

Lehman Brothers Securities N.V.

Financial Statements

*November 30, 2007 and 2006
with Report of Independent Auditors*


For identification purposes

ERNST & YOUNG ACCOUNTANTS

LEHMAN BROTHERS SECURITIES N.V.

FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2007 and 2006

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ERNST & YOUNG ACCOUNTANTS

Lehman Brothers Securities NV

BALANCE SHEET

In U.S. Dollars

	At Nov 30, 2007	At Nov 30, 2006
ASSETS		
Cash due from banks on demand	13,579	2,924
Receivables from affiliated companies and banks	4,798,947,558	2,103,703,389
Option, warrant and swap positions (Cost \$3,659,143,727 and 2006 \$1,083,059,276)	3,581,609,654	1,109,782,535
Other assets	1,685	-
Total assets	<u>8,380,572,476</u>	<u>3,213,488,848</u>
LIABILITIES		
Short-term borrowings	2,942,012,832	857,172,625
Payables to affiliated companies and banks	4,795,998,436	2,103,549,194
Accrued expenses and deferred income	2,804,801	19,430
Current liabilities	<u>7,740,816,069</u>	<u>2,960,741,249</u>
Long-term borrowings	639,596,823	252,609,910
Total liabilities	<u>8,380,412,892</u>	<u>3,213,351,159</u>
SHAREHOLDERS EQUITY		
Share capital	500,000	500,000
Unpaid capital	(400,000)	(400,000)
Retained earnings		
Carried forward	37,689	22,133
Profit for the year	21,895	15,556
Total stockholders equity	<u>159,584</u>	<u>137,689</u>
Total liabilities and stockholders equity	<u>8,380,572,476</u>	<u>3,213,488,847</u>

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PROFIT AND LOSS ACCOUNT

In U.S. Dollars

	For the twelve months ended as of 30th Nov 2007	For the twelve months ended as of 30th Nov 2006
OPERATING INCOME		
Interest Income	5,262	6,455
Revenue from Affiliated Companies	309,823	190,242
	<hr/>	<hr/>
	315,085	196,697
OPERATING EXPENSES		
General and administration expenses	(281,657)	(172,947)
	<hr/>	<hr/>
NET PROFIT BEFORE TAXATION	33,428	23,750
Taxation on profit on ordinary activities	(11,533)	(8,194)
	<hr/>	<hr/>
PROFIT AFTER TAX ON ORDINARY ACTIVITIES	21,895	15,556
	<hr/>	<hr/>
PROFIT FOR THE FINANCIAL YEAR	<u>21,895</u>	<u>15,556</u>


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STATEMENTS OF CASH FLOW In U.S. Dollars

	For the twelve months ended as of 30th Nov 2007	For the twelve months ended as of 30th Nov 2006
Cash flow from operating activities		
Profit for the year	21,895	15,556
(Increase) decrease in operating assets		
Receivable from affiliated companies	(2,695,244,170)	(2,061,447,661)
Investments in options	(3,349,793,492)	(1,080,885,280)
Proceeds from sale of options	877,966,372	94,062,796
Other Assets	(1,685)	-
Net decrease (increase) in operating assets	<u>(5,167,072,974)</u>	<u>(3,048,270,145)</u>
Increase (decrease) in operating liabilities		
Payable to affiliated companies	2,692,449,243	2,061,425,674
Accrued expenses and deferred income	2,785,371	6,510
Other liabilities	-	-
Net (decrease) increase in operating liabilities	2,695,234,614	2,061,432,184
Net cash provided by (used in) operating activities	<u>(2,471,816,465)</u>	<u>(986,822,405)</u>
Cash flow from financing activities		
Proceeds from issuance of shares	-	-
Derivatives contracts with a financing element	2,471,827,120	986,822,484
	<u>2,471,827,120</u>	<u>986,822,484</u>
Net decrease in cash and cash equivalents	10,655	79
Net cash and cash equivalents, beginning of the year	2,924	2,845
Net cash and cash equivalents, end of the year	<u>13,579</u>	<u>2,924</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest, taxes and dividends	-	-


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NOTES TO THE FINANCIAL STATEMENTS

For the years ended November 30, 2007 and 2006

1. ACTIVITY OF THE COMPANY

Lehman Brothers Securities N.V. (the "Company") was established in the Netherlands Antilles on October 31, 2003. The Company is a wholly owned subsidiary of Lehman Brothers Asia Holdings Ltd.

The objective of the Company is the structuring and issuing of derivative products linked to equity securities with the purpose to obtain a return on investment.

2. SIGNIFICANT ACCOUNTING POLICIES

General

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The following is a summary of the significant accounting and reporting policies used in preparing the financial statements.

Functional currency

The Company maintains its accounting records in US Dollars (USD).

Foreign currency transactions

Foreign assets and liabilities are translated into the functional currency at the rates of exchange prevailing at the balance sheet date and the transactions of the period at the average rate of the year. Exchange gains or losses are included in the profit and loss account.

The Company does not isolate that portion of gains and losses on investments which is due to changes in foreign exchange rates from that which is due to changes in market prices of the investments. Such fluctuations are included in the net gains and losses from investments.

Valuation of trading positions

Stocks and debt instruments are mark-to-market value.

Derivative transactions entered into are mark-to-market or valued at fair value with realised and unrealised gains and losses recognised in "Income from Option Warrant and Futures Transactions".

Market or fair value for trading related financial instruments and associated hedge transactions is determined by either quoted market prices (for exchange traded futures, options and warrants) or pricing models (for OTC forwards, options and swaps).

Pricing models utilise a series of market inputs taking into consideration the current value, the volatility and the dividend yield of the underlying securities, the currency interest rate and the time to expiry with adjustments, as required for credit and liquidity risk. Further valuation adjustment may be deemed appropriate for new or complex financial instruments or for financial instruments with significant risk of concentration. These adjustments are integral components of the mark-to-market process.

Fair value is either determined using internal valuation pricing models which take into account time value and volatility factors underlying the financial instruments, or management's estimate of the amounts that could be realised under current market conditions, assuming an orderly liquidation over a reasonable period of time.

Derivative transactions entered into with affiliates are mark-to-market or valued at fair value with realised and unrealised gains and losses recognised in "Income from Option Warrant and Futures Transactions".

NOTES TO THE FINANCIAL STATEMENTS

For the years ended November 30, 2007 and 2006

In September 2006, the FASB issued SFAS 157, which defines fair value, establishes a framework for measuring fair value and enhances disclosures about instruments carried at fair value, but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS 157 nullifies the guidance in EITF 02-3 which precluded the recognition of a trading profit at the inception of a derivative contract, unless the fair value of such derivative was obtained from a quoted market price or other valuation technique incorporating observable market data. SFAS 157 also precludes the use of a liquidity or block discount when measuring instruments traded in an active market at fair value. SFAS 157 requires costs related to acquiring financial instruments carried at fair value to be included in earnings and not capitalized as part of the basis of the instrument. SFAS 157 also clarifies that an issuer's credit standing should be considered when measuring liabilities at fair value. As of November 30, 2006 the impact of SFAS 157 is being evaluated.

SFAS 157 is effective for our 2008 fiscal year, with earlier application permitted for our 2007 fiscal year. SFAS 157 must be applied prospectively, except that the difference between the carrying amount and fair value of (i) a financial instrument that was traded in an active market that was measured at fair value using a block discount and (ii) a stand-alone derivative or a hybrid instrument measured using the guidance in EITF 02-03 on recognition of a trading profit at the inception of a derivative, is to be applied as a cumulative-effect adjustment to opening retained earnings on the date we initially apply SFAS 157.

We did not adopt SFAS 157 in fiscal year 2007 as it is planned to change the accounting principles to UK GAAP or IFRS in 2008.

Short sales

The Company may sell a security it does not own in anticipation of a decline in the fair value of that security. When the Company sells a security short, it must borrow the security sold short and deliver it to the dealer through which it made the short sale. A gain, limited to the price at which the Company sold the security short, or a loss, unlimited in size, will be recognized upon the termination of a short sale.

Recognition of income and expenses

Investment transactions are accounted on a trade date basis. Income and expenses are accounted for in the period to which they relate. Unrealised gains and losses arising on positions are recognised immediately in the profit and loss account.

Income taxes

Income taxes are provided on all income reported to the balance sheet date on which income taxes will ultimately be assessed. The Company is subject to the local on-shore income tax rate of 34.5%.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Derivatives with a financing element

Short- and Long-term Borrowings. The Company defines short-term borrowings to be borrowings maturing within one year of the financial statement date or that are redeemable within one year of the financial statement date at the option of the folder. Borrowings are recorded based on the amount of cash received plus accrued interest, and such amounts approximate fair value.

Given the Company's objective to structure and issue certain products linked to equity securities with the purpose to obtain a return on investment, the Company holds certain liabilities, primarily, zero strike warrants. In prior periods, these amounts were reflected as a component of Securities sold but not yet purchased on the Company's Balance Sheet.

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For the years ended November 30, 2007 and 2006

The Company's parent, Lehman Brothers Holdings, Inc. ("Parent"), recognizes similar instruments as a component of short- and long-term borrowings. The difference in presentation for these instruments is between the Company and the Parent is inconsequential; however, to eliminate operational inefficiencies between the Company and the Parent, it is viewed as preferable to align the Company's presentation for these instruments with that of the Parent. Accordingly and beginning on December 1, 2007, the Company began to recognize these instruments as components of short- and long-term borrowings.

Certain prior-period amounts reflect reclassifications to conform to the current year's presentation.

In accordance with SFAS No. 154, *Accounting Changes and error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3* ("SFAS 154"), the Company's financial statements for the year ended November 30, 2007 reflect the reclassification of presentation. The reclassification of the presentation does not impact the retained earnings of the Company. The change in classification was not quantitatively material to the results of operations of the Bank in the judgment of management.

3. SHARE CAPITAL

The Company's authorized capital consists of 500 shares each having a par value of USD 1,000. As at November 30, 2007, 100 shares were issued and paid-in.

4. INCOME (LOSS) FROM INVESTMENTS

Income (loss) from investments consists of the following:

	2007	2006
	\$000	\$000
Unrealised (loss)/gain on options	(104,257)	8,696
Unrealised gain/(loss) on warrants	<u>104,257</u>	<u>(8,696)</u>
	<u>-</u>	<u>-</u>

5. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Company enters into transactions involving derivative financial instruments in connection with its investing activities. These instruments are subject to various risks similar to non-derivative instruments, including market, credit, liquidity, and operational risks. The Company manages these risks on an aggregate basis along with the risks associated with its investing activities as part of its overall risk management policies, and as such does not distinguish derivative profit or loss from any other category of investments for income presentation purposes.

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Schedule of investment

	Fair Value as at 30th November 2007	Percentage of Capital as at November 2007	Fair Value as at 30th November 2006	Percentage of Capital as at November 2006
Derivative Contracts				
Options				
Equity options, long exposure - Europe				
2,537,875,025 Options of various European Stocks Baskets expiring December 2007 - April 2017	\$3,581,609,654	2,244,356%	\$1,109,782,535	806,007%
Total Equity Options Long	\$3,581,609,654	2,244,356%	\$1,109,782,535	806,007%

Notionals in Currency	Notionals	Notionals
CHF	5,173,101,482	49,654,642,250
CZK	246,250,000	-
EUR	71,700,383,301	48,876,418,323
GBP	27,011,735	7,609,550
ILS	8,000,000	-
JPY	1,942,192,414	67,108,270,735
NOK	27,593,150	-
SEK	380,635,200,000	-
USD	38,578,333,879	131,808,905

6. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Long Term Debt and Short Term Debt sold, but not yet purchased represent obligations of the Company to purchase the security in the market at prevailing prices to the extent that the Company does not already have the securities in possession. Accordingly, these transactions result in off-balance sheet risk as the Company's satisfaction of the obligations may exceed the amount recognized in the statement of assets and liabilities.

Options purchased provide for cash settlement and require the payment of a premium, or a percentage thereof, in exchange for the right to receive the market movement on the underlying security or basket of instruments. Risk of loss is limited to the premiums as reflected in the condensed schedule of investments.

By writing options, the fund receives a premium and becomes obligated during the term of the option to purchase or sell securities at a set price if the option is exercised. By purchasing options, the fund pays a premium to buy or sell a security at a set price during a future fixed period.

7. RELATED PARTY TRANSACTIONS

As at November 30, 2007, the Company has USD 3,581,609,654 (November 30, 2006, USD 1,109,782,535) of liabilities arising from selling warrants short of which the related positions for the amount of USD 3,581,609,654 (November 30, 2006, USD 1,109,782,535) are held by Lehman Brothers Holding Inc. and other subsidiaries.

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NOTES TO THE FINANCIAL STATEMENTS

For the years ended November 30, 2007 and 2006

8. GUARANTEE ISSUED BY LEHMAN BROTHERS HOLDING INC., DELAWARE


Lehman Brothers Holding Inc., Delaware has unconditionally and irrevocably guaranteed Lehman Brothers Securities N.V. payment obligations arising from warrants and certificates issued by the Company under the warrant master agreement dated as of November 25, 2003.

9. INDEMNIFICATIONS

In the normal course of business, the fund has entered into contracts, which provide a variety of general indemnifications. Such contracts include those with the Fund's Administrator and Investment Manager. Any exposure to the fund under these arrangements would involve future claims that may be made against the fund. No such claims have occurred, nor are they expected to occur. Therefore, the fund has not accrued any liability in connection with such indemnifications.

10. FIN 48, ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

In July 2006, the Financial Accounting Standards Board ("FASB") released FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing a company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet a more-likely-than-not threshold would not be recorded as a tax expense in the current year. Adoption of FIN 48 has been deferred for fiscal years beginning after December 15, 2007 (i.e. January 1, 2008 for calendar year-end funds) for non-public entities only and is to be applied to all open tax years as of the effective date. Management continues to evaluate the implications of FIN 48 and any potential impact to the financial statements for future reporting periods.


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