or by way of reference, before an official authority ("*autorité constituée*") in Luxembourg;
- (g) there is no Luxembourg value-added tax payable in respect of payments in consideration for the issue of the Securities or in respect of the payment under the Securities or the transfer of Securities; and
- (h) a holder of a Security will not become resident, or deemed to be resident, in Luxembourg by reason only of the holding of such Security or the execution, performance, delivery and/or enforcement of that or any other such Security.

## 6. German Taxation

**The information about the German taxation of the Securities issued under this Programme set out in the following section is not exhaustive and is based on current tax laws in force at the time of printing of this Offering Circular which may be subject to change at short notice and, within certain limits, also with retroactive effect.**

**As under this Programme different types of Securities may be issued, the tax treatment of such Securities due to the specific terms of such types can be different. Therefore, the following section only provides some very generic information on the possible tax treatment of the Securities in Germany and therefore has to be read in conjunction with the more specific information on the taxation as provided in the relevant Final Terms of each tranche of Securities. As a consequence, with regard to specific types of Securities issued under this Programme the tax consequences of an acquisition, holding, sale and redemption might be more disadvantageous than described below. With regard to certain types of Securities neither official statements of the tax authorities nor court decisions exist and it is not clear how these Securities will be treated. Furthermore, there is often no consistent view in legal literature about the tax treatment of a specific type of Securities and it is neither intended, nor possible to mention all different views in the following section. Where reference is made to statements of the tax authorities, it should be noted that the tax authorities may change their view even with retroactive effect and that the tax courts are not bound by circulars of the tax authorities and therefore may take a different view. Even if court decisions exist with regard to certain types of Securities it is not certain that the same reasoning will apply to the Securities due to certain peculiarities of such**

**Securities and furthermore the tax authorities may restrict the application of judgments of tax courts to the individual case with regard to which the judgment was rendered.**

**Moreover, the following section cannot take into account the individual tax situation of each investor. Therefore, we recommend that prospective investors should ask their own tax adviser for advice on their individual taxation with respect to an acquisition, holding, sale and redemption of the Securities. Only these advisers are in a position to duly consider the specific situation of the investor. The following statement is therefore limited to the provision of a general outline of certain tax consequences in Germany for investors.**

## 6.1 TAXATION IN RELATION TO THE CERTIFICATES

### 6.1.1 German Tax Resident Persons

German tax resident persons are persons, who are tax resident in Germany (in particular persons having residence, habitual abode, seat or place of management in Germany).

- (a) Taxation if the Certificates are held as a private asset (*Privatvermögen*)
  - (i) Income from capital investments (*Einkünfte aus Kapitalvermögen*), Section 20 para 1 no. 7 German Income Tax Act ("**EStG**").

According to Section 20 para 1 no. 7 EStG income from capital investment (*Einkünfte aus Kapitalvermögen*) is subject to income tax, if according to the terms of the respective financial instrument a repayment of the investment of the investor is promised or granted or interest payments are promised or granted, even in case the amount of the interest owed to the investor depends upon an uncertain event.

According to a circular of the Federal Ministry of Finance dated 27 November 2001 (BMF IV C 3 - S 2256 - 265/01) an investor investing in an index certificate, where the index consists of shares, is not subject to tax with his income derived from such an investment due to an increase of the underlying index, if any payments to the investor with regard to the investment depend entirely upon the (uncertain) movement of the underlying index. On the basis of the circular issued by the Federal Ministry of Finance the Regional Finance Offices (*Oberfinanzdirektionen*) Kiel (decree dated 7 July 2003 - S-2252 A - St 231), Bremen (decree dated 9 December 2003 - S-2252 - 6105 - 110), Hannover (decree dated 7 August 2002 - S 2252 - 197 - StO 223, S 2252 - 264 - StH 234) and Frankfurt (decree dated 23 October 2003 - S-2252 A - 42 - St II 3.04) have stated in identical circulars that index certificates, which are linked to a stock index, should not fall under the scope of Section 20 para 1 no. 7 Income Tax Act.

However, according to the German tax administration such financial instruments generate taxable interest income, if without an explicit or implicit agreement the repayment of the invested capital or the payment of a consideration is ensured due to the economic terms of the financial instrument.

The German tax administration emphasizes that a taxation in accordance with Section 20 para 1 no. 7 EStG does not require that the invested capital will be repaid in total, but that Section 20 para 1 no. 7 EStG is also applicable if only a

partial repayment of the invested capital is promised. With regard to the repayment amount a specific limit amount cannot be numeralised. Concerning the income tax treatment neither the labeling nor the legal form of the financial instrument is decisive, but the economic substance of the agreement of the respective financial product.

Therefore, depending upon the respective type of Certificate Section 20 para 1 no. 7 EStG is applicable, if either the respective type of Certificate provides for a certain partial redemption of the issue price or interest payments are promised or granted under such Certificate.

Particular tax consequences may arise if the taxable Certificate can be qualified as a financial innovation (*Finanzinnovation*) under German tax law. In this case, besides interest also capital gains become subject to tax and the taxable capital gain may exceed the capital gain actually generated.

If the Certificates qualify as financial innovations (as for example Debt Instrument Securities, which qualify as zero coupon notes or other discounted notes and floating rate notes for German tax purposes) and are sold before maturity or are redeemed at maturity, individuals are subject to income tax (plus solidarity surcharge) with the part of sale proceeds or redemption amount which corresponds with the yield attributable to the holding period of the respective Certificates reduced by the interest and accrued Interest, which has already been subject to income tax. Is there no yield under the Certificates or is the holder of the Certificates not able to bring evidence concerning such yield, the difference between the proceeds from sale, assignment or redemption and the issue or purchase price is subject to income tax (plus solidarity surcharge) in the year of sale, assignment or redemption of the Certificates. Where the Certificates are issued in a currency other than euro, the difference will be computed in the foreign currency and will then be converted into euro.

(ii) Speculative gains, § 23 para 1 EStG

If capital gains are not already subject to tax in accordance with the preceding paragraphs, capital gains will be subject to income tax (plus solidarity surcharge thereon), in case of a sale or redemption and certain cases of settlement of a Certificate within one year after acquisition of such Certificate. Investors holding the Certificates among their private assets might not be able to use capital losses from the sale, redemption or settlement of the Certificates (in particular if such loss is realised after a holding period of one year) to set off taxable capital gains from other assets. Capital losses suffered within the one-year-holding-period may only be off-set against gains from so-called private disposals within the meaning of Section 23 EStG.

The German Federal Government agreed on 2 July 2006 that a final withholding tax (*Abgeltungssteuer*) shall be introduced in Germany. It is expected that such final withholding tax may cover different types of capital income and capital gains. So far no draft bill has been published, so that it cannot be predicted when such tax may become effective, under what preconditions and at what rate it will be levied. It cannot be excluded that in case of an introduction of such final withholding tax also capital gains from the sale, redemption or settlement

of Certificates may become generally taxable irrespective of whether the Certificates qualify as financial innovations and irrespective of the holding period, even if such Certificates were acquired before the law comes into force.

(b) Taxation if the Certificates are held as business assets (*Betriebsvermögen*)

In case of German tax-resident corporations or individual investors (unbeschränkt Steuerpflichtige) holding Certificates as business assets (*Betriebsvermögen*), capital gains from a disposal or redemption of Certificates will be subject to corporate income tax or income tax, as the case may be (each plus solidarity surcharge), and trade tax regardless of whether or not the Certificates are sold or redeemed within one year after acquisition.

Losses incurred under a Certificate might only be tax deductible to a limited extent.

(c) Withholding tax

If Certificates, which fall under the scope of Section 20 para 1 no. 7 EstG as set out above and, therefore, generate taxable income, are held in a custodial account which the investor maintains with a German branch of a German or non-German credit or financial services institution (the "**Disbursing Agent**") a 30 % withholding tax on interest payments (*Zinsabschlag*) (plus 5.5 % solidarity surcharge on such tax) will be levied, resulting in a total tax charge of 31.65 %. If the Certificates qualify as financial innovations and are kept in a custodial account which the investor maintains with a Disbursing Agent, such Disbursing Agent will generally withhold tax at a rate of 30 % (plus 5.5 % solidarity surcharge thereon) from the difference between proceeds from the redemption, sale or assignment and the issue or purchase price of the Certificate if the Certificates have been kept in a custodial account with such Disbursing Agent since the time of issuance or acquisition, respectively. If the Certificate has not been kept in a custodial account since its issuance or acquisition the 30 % withholding tax (plus 5.5 % solidarity surcharge thereon) is applied to 30 % of the proceeds from the redemption sale or assignment of the Certificate.

In general, no withholding tax will be levied if the investor is an individual (i) whose Certificate does not form part of the property of a German trade or business, and (ii) who filed a withholding exemption certificate (*Freistellungsauftrag*) with the Disbursing Agent but only to the extent the interest income does not exceed the maximum exemption amount shown on the withholding exemption certificate. Similarly, no withholding tax will be deducted if the investor has submitted to the Disbursing Agent a certificate of non-assessment (*Nichtveranlagungsbescheinigung*) issued by the relevant local tax office.

Withholding tax and solidarity surcharge thereon are credited as prepayments against the German personal income tax and the solidarity surcharge liability of the German tax resident person. If the tax withheld exceeds the tax liability, the difference will be refunded to a German tax resident holder of Certificates within the tax assessment procedure.

(d) Application of the tax provisions of the German Investment Tax Act

The application of the German Investment Tax Act (*Investmentsteuergesetz*) requires the holding of an interest in an investment fund (*Investmentanteile*).

According to a tax decree of the German tax administration dated 2 June 2005 (BMF, IV C 1 - S 1980 - 1 - 87/05) concerning the application of the German Investment Tax Act in case of foreign investment funds an interest requires that between the holder and the legal entity owning the foreign fund assets exists a direct legal relationship which, however, has not to be membership-like relationship.

According to the tax decree a security being issued by a third party and only reflecting the economic results of a foreign investment fund or several foreign investment funds will not be regarded as a unit in a foreign investment fund.

In certain cases, e.g. if the Certificates provide for a physical delivery of interests in funds, the Investment Tax Act may apply to the Certificates in which case investors may be subject to tax with fictitious profits. Furthermore, following the physical delivery of interests in entities which qualify as foreign investment funds the holder of such Securities will be subject to the provisions of the Investment Tax Act and may be subject to tax with fictitious profits.

#### 6.1.2 Nonresident Persons

Persons, who are not tax resident in Germany, are not subject to tax, unless the Certificates (i) are held as business assets of a German permanent establishment (including a permanent representative) which is maintained by the holder of the Certificates or (ii) the income under the Certificate is part of taxable German source income as defined in the German Income Tax Act for other reasons.

#### 6.1.3 Inheritance and Gift Tax

Inheritance or gift taxes with respect to any Certificate will, in principle, arise under German law, if, in the case of inheritance tax either the decedent or the beneficiary, or, in the case of gift tax, either the donor or the donee, is a resident of Germany or if such Certificate is attributable to a German trade or business for which a permanent establishment is maintained, or a permanent representative has been appointed. In addition, certain German expatriates will be subject to inheritance and gift tax.

### 6.2 TAXATION IN RELATION TO WARRANTS

#### 6.2.1 German Tax Resident Persons

German tax resident persons are persons, who are tax resident in Germany (in particular persons having residence, habitual abode, seat or place of management in Germany).

##### (a) Taxation if the Warrants are held as a private asset (*Privatvermögen*)

##### (i) Income from capital investments (*Einkünfte aus Kapitalvermögen*), Section 20 para 1 no. 7 EStG

According to Section 20 para 1 no. 7 of the EStG income from capital investment (*Einkünfte aus Kapitalvermögen*) is subject to income tax, if according to the terms of the respective financial instrument a repayment of the investment of the investor is promised or granted or interest payments are promised or granted, even in case the amount of the interest owed to the investor depends upon an uncertain event.

According to the German tax administration such financial instruments generate also taxable interest income, if without an explicit or implicit agreement the repayment of the invested capital or the payment of a consideration is ensured due to the economic terms of the financial instrument.

According to the opinion of the German tax administration (tax decree dated 27 November 2001 - BMF IV C 3 - S 2256 - 265/01) income under an option is taxable income within the meaning of Section 20 para 1 no. 7 EStG, if pursuant to the terms and conditions the entire or partial repayment of the invested capital or a consideration for the grant of capital is promised or granted. The same tax consequences arise according to the German tax administration, if the repayment of the invested capital or a consideration for the grant of capital is ensured by means of a combination of options. In such cases the sale of an option or such combined options leads to taxable income within the meaning of Section 20 para 1 no. 7 EStG.

Therefore, depending upon the respective type of Warrant Section 20 para 1 no. 7 EStG is applicable, if the Warrant provides for a certain (partial) redemption of the issue price or interest payments are promised or granted under such Warrant.

In such a case, payments under the Warrants (taxable Warrants) would be subject to German income tax and solidarity surcharge.

Particular tax consequences may arise if the taxable Warrant can be qualified as a financial innovation (*Finanzinnovation*) under German tax law.

If taxable Warrants qualify as financial innovations (as for example Debt Instrument Securities, which qualify as zero coupon notes or other discounted notes and floating rate notes for German tax purposes) and are sold before maturity or are redeemed at maturity, individuals are subject to income tax (plus solidarity surcharge) with the part of sale proceeds or redemption amount which corresponds with the yield attributable to the holding period of the respective investor reduced by the interest and accrued Interest, which has already been subject to income tax. Is there no yield under the Warrants or is the investor not able to bring evidence concerning such yield, the difference between the proceeds from sale, assignment or redemption and the issue or purchase price is subject to income tax (plus solidarity surcharge) in the year of sale, assignment or redemption of the Warrants. Where the Warrants are issued in a currency other than euro, the difference will be computed in the foreign currency and will then be converted into euro.

(ii) Speculative gains, § 23 para 1 EStG

If capital gains are not already subject to tax in accordance with the preceding paragraphs, capital gains will be subject to income tax (plus solidarity surcharge thereon), in case of a sale or redemption and certain cases of settlement or expiration of Warrant within one year after acquisition of such Warrant. Investors holding the Warrants among their private assets might not be able to use capital losses from the sale, redemption, settlement or expiration of the Warrants (in particular if such loss is realised after a holding period of one

year) to set off taxable capital gains from other assets. Capital losses suffered within the one-year-holding-period may only be off-set against gains from so-called private disposals within the meaning of Section 23 EStG.

The German Federal Government agreed on 2 July 2006 that a final withholding tax (Abgeltungssteuer) shall be introduced in Germany. It is expected that such final withholding tax may cover different types of capital income and capital gains. So far no draft bill has been published, so that it cannot be predicted when such tax may become effective, under what preconditions and at what rate it will be levied. It cannot be excluded that in case of an introduction of such final withholding tax also capital gains from the sale, redemption, settlement or expiration of Warrants may become generally taxable irrespective of whether the Warrants qualify as financial innovations and irrespective of the holding period, even if such Warrants were acquired before the law comes into force.

(b) Taxation if the Warrants are held as a business assets (*Betriebsvermögen*)

In case of German tax-resident corporations or individual investors (*unbeschränkt Steuerpflichtige*) holding Warrants as business assets (*Betriebsvermögen*), capital gains from a disposal or redemption of Warrants will be subject to corporate income tax or income tax, as the case may be, (each plus solidarity surcharge) and trade tax (*Gewerbesteuer*) regardless of whether or not the Warrants are sold or redeemed within one year after acquisition.

Losses incurred under a Warrant might only be tax deductible to a limited extent.

(c) Withholding tax

If taxable Warrants, which fall under the scope of Section 20 para 1 no. 7 EStG, are held in a custodial account which the investor maintains with a Disbursing Agent a 30 % withholding tax on interest payments (*Zinsabschlag*) (plus 5.5 % solidarity surcharge on such tax) will be levied, resulting in a total tax charge of 31.65 %. If the Warrants qualify as financial innovations and are kept in a custodial account which the holder of the Warrants maintains with a Disbursing Agent, such Disbursing Agent will generally withhold tax at a rate of 30 % (plus 5.5 % solidarity surcharge thereon) from the difference between proceeds from the redemption, sale or assignment and the issue or purchase price of the Warrant if the Warrants have been kept in a custodial account with such Disbursing Agent since the time of issuance or acquisition, respectively. If the Warrant has not been kept in a custodial account since its issuance or acquisition the 30 % withholding tax (plus 5.5 % solidarity surcharge thereon) is applied to 30 % of the proceeds from the redemption, sale or assignment of the Warrant.

In general, no withholding tax will be levied if the holder of a Warrant is an individual (i) whose Warrant does not form part of the property of a German trade or business, and (ii) who filed a withholding exemption certificate (*Freistellungsauftrag*) with the Disbursing Agent but only to the extent the interest income does not exceed the maximum exemption amount shown on the withholding exemption certificate. Similarly, no withholding tax will be deducted if the holder of the Warrant has submitted to the Disbursing Agent a certificate of non-assessment (*Nichtveranlagungsbescheinigung*) issued by the relevant local tax office.

Withholding tax and solidarity surcharge thereon are credited as prepayments against the German personal income tax and the solidarity surcharge liability of the German tax resident person. If the tax withheld exceeds the tax liability, the difference will be refunded to a German tax resident holder of Warrants within the tax assessment procedure.

(d) Application of the tax provisions of the German Investment Tax Act

The application of the German Investment Tax Act (*Investmentsteuergesetz*) requires the holding of an interest in an investment fund (*Investmentanteile*).

According to a tax decree of the German tax authorities dated 2 June 2005 (BMF IV C 1 - S 1980 - 1 - 87/05) concerning the application the German Investment Tax Act in case of foreign investment funds an interest requires that between the holder and the legal entity owning the foreign fund assets exists a direct legal relationship which, however, has not be membership-like relationship.

According to the tax decree a security being issued by a third party and only reflecting the economic results of a foreign investment fund or several foreign investment funds will not be regarded as a unit in a foreign investment fund.

In certain cases, e.g. if a Warrant provides for a physical delivery of interests in foreign funds for the purposes of the German Investment Tax Act, then following the physical delivery of such interests, the holder of such interests will be subject to the provisions of the German Investment Tax Act and may be subject to tax with fictitious profits.

6.3 Nonresident Persons

Persons, who are not tax resident in Germany, are not subject to tax, unless the Warrants (i) are held as business assets of a German permanent establishment (including a permanent representative) which is maintained by the holder of the Warrants or (ii) the income under the Warrant is part of taxable German source income as defined in the German Income Tax Act for other reasons.

6.4 Inheritance and Gift Tax

Inheritance or gift taxes with respect to any Warrant will, in principle, arise under German law, if, in the case of inheritance tax either the decedent or the beneficiary, or, in the case of gift tax, either the donor or the donee, is a resident of a Germany or if such Warrant is attributable to a German trade or business for which a permanent establishment is maintained, or a permanent representative has been appointed. In addition, certain German expatriates will be subject to inheritance and gift tax.

7. **United Kingdom Taxation**

*The following comments are of a general nature, based on current United Kingdom law and what is understood to be current practice of Her Majesty's Revenue and Customs, which may change at any time, possibly with retrospective effect. The comments do not constitute legal or tax advice; they are not exhaustive and should be treated with appropriate caution.*

*Transactions involving Securities, including the issue of any Global Security, any purchase or disposal or abandonment or other dealings in the Securities and any transaction involved in the*

*exercise and settlement of Securities, may have United Kingdom tax consequences for potential purchasers (including, but not limited to, transfer taxes and possible withholding or deduction for or on account of United Kingdom tax from payments made in respect of the Securities). The tax consequences may depend, amongst other things, upon the status of the potential investor and the terms and conditions of a particular Security specified in the relevant Final Terms. Potential purchasers should consult their own tax advisers both in the United Kingdom and overseas (if appropriate) about the tax implications of purchasing and holding a Security, any transaction involving a Security and any transaction involved in the exercise and settlement of a Security.*

*The following is a summary only of the United Kingdom withholding taxation treatment at the date hereof in relation to income payments in respect of the Securities. The comments do not deal with other United Kingdom tax aspects of acquiring, holding, disposing of, or abandoning Securities. The following is a general guide and should be treated with appropriate caution.*

#### United Kingdom Withholding Tax

Payments made under the Securities which do not amount to yearly interest, royalties, rent or annual payments (and are not treated as, or as if they were, yearly interest, royalties, rent or annual payments for United Kingdom tax purposes) will not normally be subject to United Kingdom withholding tax.

It is noted that interest may be payable under the Certificates if so specified in the applicable Final Terms (Condition 6 of the Securities). Interest payable under such Certificates may be subject to withholding tax where such interest has a United Kingdom source. Interest on the Certificates may have a United Kingdom source where, for example, the relevant Issuer is acting out of a branch in the United Kingdom, or the Certificates are secured on assets situate in the United Kingdom or the interest is paid out of funds maintained in the United Kingdom. Where the interest has a United Kingdom source, the interest may (depending on the terms and conditions of the particular Certificate) fall to be paid under deduction of United Kingdom tax (currently 20%), subject to any exemption from withholding which may apply and to such relief as may be available under the provisions of any applicable double taxation treaty.

#### **8. EU Savings Tax Directive**

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is, in principle, applied by Member States as from 1 July 2005 and has been implemented in Luxembourg by the Law of 21 June 2005. Under the directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income within the meaning of the EU Savings Directive, paid by a paying agent (as defined under the EU Savings Directive) within its jurisdiction to, or collected by such person for, an individual resident or certain types of entities called "residual entities" established in that other Member State (or certain dependent and associated territories). For a transitional period, however, Austria, Belgium and Luxembourg are permitted to apply an optional information reporting system whereby if a beneficial owner does not comply with one of two procedures for information reporting, the Member State will levy a withholding tax on payments to such beneficial owner. The withholding tax system will apply for a transitional period during which the rate of withholding will be 15% from 1 July 2005 to 30 June 2008, 20% from 1 July 2008 to 30 June 2011 and 35% from 1 July 2011. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information

relating to such payments. See "European Union Directive on the Taxation of Savings Income in the Form of Interest Payments (Council Directive 2003/48/EC).

With effect from 1 July 2005, a number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

## **GENERAL INFORMATION**

### **AUTHORISATION**

The annual update of the Programme and the issuance of warrants and certificates under the Programme have been duly authorised by the board of directors of Lehman Brothers Finance S.A. pursuant to a resolution dated as of 17 March 2000. The management board of Lehman Brothers Securities N.V. duly resolved to (a) be added as a new issuer under the Programme pursuant to a resolution dated as of 24 November 2003 and (b) authorise the update of the Programme pursuant to a resolution dated 27 July 2006. The accession by Lehman Brothers (Luxembourg) Equity Finance S.A. to the Programme and the amendment of the Programme through its update have been duly authorised by its board of directors by a resolution dated 17 August 2004. The board of directors of Lehman Brothers Bankhaus AG duly resolved to be added as a new issuer under the Programme and authorise the update of the Programme pursuant to a resolution dated 19 August 2005. The execution and delivery of the Master Guarantees were authorised by resolutions adopted by the Executive Committee of the Board of Directors of the Guarantor as of 9 June 2005 in respect of each of the Issuers.

### **LISTING**

Application has been made for Securities issued under the Programme to be admitted to trading, under MiFID, on the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange.

The Luxembourg Stock Exchange has given the Programme the no. 12161 for Lehman Brothers Finance S.A.

The Luxembourg Stock Exchange has given the Programme the no. 13195 for Lehman Brothers Securities N.V.

The Luxembourg Stock Exchange has given the Programme the no. 13196 for Lehman Brothers (Luxembourg) Equity Finance S.A.

The Luxembourg Stock Exchange has given the Programme the no. 13197 for Lehman Brothers Bankhaus AG.

### **SUBSTITUTION**

In the event of the substitution of the obligor under Securities admitted to trading, under MiFID, on the Luxembourg Stock Exchange's regulated market and listed on the Luxembourg Stock Exchange, or of the guarantor thereof, pursuant to Condition 24, notice of such substitution shall be given to the Holders of such Securities in accordance with Condition 21 and to the Luxembourg Stock Exchange and, unless the substitute is an existing issuer or guarantor under the Programme, a prospectus containing information with respect to such substitute shall be filed with the Luxembourg Stock Exchange.

### **DOCUMENTS AVAILABLE**

So long as Securities are capable of being issued under the Programme, copies of the following documents will, when published, be available during usual business hours on any weekday (Saturdays and public holidays excepted) at the registered office of the relevant Issuer, at the principal place of business and the registered office of the Guarantor, from the specified office of the Securities Agent for the time being in Luxembourg and from the specified office of The Bank of New York in New York:

- (i) the constitutional documents of each Issuer and the Guarantor;
- (ii) the audited consolidated financial statements of the Guarantor (including the audit report thereon) for each of the years ended 30 November 2004 and 30 November 2005, together with the quarterly interim unaudited consolidated financial statements for the three months ended 28 February 2006 and for the three months ended 31 May 2006;
- (iii) the audited financial statements of LBF (including the audit report thereon) for the years ended 30 November 2004 and 30 November 2005. No publicly available interim financial statements are prepared by LBF;
- (iv) the audited financial statements of LBS (including the audit report thereon) for the years ended 30 November 2004 and 30 November 2005. No publicly available interim financial statements are prepared by LBS;
- (v) the audited financial statement of LBEF (including the audit report thereon) for the years ended 30 November 2004 and 30 November 2005. No publicly available interim financial statements are prepared by LBEF;
- (vi) the audited financial statements of LBB (including the audit report thereon) for the years ended 30 November 2004 and 30 November 2005. No publicly available interim financial statements are prepared by LBB;
- (vii) the Securities Agency Agreement (which contains the form of Global Security, Definitive Security Certificates, Warrant Exercise Notice and Certificate Settlement Notice);
- (viii) the Master Guarantees;
- (ix) this Offering Circular;
- (x) any supplement and any future prospectuses, offering circulars, prospectus and other supplements to this Offering Circular (save that a Final Terms or, as the case may be, a Prospectus relating to an unlisted Security will only be available to a holder of such Security and such holder must produce evidence satisfactory to the Securities Agent as to the identity of such holder) and any other information incorporated herein or therein by reference; and
- (xi) in the case of a syndicated issue of listed Securities, the syndication agreement (or equivalent document).

## **CLEARING SYSTEMS**

The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common codes and, where appropriate, CUSIP numbers, for each issue of Securities will be specified in the applicable Final Terms. If the Securities of any series are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

## **AUDITORS**

The financial statements of Lehman Brothers Finance S.A. for the years ended 30 November 2004 and 30 November 2005 have been prepared in accordance with generally accepted accounting principles in Switzerland and reported on without qualification by Ernst & Young, a member of the Swiss Chamber of Auditors, Brandschenkestrasse 100, 8022, Zurich, Switzerland.

The financial statements of Lehman Brothers Securities N.V. for the years ended 30 November 2004 and 30 November 2005 have been prepared in accordance with generally accepted accounting principles in United States of America and reported on without qualification by Ernst & Young, members as accountants of the NIVRA (Nederlands Instituut voor Register Accountants), Zeelandia Office Park, Kaya W.F.G. (Jombi) Mensing 16, P.O. Box 3626, Curaçao, The Netherlands Antilles.

The financial statements of Lehman Brothers (Luxembourg) Equity Finance S.A. for the years ended 30 November 2004 and 30 November 2005 have been prepared in accordance with generally accepted principles in the Grand Duchy of Luxembourg and reported on without qualification by Ernst & Young, a member of the Institut des Réviseurs d'Enterprises (IRE), 6, rue Jean Monnet, L-2180 Luxembourg, Luxembourg.

The financial statements of Lehman Brothers Bankhaus AG for the years ended 30 November 2004 and 30 November 2005 have been prepared in accordance with generally accepted accounting principles in the Federal Republic of Germany and have been reported on without qualification by Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, independent auditors of the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany), Eschersheimer Landstr. 14, D-60322 Frankfurt am Main.

The consolidated financial statements for the years ended November 30, 2004 and November 30, 2005 of the Guarantor have been prepared in accordance with generally accepted accounting principles in the United States and have been reported upon without qualification for the Guarantor by Ernst & Young LLP, certified public accountants, which has its principal place of business at 5 Times Square, New York, New York 10036, U.S.A. Ernst & Young LLP is an independent registered public accounting firm with respect to the Guarantor and its subsidiaries within the meaning of the Securities Act of 1933, as amended and the applicable rules and regulations thereunder adopted by the Securities and Exchange Commission and the Public Company Accounting Oversight Board (United States) (PCAOB).

#### **SIGNIFICANT CHANGE**

Save as disclosed herein (including in any Information Incorporated by Reference herein) there has been no significant change in the financial or trading position of LBF since 30 November 2005, in the case of LBS, since 30 November 2005, in the case of LBEF, since 30 November 2005 and in the case of LBB, since 30 November 2005. There has been no significant change in the financial or trading position of the Guarantor and its subsidiaries (taken as a whole) since 31 May 2006 except as disclosed herein or in the Information Incorporated by Reference.

#### **TREND INFORMATION**

Save as disclosed herein (including in any Information Incorporated by Reference herein) none of the Issuers or the Guarantor are aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on their respective prospects during the current financial year.

Save as disclosed herein (including in any Information Incorporated by Reference herein) there has been no material adverse change in the prospects of LBF since 30 November 2005, in the case of LBS, since 30 November 2005, in the case of LBEF, since 30 November 2005 and in the case of LBB, since 30 November 2005. There has been no material adverse change in the prospects of the Guarantor since 30 November 2005 except as disclosed herein or the Information Incorporated by Reference.

## **LITIGATION**

Save as disclosed herein (including in any information incorporated by reference herein) neither the Guarantor nor any of its subsidiaries (including LBF, LBS, LBEF and LBB) is or has been involved in any governmental, legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position or prospects of the Guarantor and its subsidiaries (taken as a whole) nor, so far as the Guarantor, LBF, LBS, LBEF or LBB are aware, are any such proceedings pending or threatened.

## **TRANSPARENCY DIRECTIVE**

Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on an EEA Regulated Market and amending Directive 2001/34/EC (the "**Transparency Directive**") entered into force on 20 January 2005. It requires member states to take measures necessary to comply with the Transparency Directive by 20 January 2007. If, as a result of the Transparency Directive or any legislation implementing the Transparency Directive, LBHI could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which it would otherwise use to prepare its published financial information, LBHI may seek an alternative admission to listing, trading and/or quotation for the Securities on a different section of the Luxembourg stock exchange or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as it may (with the approval of the Dealers) decide.

## **PUBLICATION OF OFFERING CIRCULAR AND FINAL TERMS**

The Offering Circular and any Final Terms will be available on the Internet site of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

**APPENDIX A**

**NON-DISTRIBUTION LETTER FOR U.S. ACCREDITED INVESTORS PURCHASING  
SECURITIES**

[Letterhead of US Purchaser]

[date]

Lehman Brothers Inc.  
745 Seventh Avenue  
New York, NY 10019  
United States of America

Lehman Brothers Holdings Inc.  
745 Seventh Avenue  
New York, NY 10019  
United States of America

[Lehman Brothers Finance S.A.  
Talstrasse 82  
8021 Zurich  
Switzerland]

[Lehman Brothers Securities N.V.  
E-Commercepark  
E-Zone Vredenberg  
Hoek Heelsumstraat  
Hugenzweg Z/N  
Curaçao  
The Netherlands Antilles]

[Lehman Brothers (Luxembourg) Equity Finance S.A.  
33, Boulevard du Prince Henri  
L-1724 Luxembourg,  
Luxembourg]

[Lehman Brothers Bankhaus AG  
Rathenauplatz 1, D-60313  
Frankfurt am Main Germany]

Dear Sirs

**Re: Purchase of [Number of Securities] [Title of Securities] (the "Securities") issued by [Lehman Brothers Finance S.A./Lehman Brothers Securities N.V./Lehman Brothers (Luxembourg) Equity Finance S.A./Lehman Brothers Bankhaus AG (the "Company")**

Under the terms of its Warrant and Certificate Programme (the "**Programme**"), [Lehman Brothers Finance S.A./Lehman Brothers Securities N.V./Lehman Brothers (Luxembourg) Equity Finance S.A./Lehman Brothers Bankhaus AG] (the "**Issuer**") may from time to time issue warrants and certificates of any kind including, but not limited to, warrants and certificates relating to: a specified index or a basket of indices; a specified share or basket of shares or a specified depositary receipt in

respect of a specified share or a basket of depositary receipts in respect of the shares of multiple companies ("**Securities**"). Lehman Brothers Inc. shall act as Lead Manager for the Programme.

In order to facilitate my purchase of Securities from time to time, I hereby make the following representations, and I understand and intend that each such representation shall be deemed to be repeated whenever I purchase Securities. Nothing contained herein obliges me to purchase any Securities nor the Issuer to issue any Securities.

I hereby confirm that:

- (i) I am a "qualified purchaser" as defined in Section 2(a)(51) of the Investment Company Act 1940, as amended (the "**1940 Act**");
- (ii) I am an "accredited investor" within the meaning of Rule 501(a) ("**Rule 501(a)**") under the Securities Act of 1933, as amended (the "**Securities Act**"), and I certify that I have, on the date of this representation, (1) individual net worth, or joint net worth with my spouse, in excess of \$1,000,000 or (2) individual income in excess of \$200,000 in each of the two most recent years or joint income with my spouse in excess of \$300,000 in each of those years (and I have a reasonable expectation of reaching the same income level in the current year);
- (iii) I have such knowledge, sophistication and experience in financial and business matters that I am capable of evaluating the merits and risks of purchasing the Securities and I am able and prepared to bear the financial risk of investing in and holding the Securities. I understand and agree that, in making a decision to purchase the Securities, I am relying on my own examination of the transaction (in consultation with such of my advisors as I have deemed necessary), and that neither the Issuer nor any affiliate thereof has made, and neither shall be deemed to have made, any recommendation regarding the merits of an investment in the Securities or the suitability of an investment in the Securities. I also understand that neither the Issuer nor any affiliate thereof has any obligations to supply me with any information, except such information concerning the terms of the Securities. I further understand that neither the Issuer nor any affiliate thereof has performed any independent due diligence investigation with respect to the Underlying of the Securities (as set forth in the related indicative term sheet and final terms or, as the case may be, the prospectus). Finally, I acknowledge and agree that I have not relied on research published by the Issuer or any affiliate thereof, but I have instead made my own independent review and reached my own conclusions regarding the legal, credit, tax and accounting aspects of their transaction relating to my assets, liabilities, risk management objectives and risk tolerance;
- (iv) I have received information regarding the Securities, I have read such documents, I understand the related provisions and I acknowledge that I have had access to such financial and other information, and I have been afforded the opportunity to ask such questions and representatives of the Issuer, and to receive answers thereto, as I deem necessary in connection with my decision to purchase the Securities;
- (v) (A) I am not, directly or indirectly, purchasing the Securities or any interest therein on behalf of, or as a named fiduciary of, an employee benefit plan or other retirement arrangements, including any individual retirement account or annuity, Keogh plan or collective investment fund or separate account in which such plans, accounts or arrangements are invested, that is subject to the fiduciary responsibility provisions of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") or Section 4975 of the Internal Revenue Code of 1986, as amended (the "**Code**") or a "Government Plan" as defined in Section 3(32) of ERISA and which

is subject to an Federal, state or other law which is, to a material extent, similar to the foregoing provisions of the ERISA or the Code (collectively, a "**Plan**"), nor (B) am I purchasing the Securities or any interest therein or with assets of a Plan;

- (vi) I am not acquiring the Securities with a view to any distribution thereof in a transaction that would violate the Securities Act or the securities law of any State of the United States or any other applicable jurisdiction; and
- (vii) I am not, either alone or together with others, directly or indirectly controlled or controlled by the Issuer or under direct or indirect common control with the Issuer, all within the meaning of the Securities Act.

I understand that the Securities have not been and will not be registered and are not being offered in "transactions" by an issuer not involving any public offering" within the meaning of the Securities Act. I understand and agree that the Securities may only be offered, resold, pledged or otherwise transferred (A) with the prior consent of the Issuer, in its sole discretion, which consent may be withheld for any or no reason, (B) only to an "accredited investor" (as defined by Rule 501(a)) that is also a "qualified purchaser" (as defined in Section 2(a)(51) of the 1940 Act) in a transaction exempt from the registration requirements of the Securities Act (and based upon an opinion of the counsel if the Issuer so requests) and in accordance with any applicable securities laws of any State of the United States or any other applicable jurisdiction and (C) only upon the buyer's execution and delivery to the Issuer of a letter substantially in the form hereof.

I acknowledge that you and others will rely upon my representations, confirmations, acknowledgements and agreements set forth herein and as deemed repeated from time to time, and irrevocably authorize you to produce this letter or a copy hereof to any interested party in any administrative or legal proceedings on any official enquiry with respect to matters covered hereby. I agree to notify you promptly in writing if any of my representations or warranties herein ceases to be accurate and complete. In addition, I understand that I may be requested periodically to reissue a matter representation letter in connection with the Programme.

Dated: \_\_\_\_\_

\_\_\_\_\_  
(Name of Purchaser of Securities)

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