

Lehman Brothers Securities N.V.

Financial Statements

*November 30, 2006 and 2005
with Report of Independent Auditors*

LEHMAN BROTHERS SECURITIES N.V.

FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2006 and 2005

Contents

Report of Independent Auditors.....	1
Balance Sheets	2
Schedule of Investments	3
Profit and Loss Account.....	4
Statements of Cash Flows.....	5
Notes to the Financial Statements.....	6 - 8

Lehman Brothers Securities NV

BALANCE SHEETS

For the years ended November 30, 2006 and 2005

	2006	2005
	\$	\$
ASSETS		
Cash due from Banks on Demand	2,924	2,845
Receivables from Affiliated Companies and Banks	2,103,703,389	42,255,728
Option, Warrant and Swap positions (Cost \$1,083,059,276 and 2005 \$104,932,825)	1,109,782,535	122,960,051
Other Assets	-	-
	<u>3,213,488,848</u>	<u>165,218,624</u>
LIABILITIES		
Payables to Affiliated Companies and Banks	(2,103,549,194)	(42,123,520)
Option, Warrant and Swap positions (Proceeds \$1,083,059,276 and 2005 \$104,932,825)	(1,109,782,535)	(122,960,051)
Accrued Expenses and Deferred Income	(19,430)	(12,920)
	<u>137,689</u>	<u>122,133</u>
CURRENT ASSETS LESS CURRENT LIABILITIES	<u>137,689</u>	<u>122,133</u>
 SHAREHOLDERS EQUITY		
Share Capital (500 Shares of \$1,000 each)	500,000	500,000
Unpaid Capital	(400,000)	(400,000)
Retained Earnings		
Carried Forward	22,133	11,788
Profit for the Year	15,556	10,345
	<u>137,689</u>	<u>122,133</u>

Lehman Brothers Securities NV

SCHEDULE OF INVESTMENTS

For the years ended November 30, 2006

	Shares/ Principal	Fair Value	Percentage of Capital
Securities Sold but not yet purchased			
Issues Warrant Contracts – United States			
Warrant Contracts – Issuer Lehman Brothers Finance S.A.	570,051	\$(50,516,500)	36,689%
Issues Warrant Contracts – Switzerland			
Warrant Contracts – Issuer Lehman Brothers Finance S.A.	593,506,920	\$(1,059,266,035)	769,318%
	<u>594,076,971</u>	<u>\$(1,109,782,535)</u>	<u>806,007%</u>
Notionals in Currency			
	Notionals		
CHF	(49,654,642,250)		
EUR	(48,876,418,323)		
GBP	(7,609,550)		
JPY	(67,108,270,735)		
USD	(131,808,905)		
		Fair Value	Percentage of Capital
Derivative Contracts			
Options			
Equity options, long exposure – Europe			
706,424,004 Options of various European Stocks Baskets expiring November 2006 – October 2016		\$1,109,782,535	806,007%
Total Equity options Long		<u>\$1,109,782,535</u>	<u>806,007%</u>
Notionals in Currency			
	Notionals		
CHF	49,654,642,250		
EUR	48,876,418,323		
GBP	7,609,550		
JPY	67,108,270,735		
USD	131,808,905		

Lehman Brothers Securities NV

PROFIT AND LOSS ACCOUNT

For the years ended November 30, 2006 and 2005

	2006	2005
	\$	\$
OPERATING INCOME		
Income from Option Warrant and Futures Transactions	-	-
Interest income	6,455	1,786
Revenues from Affiliated Companies	190,242	154,083
	<u>196,697</u>	<u>155,869</u>
OPERATING EXPENSES		
General and administration expenses	(172,947)	(140,075)
	<u>23,750</u>	<u>15,794</u>
NET PROFIT BEFORE TAXATION	23,750	15,794
Taxation on profit on ordinary activities	(8,194)	(5,449)
	<u>15,556</u>	<u>10,345</u>
PROFIT AFTER TAX ON ORDINARY ACTIVITIES	15,556	10,345
	<u>15,556</u>	<u>10,345</u>
PROFIT FOR THE FINANCIAL YEAR	<u>15,556</u>	<u>10,345</u>

Lehman Brothers Securities NV

STATEMENTS OF CASH FLOW

For the years ended November 30, 2006 and 2005

	2006	2005
Cash flow from operating activities	\$	\$
Profit for the year	15,556	10,345
(Increase) decrease in operating assets		
Receivable from affiliated companies	(2,061,447,661)	167,529,537
Investments in options	(1,080,885,280)	(57,560,603)
Proceeds from sale of options	94,062,796	97,317,486
Other Assets	-	1,678
Net decrease (increase) in operating assets	(3,048,270,145)	207,288,098
Increase (decrease) in operating liabilities		
Payable to affiliated companies	2,061,425,674	(167,566,668)
Liabilities arising from selling securities short - warrants	1,080,885,280	57,560,603
Repurchase of securities sold short – warrants	(94,062,796)	(97,317,486)
Accrued expenses and deferred income	6,510	8,869
Other liabilities	-	(918)
Net (decrease) increase in operating liabilities	3,048,254,668	(207,315,600)
Net cash provided by (used in) operating activities	79	(17,157)
Cash flow from financing activities		
Proceeds from issuance of shares	-	-
Net cash provided by financing activities	-	-
Net decrease in cash and cash equivalents	79	(17,157)
Net cash and cash equivalents, beginning of the year	2,845	20,002
Net cash and cash equivalents, end of the year	2,924	2,845
Supplemental disclosure of cash flow information		
Cash paid during the year for interest, taxes and dividends	-	-

Lehman Brothers Securities NV

NOTES TO THE FINANCIAL STATEMENTS

For the years ended November 30, 2006 and 2005

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 investments.

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 marked to market value.

Derivative transactions entered into are marked 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 - over-the-counter - 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 marked 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, 2006 and 2005

SFAS 157

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 intend to adopt SFAS 157 in fiscal year 2007.

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.

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, 2006 and 2005, 100 shares were issued and paid-in.

Lehman Brothers Securities NV

NOTES TO THE FINANCIAL STATEMENTS

For the years ended November 30, 2006 and 2005

4. INCOME (LOSS) FROM INVESTMENTS

Income (loss) from investments consists of the following:	2006	2005
	\$000	\$000
Unrealised gain on options	8,696	17,906
Unrealised loss on warrants	<u>(8,696)</u>	<u>(17,906)</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.

6. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Securities 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, 2006, the Company has USD 1,109,782,535 (November 30, 2005, USD 122,960,051) of liabilities arising from selling warrants short of which the related positions for the amount of USD 1,109,782,535 (November 30, 2005, USD 122,960,051) are held by Lehman Brothers Holding Inc. and other subsidiaries.

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.