

Final Terms dated as of 11 May 2006

LEHMAN BROTHERS SECURITIES N.V.

Warrant and Certificate Programme

Guaranteed by

LEHMAN BROTHERS HOLDINGS INC.

Up to 2,184 Certificates on

the Lehman Brothers Global Asset Allocator Net Values in EUR

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 30 August 2005. This document constitutes the Final Terms of the Certificates and must be read in conjunction with such Offering Circular. Full information on the Issuer and the offer of the Certificates is only available on the basis of the combination of these Final Terms and the Offering Circular.

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 accepts responsibility for the information contained in these Final Terms and declares that, having taken all reasonable care to ensure that such is the case the information contained in these Final Terms is, to the best of its 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), Depositary Receipt (or Basket of Depositary 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. 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 these Final Terms but no further or other responsibility (express or implied) is accepted by the Issuer in respect of such information and, in particular, the Issuer has not independently verified any such information. The Issuer shall not have any responsibility for any errors or omissions in the calculation and publication of the level of or information relating to the Strategy or any Index by the relevant Strategy Advisor, Index Sponsor, Data Provider or by Bloomberg. Investors may acquire such further publicly available information, as the case may, as they deem necessary and appropriate.

Information Concerning Investment Risk

General

Holders and prospective purchasers of Certificates should ensure that they understand the nature of the Certificates and the extent of their exposure to risk and that they consider the suitability of the Certificates as an investment in the light of their own circumstances and financial condition and in view of the complexity and risks inherent in the Certificates. Prospective investors of Certificates should be experienced with respect to derivatives, particularly options and options transactions.

The performance of the Strategy and of the Indices (both as defined below) may affect the nature and value of the investment return on the Certificates. Holders and prospective purchasers of Certificates should conduct their own investigations and, in deciding whether or not to purchase Certificates, prospective purchasers should form their own views of the merits of an investment related to the Strategy and should invest in the Certificates only after careful consideration of the suitability of the Certificates in light of their particular financial circumstances and after consultation with their own legal, tax, accountancy and other professional advisers but not in reliance on any information given in these Final Terms. No person should deal in the Certificates unless that person understands fully the nature of the relevant transaction and the transaction's legal, tax, accountancy and other potential implications.

Given the highly specialised nature of these Certificates, the Issuer and the Guarantor consider that they are only suitable for highly sophisticated investors who are able to determine themselves the risk of an investment linked to the Strategy.

Consequently, if you are not an investor who falls within the description above you should not consider purchasing these Certificates.

Potential conflicts of interest

The Issuer, the Guarantor, the Dealer, the Calculation Agent, the Strategy Advisor, the Fixed Income Index Sponsor and/or their respective subsidiaries may, from time to time, engage in purchase, sale or other transactions involving the component assets of each Index or related derivatives for their proprietary accounts and/or for accounts under their management and/or for clients. Such transactions may have a positive or negative effect on each Index and consequently on the value of the Certificates. In addition, the Issuer, the Guarantor, the Dealer, the Calculation Agent, the Strategy Advisor, the Fixed Income Index Sponsor and/or their respective subsidiaries may, from time to time, act in other capacities with regard to the Certificates (such as in an agency capacity and/or as the calculation agent) and may issue or participate in the issue of other competing financial instruments in respect of the Strategy and/or the component assets of each Index or similar securities or assets in similar sectors or markets and the introduction of such competing financial instruments may affect the value of the Certificates. Such activities could present certain conflicts of interest with the interest of Holders and may affect the value of the Certificates. The Issuer, the Guarantor, the Dealer, the Calculation Agent, the Strategy Advisor, the Fixed Income Index Sponsor and/or their

respective subsidiaries owe no duty or responsibility to any Holder (or any other party) to avoid such conflicts.

In connection with the offering of the Certificates, the Issuer, the Guarantor, the Dealer, the Calculation Agent, the Strategy Advisor, the Fixed Income Index Sponsor and/or their respective subsidiaries may enter into one or more hedging transactions with respect to the Strategy and/or any of the component assets of each Index or related derivatives. In connection with such hedging or with respect to proprietary or other trading activities by the Issuer, the Guarantor, the Dealer, the Calculation Agent, the Strategy Advisor, the Fixed Income Index Sponsor and/or their respective subsidiaries, the Issuer, the Guarantor, the Dealer, the Calculation Agent, the Strategy Advisor, the Fixed Income Index Sponsor and/or their respective subsidiaries may enter into transactions in the Strategy and/or any of the component assets of each Index or related derivatives which may affect the market price, liquidity or value of the Certificates and which could be deemed to be adverse to the interests of the relevant Holder.

Such transactions could present certain conflicts of interest with the interest of Holder and may affect the value of the Certificates. The Issuer, the Guarantor, the Dealer, the Calculation Agent, the Strategy Advisor, the Fixed Income Index Sponsor and/or their respective subsidiaries owe no duty or responsibility to any Holder (or any other party) to avoid such conflicts.

Potential Termination Events

Holders should familiarise themselves and understand events which constitute Potential Termination Event as set out in the Annex 2 and particularly note that some of the Potential Termination Events are triggered by changes to the Strategy or failure by the Strategy Advisor in the performance of its duties. Holders should understand clearly that such Potential Termination Event may lead to the Calculation Agent procuring the Issuer to early cancel the Certificates at the Alternative Settlement Amount. The Alternative Settlement Amount payable will be calculated by reference to the fair market value of the Certificates as determined by the Calculation Agent in its sole and absolute discretion and will be reduced by an amount referable to the cost to the Issuer of unwinding any related hedging arrangements as determined by the Calculation Agent. Holders should understand that such Alternative Settlement Amount may be an amount less than the amount the Holder has paid for the Certificates and even may be zero.

Determinations by the Calculation Agent

The Calculation Agent has certain discretions to determine whether certain events as further set out in Annexes have occurred. Holders should be aware that any determination made by the Calculation Agent may have an adverse effect on the value of the Certificates. For example, the Calculation Agent may determine that a Market Disruption Event has occurred or exists at a relevant time which may affect the determination of the price of an Index on a relevant Scheduled Trading Day. Any such discretion exercised by, or any calculation made by, the Calculation Agent (in the absence of manifest error) shall be binding.

Risk relating to the Strategy

The Certificates are linked to the performance of a basket comprising an Equity Index and and Fixed Income Index in accordance with the Strategy (as detailed in Annexes 1 and 2 and defined in Annex 3 hereto).

Any analysis presented herein or in connection with the Certificates or the Strategy that indicates a range of outcomes that may result from changes in market parameters is not comprehensive, is not intended to suggest that any outcome is more likely than another and may have been derived using the Strategy Advisor's proprietary models, historic data and subjective interpretation. **Holders must understand that past performance is not necessarily indicative of future results.**

The Strategy Advisor produces a number of different types of research product including, amongst others, fundamental analysis, quantitative analysis and short term trading ideas and have developed different types of investment strategies. Recommendations contained in one type of research product or resulting from one type of strategy may differ from recommendations contained in other types of research product or resulting from other types of strategies, whether as a result of differing time horizons, methodologies, or otherwise. The Strategy Advisor does not represent or guarantee that the model used for the purpose of determining the Strategy is correct and achieves its aims.

The description of the Strategy contained herein is based on proprietary information of the Strategy Advisor and on current public information that the Strategy Advisor considers reliable. The Strategy Advisor does not represent that this information, including any third party information, is accurate or complete and it should not be relied upon as such. Market price, liquidity or value of the Certificates may be adversely affected by exchange rates, interest rates, or other factors (including without limitation endogenous factors).

IN WITNESS WHEREOF, LEHMAN BROTHERS SECURITIES N.V. has caused these Final Terms to be executed by a duly authorised officer or director.

Dated: 11 May 2006

Executed by

LEHMAN BROTHERS SECURITIES N.V.

and signed and delivered on its behalf

By: _____

Name: Jonathan J. Knapp

Title: Authorised Signatory

Part A

Information about the Securities

General

- | | |
|--|--|
| 1. Issuer: | Lehman Brothers Securities N.V. |
| 2. Guarantor: | Lehman Brothers Holdings Inc. |
| 3. Description of the Securities: | |
| (a) Warrants or Certificates: | The Securities are Certificates |
| (b) Type of Securities: | The Securities are Index Securities |
| 4. Form of the Securities: | Bearer: Global Security |
| 5. Description of the Underlying: | As described in Item 49 below |
| 6. If Warrants, American Style Warrants, European Style Warrants or other: | Not Applicable |
| 7. If Warrants, Call Warrants, Put Warrants or other: | Not Applicable |
| 8. Number of Securities being issued: | Up to 2,184 Securities |
| 9. (a) Series Number: | L-06/32 |
| (b) Tranche Number: | 1 |
| 10. Issue Date: | 11 May 2006 |
| 11. Issue Price(s): | Euro ("EUR") 1,000.00 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 |
| 12. Minimum initial purchase of the Securities: | 100 Securities |
| 13. Minimum transferable number (for the purposes of Condition 1(c)): | 100 Securities |
| 14. Last Trading Day (for the purposes of Conditions 1(c) and 9(c)): | Three Business Days prior to the Valuation Date |

Warrants - Provisions relating to exercise

- | | |
|---|----------------|
| 15. If American Style Warrants, the Exercise Period: | Not Applicable |
| 16. If European Style Warrants, the Expiration Date: | Not Applicable |
| 17. Exercise Notice Deposit Time(s) (for the purposes of Condition 5(a)): | Not Applicable |
| 18. Minimum Exercise Number (for the purposes of Condition 5(b)): | Not Applicable |
| 19. Integral multiple of Minimum Exercise Number (for the purposes of Condition 5(b)): | 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)): | Not Applicable |
| 21. If American Style Warrants, the Maximum Exercise Number (for the purposes of Condition 5(b)): | Not Applicable |
| 22. Automatic Exercise in respect of Cash Settled Warrants (for the purposes of Condition 4(a)): | Not Applicable |

Certificates - Provisions relating to interest

- | | |
|---|----------------|
| 23. Interest Payment Dates: | Not Applicable |
| 24. Notional Amount per Certificate (for the purposes of Condition 6): | Not Applicable |
| 25. Interest Rate (for the purposes of Condition 6): | Not Applicable |
| 26. Interest Rate Day Count Fraction (for the purposes of Condition 6): | Not Applicable |
| 27. Other terms relating to the method of calculating interest (for the purposes of Condition 6): | Not Applicable |

Provisions relating to settlement and redemption

- | | |
|---|---|
| 28. Form of Settlement (for the purposes of Condition 1(a)): | Cash Settled Securities |
| 29. Issuer's option to vary settlement in respect of the Securities (for the purposes of Conditions 1(a) and 10(c)): | Not Applicable |
| 30. Valuation Date: | 27 April 2009 |
| 31. Averaging Dates: | Not Applicable |
| 32. Consequence of Averaging Date Disruption (for the purposes of Condition 13(b)): | Not Applicable |
| 33. Valuation Time: | As set out in the Annex 3 |
| 34. If Warrants, the Settlement Date: | Not Applicable |
| 35. If Certificates, the Certificate Settlement Notice Period: | The period of three Business Days ending on and including the Valuation Date |
| 36. If Certificates, the Redemption Date: | 11 May 2009, subject to adjustment in accordance with the Modified Following Business Day Convention |
| 37. Business Day Centre(s): | London and Luxembourg |
| 38. Exchange Rate, including details of when such rate is to be ascertained: | Not Applicable |
| 39. If Cash Settled Securities, Settlement Currency for the payment of the Cash Settlement Amount and/or Alternative Cash Settlement Amount: | EUR |
| 40. If Cash Settled Securities, Cash Settlement Amount or method of calculation of the Cash Settlement Amount (for the purposes of Condition 4(b) or Condition 7, as applicable): | The Cash Settlement Amount with respect to each Certificate shall be an amount in the Settlement Currency equal to the following: |

$$\text{EUR } 1,000 \times \text{Max} \left(PF \times \frac{\text{GAA}_i^{\text{Max}}}{\text{GAA}_{\text{Initial}}}; 88\% \right)$$

Where:

GAA_{initial} means EUR 1013.00

GAA_i^{Max} Highest Value of the Underlying (Value (i) as defined in Annex 2) on any Scheduled Trading Day (k) (as defined in Annex 2) which is an Observation Date j, as determined by the Calculation Agent

PF 88%

Observation Date j Quarterly, starting on and including 27 July 2006 to and including 27 April 2009, or if such date is not a Scheduled Trading Day, the next following Scheduled Trading Day, subject to Condition 13 (as modified)

- | | |
|---|----------------|
| 41. If Physical Delivery Warrants, the Strike Price(s): | Not Applicable |
| 42. If Physical Delivery Securities: | Not Applicable |
| 43. If Physical Delivery Certificates, any modification of minimum Board Lot requirement in relation to settlement (for the purpose of Condition 9(h)): | Not Applicable |
| 44. Other circumstances where Holder will receive the Alternative Settlement Amount (for the purposes of Condition 10(c)): | Not 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)): | Not 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: | Not Applicable |
| 47. If Commodity Securities, provisions for calculations: | Not Applicable |

48. If Index Securities:

Index or Indices:

The Securities are linked to the performance of a basket comprising an Equity Index and Fixed Income Index whose composition is determined on a periodic basis in accordance with the Lehman Brothers Global Asset Allocator Net Values in EUR or "GAA" (Bloomberg GAAEURN), a rules-based dynamic asset allocation strategy as detailed in Annexes 1, 2 and 3 hereto (the "Strategy").

As of 31 March 2006 the respective weights of the Equity Index Equity Index (Alpha) and the Fixed Income Index (1-Alpha) in the Strategy are:

Alpha = 75%

1-Alpha = 25%

49. If Share Securities:

- | | |
|--|----------------|
| | Not Applicable |
| (a) Share(s): | Not Applicable |
| (b) Exchange: | Not Applicable |
| (c) Related Exchange: | Not Applicable |
| (d) Method of Adjustment (for the purposes of Condition 14(b)): | Not Applicable |
| (e) Consequences of Merger Events (for the purposes of Condition 15(a)): | |
| (i) Share-for-Share: | Not Applicable |
| (ii) Share-for-Combined: | Not Applicable |
| (iii) Share-for-Other: | Not Applicable |
| (f) Consequences of Tender Offers (for the purposes of Condition 15(b)) | |
| (i) Share-for-Share: | Not Applicable |
| (ii) Share-for Combined: | Not Applicable |
| (iii) Share-for-Other: | Not Applicable |
| (g) Options Exchange (for the purposes | Not Applicable |

of Condition 14(b)(i), Condition 15(a)(iii) or Condition 15(b)(ii), where applicable)

50. Additional Disruption Events:
- | | |
|--|----------------|
| (a) Applicable Additional Disruption Events: | None |
| (b) Consequences of Additional Disruption Event: | Not Applicable |
51. Further adjustments:
- | | |
|--|----------------|
| (a) whether provisions for market disruption apply other than as provided for in Condition 13: | Not applicable |
| (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): | Not Applicable |
| (c) any supplemental adjustment provisions: | Not Applicable |
52. Other special conditions and any modification to the Terms and Conditions of the Securities:
- As set out in the Annexes 1, 2 and 3
53. Relevant Clearing System(s) (for the purposes of the definition in Condition 28):
- Euroclear
Clearstream, Luxembourg
- The Bank of New York, Brussels shall act as common depositary for Euroclear and Clearstream, Luxembourg
54. Calculation Agent if not the Issuer:
- Lehman Brothers International (Europe)
55. Rule 144A eligibility:
- No
56. Eligibility for private placement to other “accredited investors” in the United States:
- 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 2B |
| (b) | details of any additional selling restrictions (for the purposes of Condition 9(e)): | Not Applicable |

Part B

Other Information

1. (a) Listing: Not Applicable
- (b) Admission to Trading: Not Applicable
2. Notification: Not Applicable
3. Interests of Natural and Legal Persons Involved in The Issue/Offer: Not Applicable
4. (a) Method of distribution of the Securities: Non-syndicated
- (b) Names of the Dealer(s): Lehman Brothers International (Europe)
5. ISIN: ANN521334980
6. Common Code: 025357108
7. CUSIP: Not Applicable
8. 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: CH2547710
9. WKN: Not Applicable
10. Principal Securities Agent: Belgian Securities Agent
11. Whether Definitive Security Certificates may be issued as well as/instead of a Global Security: The Securities will be at all times represented by a Global Security
12. Reasons for the Offer: Not Applicable
13. Performance of index/formula/ other variable, explanation of effect on value of investment and associated risks and other information concerning the Underlying: Details on historical prices of the Strategy can be found on Bloomberg Page GAAEURN.
Details on historical prices of the Equity Index can be found on Bloomberg Page SPTR00EN Index. Details of on the daily and monthly pricing of the Fixed Income Index can be found on the Bloomberg Page LG03TREU, under Global -- Customised (option 9) and then page 7.

The Issuer does not intend to provide post issuance information regarding the Underlying.

S&P Disclaimer:

The instrument(s) is not sponsored, endorsed, sold or promoted by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P"). S&P makes no representation or warranty, express or implied, to the holder of the instrument(s) or any member of the public regarding the advisability of investing in securities generally or in the instrument(s) particularly or the ability of the S&P Indices to track general stock market performance. S&P's only relationship to the Licensee is the licensing of certain trademarks and trade names of S&P and of the S&P Indices which is determined, composed and calculated by S&P without regard to the licensee or the instrument(s). S&P has no obligation to take the needs of the Licensee or the holders of the instrument(s) into consideration in determining, composing or calculating the S&P Indices. S&P is not responsible for and has not participated in the determination of the timing of, prices at, or quantities of the instrument(s) to be issued or in the determination or calculation of the equation by which the instrument(s) is to be converted into cash. S&P has no obligation or liability in connection with the administration, marketing or trading of the instrument(s).

S&P DOES NOT GUARANTEE THE ACCURACY AND/OR THE COMPLETENESS OF THE S&P INDICES OR ANY DATA INCLUDED THEREIN AND S&P SHALL HAVE NO LIABILITY FOR ANY ERRORS, OMISSIONS, OR INTERRUPTIONS THEREIN. S&P MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY LICENSEE, HOLDERS OF THE INSTRUMENT(S), OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE S&P INDICES OR ANY DATA INCLUDED THEREIN. S&P MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE S&P INDICES OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL S&P HAVE ANY LIABILITY FOR ANY SPECIAL, PUNITIVE, INDIRECT, OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

Lehman Brothers Inc. Disclaimer:

LEHMAN BROTHERS INC. DOES NOT GUARANTEE THE ACCURACY AND/OR THE COMPLETENESS OF THE LEHMAN BROTHERS GLOBAL SYNTHETIC 5 YEAR BOND INDEX OR ANY DATA INCLUDED THEREIN AND LEHMAN BROTHERS INC. SHALL HAVE NO LIABILITY FOR ANY ERRORS, OMISSIONS, OR INTERRUPTIONS THEREIN. LEHMAN BROTHERS INC. MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY THE ISSUER, HOLDERS OF THE INSTRUMENT(S), OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE LEHMAN BROTHERS GLOBAL SYNTHETIC 5 YEAR BOND INDEX OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL LEHMAN BROTHERS INC. HAVE ANY LIABILITY FOR ANY SPECIAL, PUNITIVE, INDIRECT, OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

ANNEX 1
ANNEX 1
Strategy and Methodology

Lehman Brothers' Global and European Equity Strategy team (the "**Strategy Advisor**") has developed the Lehman Brothers Global Asset Allocator Net Values in EUR ("**the Strategy**") as a transparent, rules-based dynamic asset allocation strategy based on a quantitative model whose objective is to achieve an optimal asset allocation for a portfolio exposed to the global equities market (through the Equity Index) and the global fixed income market (through the Fixed Income Index), as detailed hereafter. The strategy aims to maximise returns by switching between asset classes based on the signals from the quantitative model.

The allocation between each of the Equity Index and the Fixed Income Index is reviewed and adjusted on a monthly basis and is based on a set of quantitative market signals.

The Strategy is based on a methodology which overweighs / underweighs the equity markets in an initially balanced portfolio of global equities and global fixed income based on Forecast Excess Returns of equities versus fixed income (the "**Methodology**").

The Methodology represents a quantitative approach pursuant to which the respective weight of each of the Equity Index and the Fixed Income Index is determined for each period from and including a Re-Balance Date to and excluding the immediately following Re-Balance Date (a "**Calculation Period**") based on the three following signals:

- Valuation Signal: relative valuation of equities and bonds measured by risk adjusted yield gap (earnings yields relative to bond yields adjusted by relative volatility);
- Sentiment Signal: sentiment towards the equity market measured by fund flow sentiment indicator; and
- Investor Positioning Signal: indicator of long and short investor positioning in derivatives market from the CFTC.

Capitalised terms used herein have the meaning ascribed to them in Annex 3.

Allocation of assets

The respective weight of each of the Equity Index and the Fixed Income Index in the Strategy will be calculated by the Strategy Advisor for each Calculation Period on the corresponding Weighting Calculation Date according to the Methodology using fundamental data from the Data Providers.

Alpha or **a** is the percentage weight of the Equity Index in the Strategy as applicable for each Calculation Period.

The level of Alpha is determined by the percentage band (an "**Observed Band**", as specified in the table below) into which the Forecast Excess Return falls.

In respect of a Re-Balance Date, the allocation into the Equity Index (**a**) for the immediately following Calculation Period is determined by the level of Forecast Excess Return (derived from the allocation model as described below) on the relevant Weighting Calculation Date in accordance with the table below:

Observed Band	% weight of Equity Index (a)	% weight of Fixed Income Index (1 - a)
Less than or equal to -7%	0%	100%

Greater than -7% and less than or equal to -2%	25%	75%
Greater than -2% and less than or equal to +2%	50%	50%
Greater than +2% and less than or equal to +7%	75%	25%
Greater than +7%	100%	0%

Forecast Excess Return is the forecast value of Excess Return derived from a regression¹ of observed 6-month Excess Returns against the Allocation Signal on a set of Weighting Calculation Dates, as described below:

$$\text{Excess Return}_{(t-6,t)} = a + b * \text{Allocation Signal}_{(t-6)} + \varepsilon$$

With:

$$a \sim 0;$$

b is the regression coefficient, i.e. the numerical measure of the degree of the linear relationship between two variables given by the regression;

ε_t is the residual of the regression

Excess Return_(t-6,t) is defined as the difference (1) – (2) between:

(1) Equity Index(t)/Equity Index(t-6)

(2) Fixed Income Index(t)/Fixed Income Index(t-6)

The set of Weighting Calculation Dates (t) over which the regression is performed is a set starting on 30 June 1987 and expanding with every new Weighting Calculation Date.

The results of this regression are then used to determine the Forecast Excess Return knowing the value of the Allocation Signal, using the following formula:

$$\text{Forecast Excess Return}_{(t)} = b * \text{Allocation Signal}_{(t)}$$

Allocation Signal is calculated as the weighted average of three signals:

$$\text{Allocation Signal}_{(t)} = 0.5 * \text{Valuation}_{(t)} + 0.25 * \text{Sentiment}_{(t)} + 0.25 * \text{Investor Positioning}_{(t)}$$

With:

Signal 1: Valuation Signal: Relative Valuation of equities and bonds (earnings yield relative to bond yields adjusted by their relative volatility)

The Valuation Signal measures the relative valuation of equity markets versus fixed income markets with a view to determine whether equity markets are under or overvalued compared to fixed income markets and can be interpreted as a refined valuation signal which quantifies the deviation in valuations taking into account the relative risks of the asset classes.

Valuations are influenced by several factors. One of the factors which influence relative valuations is the relative volatility of asset classes, which in turn drives relative return expectations.

The Valuation Signal used in the Methodology adjusts the Earnings Yield Gap (EYG) (as defined below) by the relative volatility of stocks to bonds and reflects the portion of the yield gap that is not explained by movements in the relative volatility of the asset classes.

¹ Regression analysis is a statistical tool for the investigation of relationships between variables. The goal in regression analysis is to create a mathematical model that can be used to predict the values of a dependent variable based upon the values of an independent variable. In other words, such model is used to predict the value of Y when the value of X is known.

Earnings yields could move up relative to bond yields due to higher volatility of equities relative to bonds and therefore a higher yield gap may not necessarily reflect a valuation discrepancy. Hence, the Earnings Yield Gap is adjusted for relative volatility in the model.

The Methodology provides for this adjustment by performing a regression of the Earnings Yield Gap on relative stock / bond volatility (s_{rel}). A relative valuation framework is used, looking at earnings yields relative to bond yields so that the risk of both asset classes is taken into account. The residual e from this regression gives the volatility-adjusted Earnings Yield Gap and is the Valuation Signal.

The regressions are done over an expanding window using monthly data (from relevant Data Providers) from December 1969.

The Earnings Yield Gap is calculated as:

$$EYG_t = a' + b' * s_{rel} + e_t$$

where

EYG_t = Earnings Yield Gap = $EY_t - BY_t$ on the relevant Weighting Calculation Date(t),

$s_{rel} = S_{stocks,t} / S_{bond,t}$ where S_{stocks} and S_{bond} are calculated as the 60 month rolling standard deviation of monthly total returns of stocks and bonds respectively. The equity returns are calculated as the equity market capitalisation weighted average of the returns of the relevant DataStream Global Indices² in local terms for the G7 Countries and the bond returns are calculated as the equity market capitalisation weighted average of the returns of the relevant DataStream 7-10 year Bond Indices³ in local terms. The market capitalisation weights are calculated using market capitalisations for the G7 countries in USD terms.

$EY = 12$ month forward earnings yield from the relevant Weighting Calculation Date(t) calculated as $(a)/(b)*100$, where (a) is the sum of the 12 month forward earnings (in USD or as converted in USD) (calculated from IBES consensus estimates) representing for a stock the earnings expected 12 months from the relevant Weighting Calculation Date(t) and (b) the sum of the market capitalisation (in USD or as converted in USD), where the summation in (a) and (b) is over all stocks in the FTSE World Index Series⁴ (or any successor thereto acceptable to the Strategy Advisor) which have data available for both numerator and denominator.

$BY =$ Nominal yield on 10 year government bonds being the weighted average of the 10 year benchmark bond yields for the G7 Countries from DataStream weighted by the market value of the DataStream Global Indices for the respective G7 Countries in USD.

e_t = Residual of the regression.

a' and b' = Regression factors.

² DataStream Global Indices consist of national, regional and worldwide indices, updated on a daily basis as soon as the closing data is received in London for each market as calculated and disseminated by DataStream Group (or any successor thereto acceptable to the Strategy Advisor). This set of indices provides a tool for single sector-to-sector and stock-to-market comparisons.

³ DataStream Bond Indices are calculated and disseminated by DataStream Group (or any successor thereto acceptable to the Strategy Advisor) to the revised formulations recommended by EFFAS (European Federation of Financial Analyst Societies). The indices are comprehensive and detailed: all major bond markets are available, with extensive historic data covering a wide range of calculations.

⁴ The FTSE World Index Series is a subset of the FTSE Global Equity Index Series (GEIS) which covers over 7,000 securities in 48 different countries and captures 98% of the world's investable market capitalisation and includes a broad range of traditional and alternative asset class indexes such as multinationals, style, socially responsible investment, real estate and hedge funds. as calculated by the FTSE Group (or any successor thereto acceptable to the Strategy Advisor).

Signal 2: Sentiment Signal: Sentiment towards the asset class measured by fund flow sentiment indicator.

The Strategy assumes that (a) in general, stock market highs tend to coincide with extremely positive crowd sentiment and stock market lows are characterised by excessive crowd fear, (b) at extremes in sentiment, the majority is usually on the wrong side and (c) taking a contrary stance at such extremes may prove to be beneficial for market timing. Thus, analysing investor sentiment gives a complementary and important input into the asset allocation process.

The Sentiment Signal is based on four sub-signals:

Mutual Fund Flows: the net inflows (purchases minus sales) into equity mutual funds. Aggregating all the purchases of mutual funds serve as a contrarian tactical indicator of market sentiment. The Strategy assumes that when sentiment is extremely positive, stock prices are near a peak and when sentiment is low, stock prices are near a bottom.

Cross Border Flows: the aggregate of all portfolio investment activity across international boundaries. The Strategy regards willingness to move capital abroad as a key indicator of investors' risk appetite and as a feature of any recovery. As such, it has also served as a contrarian indicator of future stock market returns.

Net issuance: the aggregate of stock issuance minus buybacks (i.e. flows from the corporate sector). Again, there is a contrarian relationship between the net supply of equity to the market and subsequent market performance which is reflected in the Strategy.

Liquidity: The Strategy assumes that low liquidity is associated with positive sentiment towards equities and high liquidity with negative sentiment towards equities. Thus, the Strategy regards low liquidity as negative for forward returns and vice versa.

The Sentiment Signal is calculated as the equal weighted average of the zscores⁵ of the following four flow-based series (using the negative of the liquidity indicator):

- The three-month moving average of global purchases of equity mutual funds in USD for US, UK, Europe ex UK, Japan and Hong Kong, expressed as a percentage of the market value in USD of the DataStream Global Indices for the same regions (*data sourced on weekly(W) or monthly(M) basis from the following Data Providers: AMG Data Services(M), ICI(W), Fininfo Group(M), BVI Bundesverband Investment und Asset Management e.V.(M), Assogestioni(M), Inverco(M), Swedish Investment Fund Association(M), IMA(M), Hong Kong Investment Funds Association(M), DataStream(M) and Bloomberg(M)*);
- The three-month moving average of cross-border equity mutual funds in USD for US, UK, Japan, Sweden and the Euro area, expressed as a percentage of the market value of the DataStream World Index in USD (*data sourced on a weekly(W), monthly(M) or quarterly(Q) basis from the following Data Providers: AMG Data Services(W), United States Department of the Treasury(M), Ministry of Finance of Japan(W,M), Tokyo Stock*

⁵ Z-scores are a special application of the transformation rules. The z-score for an item indicates how far and in what direction, that item deviates from its distribution's mean, expressed in units of its distribution's standard deviation. The mathematics of the z-score transformation are such that if every item in a distribution is converted to its zscore, the transformed scores will necessarily have a mean of zero and a standard deviation of one.

Thus a very positive z-score indicates the item is significantly above its distribution's mean, a very negative z-score indicates it is significantly below its distribution's mean and a z-score close to zero means the item is close to its distribution's mean.

Z-scores are sometimes called "standard scores". The z-score transformation is especially useful when seeking to compare the relative standings of items from distributions with different means and/or different standard deviations.

Z-scores are particularly informative when the distribution to which they refer, is normal. In every normal distribution, the distance between the mean and a given z-score cuts off a fixed proportion of the total area under the curve.

Exchange(W), Sveriges Riksbank(Q), ECB(M), Office of National Statistics(Q) and DataStream(M,Q);

- The sum of the latest 12-month net equity mutual funds issuance in USD adjusted for buybacks for US, UK, Europe ex UK and Japan divided by the market value of the DataStream Global Indices for the same regions in USD (*data sourced on a weekly(W) or monthly(M) basis from the following Data Providers: Equityware(W,M), SDC(W,M), Bloomberg(W), Tokyo Stock Exchange(M) and DataStream(W)*); and
- The level of portfolio liquidity, which is the weighted percentage of cash in institutional portfolios minus the weighted short rate, where the weighted percentage of cash is calculated as the market capitalisation weighted averages of the cash held as a percentage of total assets for US, UK and Germany and the weighted short rate is calculated as the market capitalisation weighted averages of the 3 month rates for US, UK and Germany, all as determined by the Strategy Advisor. The market capitalisation weights are based on the market capitalisations of the DataStream Global Indices for US, UK and Germany respectively. (*data sourced on a monthly(M) or quarterly(Q) basis from the following Data Providers: ICI(M), WM Performance Services(Q), Bundesbank(M) and DataStream(M)*).

Given the delay in the availability of the data referred to above, the Sentiment Signal will be calculated using the latest available data relating to the calendar month which ends 2 months before the relevant Weighting Calculation Date.

Z-scores for the Sentiment Signal are calculated on an expanding window of data, starting in January 1991.

Signal 3: Investor Positioning Signal: Investor Positioning Data based upon outstanding positions in derivatives markets

The Strategy takes into account investor positioning analysis as an indicator of the directional opinions of different categories of participants in the market. The Investor Positioning Signal is derived from the investor positioning data on the S&P 500 Index (which for the purpose hereof shall include any successor index using, in the determination of the Strategy Advisor, the same or a substantially similar formula for and method of calculation as used in the calculation of the S&P 500 Index).

The Investor Positioning Signal is calculated based on data on open positions on the S&P 500 Index (or any successor thereto acceptable to the Strategy Advisor) published weekly by the CFTC. Information is derived from 2 categories of trades on the S&P500 Index (or any successor thereto acceptable to the Strategy Advisor):

- Net commercial positions; and
- Net non reportable positions

The “Commitment of Traders Reports” published by the CFTC provide a breakdown of open interest⁶ for markets in which traders hold positions equal to or above the reporting levels established by the CFTC. Traders whose futures and option positions are above specific reporting levels set by CFTC regulations are classified as reportable positions.

Commercial Positions - When an individual reportable trader is identified to the CFTC, the trader is classified either as "commercial" or "non-commercial". A trader's reported futures positions in a commodity (this term being used in a generic sense to refer to all the contracts

⁶ Open interest is the total of all futures and/or option contracts entered into and not yet offset by a transaction, by delivery, by exercise, etc. The aggregate of all long open interest is equal to the aggregate of all short open interest. Open interest held or controlled by a trader is referred to as that trader's position. (as per CFTC Background Number: 4-9)

traded on the futures and options markets, including financial contracts like those on the S&P500) are classified as commercial if the trader is commercially "...engaged in business activities hedged by the use of the futures or option markets" in that commodity (as defined in the relevant CFTC's regulations (1.3(z)).

Non reportable Positions - The long and short open interest shown as "non reportable positions" are derived by subtracting total long and short "reportable positions" from the total open interest. Accordingly, for "non reportable positions", the number of traders involved and the commercial/non-commercial classification of each trader are unknown.

The net positions (ie, long position minus short position) as a percentage of open interest⁷ for both the commercial positions and the non-reportable positions are calculated from the data published by the CFTC. Both series are smoothed using a 4 week moving average, and z-scores calculated over a 1 year moving window. The final signal is calculated as the average of the two z-scores (using the negative of the z-score for the non-reportable trades).

Publication of the data referred to above being made on a weekly basis by the CFTC, the Investor Positioning Signal will be calculated using data relating to the latest available publication from the CFTC as at the relevant Weighting Calculation Date.

⁷ *Percentage of Open Interest*: Percents are calculated against the total open interest for the futures-only report and against the total futures-equivalent open interest for the options-and-futures-combined report (as per CFTC Backgrounder Number: 4-9). (Since derivatives markets have grown in size and complexity over the years, it is appropriate to refer to the positions as a percentage of open interest rather than the absolute sizes of the positions to get the underlying picture.)

ANNEX 2

Determination of Value (i) of the Lehman Global Asset Allocator Net Values USD

1. Calculation method

On any Scheduled Trading Day (k) from and including the Issue Date, Value (i) reflects the then prevailing market value of the Strategy as determined by the Calculation Agent in accordance with the following:

$$Value_i = Value_0 \times \prod_{k=1}^i \left(\frac{Strategy_k}{Strategy_{k-1}} - FA \times DCF_{(k-1;k)} \right)$$

With

$$Strategy_k = \alpha_t \frac{Equity_k}{Equity_t} + (1 - \alpha_t) \times \frac{FixedIncome_k}{FixedIncome_t}$$

For the purposes hereof:

Interval (I) k-1, k means the period between the Scheduled Trading Day (k-1) and the Scheduled Trading Day (k) (exclusive);

Value₀ means 1000.00 being Value_i on the Strategy commencement date of 30 December 2005;

FA means 1.75% p.a.;

DCF means the ratio of (a) the actual number of days during the Interval I_{k-1, k} and (b) 360;

Equity_k means the Closing Level of the Equity Index on the relevant Scheduled Trading Day (k);

Fixed Income_k means the Closing Level of the Fixed Income Index on the relevant Scheduled Trading Day (k);

Equity_t means the Closing Level of the Equity Index on the Re-Balance Date immediately preceding the relevant Scheduled Trading Day (k);

FixedIncome_t means the Closing Level of the Fixed Income Index on the Re-Balance Date immediately preceding the relevant Scheduled Trading Day (k); and

α_t means the weighting of the Equity Index as determined by the Strategy Advisor on the relevant Weighting Calculation Date for the Re-Balance Date immediately preceding Scheduled Trading Day (k).

Value (t) in respect of a Re-Balance Date (t) (for the avoidance of doubt, this is Value (i) on a Scheduled Trading Day (k) that is a Re-Balance Date(t)) shall be adjusted by the Calculation Agent to reflect the re-balancing in accordance with the following:

$$Value'_t = Value_t - Value_t \times 2 \times \left(\alpha_{t-1} - \alpha_t \right) \times tc$$

For the purposes hereof:

Value_t means Value (t) as determined on the relevant Re-Balance Date (t) for the Re-Balance Date (t) after the adjustment for transaction costs;

α_t means the weighting of the Equity Index as determined on the relevant Weighting Calculation Date (t) for the Re-Balance Date (t);

α_{t-1} means the weighting of the Equity Index as determined on the relevant Weighting Calculation Date (t-1) for the last Re-Balance Date (t-1); and

tc means the transaction costs of 0.10%.

2. Disrupted Day

The following shall replace Condition 13 of the Programme:

“If there is a Disrupted Day in relation to an Index on any date which would otherwise have been an Scheduled Trading Day on which the level of the relevant Index would have had to be determined (a **‘Determination Date’**), then for each Index affected by the occurrence of a Disrupted Day, the Calculation Agent shall determine its good faith estimate of the level for that Index as of the relevant Valuation Time of that Determination Date in accordance with the formula for and method of calculating the Index last in effect prior to the occurrence of the Disrupted Day and using only those securities that comprised the Index immediately prior to that Disrupted Day, notwithstanding the fact that such day is a Disrupted Day

Provided that if the Determination Date which is a Disrupted Day falls on a Weighting Calculation Date, then the Determination Date for both Indices shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day. If the first succeeding Scheduled Trading Day that is not a Disrupted Day in respect of the Indices has not occurred as of the relevant Valuation Times on the fifth Scheduled Trading Day immediately following the original date that, but for the occurrence of another Disrupted Day, would have been the relevant Determination Date, then:

- (a) that fifth Scheduled Trading Day shall be deemed to be the Determination Date in respect of both Indices (the **“Deemed Determination Date”**);
- (b) in respect of the Index where a Closing Level is published on the Deemed Determination Date, as the case may be, the level of such Index shall be such Closing Level, as determined by the Calculation Agent; and
- (c) in respect of the Index or Indices where no Closing Level is published on the Deemed Determination Date, the Calculation Agent shall determine its good faith estimate of the level of the relevant Index that would have prevailed but for that Disrupted Day as of the relevant Valuation Time on that Deemed Determination Date.”

3. Extraordinary Events

The following shall replace Conditions 14(a) and (c) of the Programme:

“(a) Adjustments to Index

(x) **Successor Index**: If an Index is (i) not calculated and announced by the relevant Index Sponsor but is calculated and announced by a successor sponsor acceptable to the Calculation Agent, or (ii) replaced by a successor index using, in the determination of the Calculation Agent, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then in each case that index (the **“Successor Index”**) will be deemed to be the Index.

(y) **Index Adjustment Event:** If in respect of an Index on or prior to the Valuation Date the relevant Index Sponsor announces that it will make a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock and capitalization and other routine events) (an **'Index Modification'**) or permanently cancels the Index and no Successor Index exists (an **'Index Cancellation'** and together with an Index Modification, each an **'Index Adjustment Event'**), then the Calculation Agent shall determine if such Index Adjustment Event has a material effect on the Certificates and, if so, shall make its determination for the purposes of calculating Value (i) using, in lieu of a published level for the Index, the level for the Index as at that Determination Date as determined by the Calculation Agent in accordance with the formula for and method of calculating the Index last in effect prior to the Index Adjustment Event, but using only those securities that comprised the Index immediately prior to that Index Adjustment Event.

(b) Correction of Index

In respect of an Index, in the event that the Closing Level on any Determination Date is subsequently corrected and the correction is published by the Exchange or the Index Sponsor within three (3) Scheduled Trading Days after the original publication, the Strategy Advisor will adjust corresponding Value (i) to account for such correction, provided that any correction effected and published after the third weekday (meaning a day other than a Saturday or Sunday) prior to the Redemption Date shall be ignored."

4 Potential Termination Events

In the event of a Potential Termination Event occurring, then such Potential Termination Event shall be deemed to be an "Index Adjustment Event" as described in Clause 3 above and the consequences thereof shall be "Cancellation and Payment" (as defined in Condition 28 of the Programme) unless a successor Strategy Advisor (**"Successor Strategy Advisor"**) is appointed within five (5) Business Days after the date upon which the Potential Termination Event occurred and such Successor Strategy Advisor assumes, to the satisfaction of the Issuer, all respective rights, duties and functions of the Strategy Advisor. The Calculation Agent shall notify the Issuer of the occurrence of such an event and the Issuer shall have the right to cancel its obligations under the Certificates as of such date as the Issuer shall determine in its sole discretion by notice given to the Holders and the Issuer will pay to each Holder the "Alternative Settlement Amount" (as defined in Condition 28 of the Programme) with respect to each Certificate held by such Holder.

In the context of this Clause, **'Potential Termination Event'** shall be deemed to have occurred should the Calculation Agent determine that:

- (1) the Strategy parameters are amended, implemented or developed in a way which, in the determination of the Calculation Agent, has an adverse impact on the Certificates and/or the Issuer's obligations thereunder;
- (2) the method for calculating the Value of Strategy is amended, implemented or used in a way which, in the determination of the Calculation Agent, has an adverse impact on the Certificates and/or the Issuer's obligations thereunder;
- (3) the currency or the frequency in which the Value of the Strategy is calculated and published changes in a way which, in the determination of the Calculation Agent, has an adverse impact on the Certificates and/or the Issuer's obligations thereunder;
- (4) the Strategy Advisor in respect of the Strategy fails for reasons other than of technical or operational nature to calculate or publish the Value of the Strategy for eight (8) consecutive Scheduled Trading Days; and
- (5) the Strategy Advisor breaches any of its obligations in relation to the Strategy (as set out in the description of the Strategy in the Annex), as determined by the

Calculation Agent and notified to the Strategy Advisor thereafter by the Calculation Agent, and such breach is not remedied, to the satisfaction of the Calculation Agent, within five (5) Scheduled Trading Days.

5. Strategy Advisor / Calculation Agent

None of the Strategy Advisor and the Calculation Agent shall have any responsibility to Certificateholders for good faith errors or omissions in its calculations and determinations except such as may result from its own wilful default, gross negligence or bad faith. The calculations and determinations of the Strategy Advisor or the Calculation Agent, as the case may be, shall, in the absence of manifest error, be final, conclusive and binding on the Certificateholders. Certificateholders shall not be entitled to make any claim against the Strategy Advisor or the Calculation Agent, the Issuer or the Guarantor in the case where an Index Sponsor or a Data Provider shall have made any error, omission or other incorrect statement in connection with the calculation and public announcement of the relevant Index or the relevant information, as the case may be.

Nothing contained herein shall prevent the Strategy Advisor and the Calculation Agent from dealing in these Certificates or from entering into any related transactions, including without limitation any swap or hedging transactions, with the Issuer (or any of its affiliates) or any holder of Certificates (or any of its affiliates).

ANNEX 3

Definitions

Allocation Signal has the meaning ascribed to this term in Annex 1.

Alpha or **a** has the meaning ascribed to this term in Annex 1. Alpha on the Strike Fixing Date is as specified hereabove in Part A.

Calculation Agent means Lehman Brothers International (Europe) of 25 Bank Street London E14 5LE.

Calculation Period has the meaning ascribed to this term in Annex 1.

Closing Level means in relation to an Index and a Scheduled Trading Day, the official level of such Index, as calculated and announced by the Index Sponsor at the relevant Valuation Time on such Scheduled Trading Day.

Cross Border Flows has the meaning ascribed to this term in Annex 1.

Data Provider means a leading financial data provider or publicly available source as selected by the Strategy Advisor in its sole discretion and as of the date hereof, in respect of (a) the Valuation Signal, Institutional Brokers' Estimate System (IBES) for the forward earnings, FTSE for share numbers, investability factors and index constituents, Exshare (the International Pricing database from FT Interactive Data) for prices, DataStream for bond yields, equity and bond total returns and market capitalisations and Global Financial Data for historical equity and bond total returns and bond yields; (b) the Investor Sentiment Signal, AMG Data Services, Investment Company Institute (ICI), Fininfo Group, BVI Bundesverband Investment und Asset Management e.V., Associazione del Risparmio Gestito (Assogestioni), Asociacion de Instituciones de Inversion Colectiva y Fondos de Pensiones (Inverco), the Swedish Investment Fund Association, the Investment Management Association (IMA), the Hong Kong Investment Funds Association, DataStream and Bloomberg for the Mutual Fund Flows, AMG Data Services, United States Department of the Treasury, Ministry of Finance of Japan, Tokyo Stock Exchange, Office of National Statistics (ONS), Sveriges Riksbank, European Central Bank (ECB) and DataStream for the Cross-border Flows, Equityware, Securities Data Co. (SDC), Tokyo Stock Exchange, Bloomberg and DataStream for the Net Issuance and ICI, Deutsche Bundesbank, WM Performance Services and DataStream for the Liquidity; and (c) the Investor positioning Signal, the Commodity Futures Trading Commission (CFTC), or for each of the above, any successor thereto acceptable to the Strategy Advisor.

Determination Date has the meaning ascribed to this term in Annex 2.

Disrupted Day means (a) any Exchange Business Day on which in relation to the Equity Index, a relevant Exchange or any relevant Related Exchange fails to open for trading during its regular trading session or on which a Market Disruption Event has occurred and (b) any Scheduled Trading Day on which in relation to the Equity Index and/or Fixed Income Index, the relevant Index Sponsor fails to calculate and announce the Closing Level of the Index.

Early Closure means the closure on any Exchange Business Day of any relevant Exchange(s) relating to the securities thereof that comprise 20 per cent. or more of the level of the Equity Index or any Related Exchange(s) prior to its Scheduled Closing Time unless, where the level of the Equity Index is to be determined at the Valuation Time, such earlier closing time is announced by such Exchange(s) or Related Exchange(s) at least one hour prior to the earlier of (i) the actual closing time for the regular trading session on such Exchange(s) or Related Exchange(s) on such Exchange Business Day and (ii) 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.

Earning Yield Gap or **EYG** has the meaning ascribed to this term in Annex 1.

Equity Index means the Standard and Poor's Global 100 Net Total Return index in euros (Bloomberg: SPTR00EN Index), a stock index that is composed of 100 stocks which is currently compiled and calculated by the Equity Index Sponsor.

Equity Index Sponsor means Standard and Poor's Corporation and/or, as the context requires or permits, any successor sponsor accepted by the Calculation Agent pursuant to Annex 2.

Excess Return has the meaning ascribed to this term in Annex 1.

Exchange means, with respect to (A) the Equity Index, (i) the New York Stock Exchange, (ii) the American Stock Exchange and (iii) the National Association of Securities Dealers Automated Quotation National Market System (or any successor to such exchange or quotation system) and (B) the Fixed Income Index, not applicable.

Exchange Business Day means any Scheduled Trading Day on which each Exchange and Related Exchange is open for trading during its respective regular trading sessions, notwithstanding any such Exchange or Related Exchange closing prior to its Schedule 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 (i) to effect transactions on any relevant Exchange in securities thereof that comprise 20 per cent. or more of the level of the Equity Index, or (ii) to effect transactions in, or obtain market values for, futures or options contracts relating to the Equity Index on any relevant Related Exchange.

Fixed Income Index means Lehman Brothers Global Synthetic 5 Year Bond Index which is currently compiled and calculated by the Fixed Income Index Sponsor daily and published on Bloomberg Page LG03TREU Index. The Fixed Income Index is a proprietary composite index comprising the Fixed Income Sponsor's 5 years Bellwether Swap Indices in USD (40%), EUR (30%), GBP (10%) and JPY (10%) that is designed to be representative of the evolution of the main fixed income markets worldwide. The underlying 5 years swap indices are rebalanced monthly.

Fixed Income Index Sponsor means Lehman Brothers Inc. and/or, as the context requires or permits, any successor sponsor accepted by the Calculation Agent pursuant to Annex 2.

Forecast Excess Return has the meaning ascribed to this term in Annex 1.

G7 Countries means United States of America, United Kingdom, Germany, France, Italy, Canada and Japan.

Index means either the Equity Index or the Fixed Income Index and **Indices** means both the Equity Index and the Fixed Income Index.

Index Sponsor means either the Equity Index Sponsor or the Fixed Income Index Sponsor.

Investor Positioning Signal has the meaning ascribed to this term in Annex 1.

Liquidity has the meaning ascribed to this term in Annex 1.

Market Disruption Event means in respect of the Equity Index, the occurrence or existence of (i) a Trading Disruption, (ii) 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 Scheduled Closing Time, or (iii) an Early Closure. For the purposes of determining whether a Market Disruption Event exists at any time, if a Market Disruption Event in respect of the Equity Index exists at any time, if a Market Disruption Event occurs in respect of a security included in the Index at any time, then the relevant percentage contribution of that security to the level of the Index shall be based on a comparison of (x) the portion of the level of the Index attributable to that security to (y) the overall level of the Index, in each case immediately before the occurrence of such Market Disruption Event.

Methodology has the meaning ascribed to this term in Annex 1.

Mutual Fund Flows has the meaning ascribed to this term in Annex 1.

Net Issuance has the meaning ascribed to this term in Annex 1.

Observed Band has the meaning ascribed to this term in Annex 1.

Re-Balance Date means the Scheduled Trading Day immediately following a Weighting Calculation Date.

Related Exchange means with respect to (A) the Equity Index, both (i) the Chicago Board Options Exchange and (ii) the Chicago Mercantile Exchange and (B) the Fixed Income Index, not applicable.

Scheduled Closing Time means, in respect of an Exchange or a 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 any day on which (a) each Exchange is scheduled to be open for trading for its regular trading sessions, notwithstanding such Exchange closing prior to its scheduled weekday closing time on such day, without regard to after hours or any other trading outside of the regular trading session and (b) the Fixed Income Index is scheduled to be calculated and published by the Fixed Income Index Sponsor in accordance with the provisional calendar of the Fixed Income Index Sponsor.

Sentiment Signal has the meaning ascribed to this term in Annex 1.

Strategy has the meaning ascribed to this term in Annex 1.

Strike Fixing Date means the date specified hereabove in Part A, provided that if such day is not a Scheduled Trading Day, the Strike Fixing Date shall be the immediately following day that is a Scheduled Trading Day.

Trading Disruption means, with respect to the Equity Index, 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 (i) on any relevant Exchange relating to securities that comprise 20 per cent. or more of the level of the Equity Index, or (ii) in futures or options contracts relating to the Index on any relevant Related Exchange.

Valuation Date means the date specified hereabove in Part A.

Valuation Time means in respect of a Scheduled Trading Day and (a) the Equity Index, the latest of the Scheduled Closing Times in respect of the Exchanges and (b) the Fixed Income Index, the scheduled publication time at which the Fixed Income Index Sponsor proceeds with the latest publication of level of the Index in accordance with the provisional calendar of the Fixed Income Index Sponsor.

Valuation Signal has the meaning ascribed to this term in Annex 1.

Value_{Initial} means Value (i) on the Strike Fixing Date.

Value_{Final} means Value (i) on the Valuation Date.

Value (i) has the meaning ascribed to this term in Annex 2.

Value (t) has the meaning ascribed to this term in Annex 2.

Weighting Calculation Date means the day that is five (5) Scheduled Trading Days before the last Scheduled Trading Day in each calendar month during the term of the Certificates. For the purpose hereof, whether a day will be treated as a Scheduled Trading Day will be determined on the Scheduled Trading Day immediately preceding the day scheduled to be the Weighting

Calculation Date, without regard to any change in any Exchange's schedule on or after such day.

REGISTERED AND PRINCIPAL OFFICE OF THE ISSUER

Lehman Brothers Securities NV

E-Commercepark
E-Zone Vredenberg
Hoek Heelsumstraat
Hugenolzweg Z/N
Curacao

The Netherlands Antilles

PRINCIPAL OFFICE OF THE GUARANTOR

Lehman Brothers Holdings Inc.

745 Seventh Avenue
New York, New York 10019
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
Grand Duchy of
Luxembourg

**LEGAL ADVISERS TO
THE ISSUER**

**Clifford Chance
Limited Liability
Partnership**
10 Upper Bank Street
London E14 5JJ
England

**AUDITORS TO THE
ISSUER**

Ernst & Young
Zeelandia Office Park
Kaya W.F.G. (Jombi)
Mensing 16
P.O. Box 3626, Curacao
The Netherlands Antilles

LUXEMBOURG LISTING AGENT
The Bank of New York Europe Limited
One Canada Square
London E14 5AL
England

