

Lehman Brothers Securities N.V.

Financial Statements

November 30, 2004
with Report of Independent Auditors

LEHMAN BROTHERS SECURITIES N.V.

FINANCIAL STATEMENTS

YEAR ENDED NOVEMBER 30, 2004

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS


To the Shareholders and the Managing Director of
Lehman Brothers Securities N.V.:

We have audited the accompanying balance sheet of LEHMAN BROTHERS SECURITIES N.V. at November 30, 2004 and 2003, including the schedule of investments, at November 30, 2004, and the related profit and loss account and statement of cash flow for the year ended November 30, 2004 and for the period from October 31, 2003 (commencement of operations) to November 30, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lehman Brothers Securities N.V at November 30, 2004 and 2003, the results of its operations and its cash flows for the year ended November 30, 2004 and for the period from October 31, 2003 (commencement of operations) to November 30, 2003, in conformity with generally accepted accounting principles in the United States of America.

Curaçao, June 10, 2005
1201 161/16730



Ernst & Young

Lehman Brothers Securities N.V.

BALANCE SHEETS

For the year ended 30 November 2004

	2004	2003
	\$	\$
ASSETS		
Cash due from Banks on Demand	20,002	102,220
Receivables from Affiliated Companies and Banks	209,785,265	17,011,958
Option, Warrant and Swap positions (cost USD 162,588,005 and USD 17,004,425)	162,716,934	17,050,756
Other Assets	1,678	-
	<u>372,523,879</u>	<u>34,164,934</u>
LIABILITIES		
Payables to Affiliated Companies and Banks	(209,690,188)	(16,993,076)
Option, Warrant and Swap positions (proceeds USD 162,588,005 and USD 17,004,425)	(162,716,934)	(17,068,699)
Accrued Expenses and Deferred Income	(4,051)	(103)
Other Liabilities	(918)	(917)
	<u>111,788</u>	<u>102,139</u>
CURRENT ASSETS LESS CURRENT LIABILITIES	<u><u>111,788</u></u>	<u><u>102,139</u></u>
SHAREHOLDER'S EQUITY		
Share Capital		
(500 Shares of \$1,000 each)	500,000	500,000
Unpaid Capital	(400,000)	(400,000)
Retained Earnings		
Carried Forward	2,139	-
Profit for the Year	9,649	2,139
	<u>111,788</u>	<u>102,139</u>

Lehman Brothers Securities N.V.

CONDENSED SCHEDULE OF INVESTMENTS
For the year ended 30 November 2004

	Shares/ Principal	Fair Value	Percentage of Capital
<u>Securities Sold but not yet purchased</u>			
Issues Warrant Contracts – United States			
Warrant Contracts – Issuer Lehman Brothers Financial Services	243,766	\$(75,563,148)	71,390%
Issues Warrant Contracts – Switzerland			
Warrant Contracts – Issuer Lehman Brothers Financial Services	486,210	\$(87,153,786)	82,340%
	<hr/> 729,976	<hr/> \$(162,716,934)	<hr/> 153,730%
		Fair Value	Percentage of Capital
Derivative Contracts			
Options			
Equity options, long exposure – Europe			
729,976 Options of various European Stocks Baskets expiring December 2004 – October 2010		\$162,716,934	153,730%
Total Equity options Long		<hr/> \$162,716,934	<hr/> 153,730%

Lehman Brothers Securities N.V.

PROFIT AND LOSS ACCOUNT
For the year ended 30 November 2004

	<i>2004</i>	<i>2003</i>
	\$	\$
OPERATING INCOME		
Income from Option Warrant and Futures Transactions	-	(5,415)
Interest income	1,188	-
Revenues from Affiliated Companies	148,070	10,000
	<u>149,258</u>	<u>4,585</u>
OPERATING EXPENSES		
General and administration expenses	(134,609)	(1,529)
	<u>14,649</u>	<u>3,056</u>
NET PROFIT BEFORE TAXATION	14,649	3,056
Taxation on profit from ordinary activities	(5,000)	(917)
	<u>9,649</u>	<u>2,139</u>
PROFIT AFTER TAX FROM ORDINARY ACTIVITIES	9,649	2,139
	<u>9,649</u>	<u>2,139</u>
PROFIT FOR THE FINANCIAL YEAR	<u>9,649</u>	<u>2,139</u>

STATEMENTS OF CASH FLOWS
For the year ended 30 November 2004

	2004	2003
	\$	\$
Cash flow from operating activities		
Profit for the year	9,649	2,139
Increase (decrease) in operating assets		
Receivable from affiliated companies	(192,773,305)	(17,011,958)
Receivable from banks, brokers	-	
Investments in options	(145,666,178)	(17,050,756)
Other Assets	(1,679)	
Net decrease (increase) in operating assets	(338,441,162)	(34,062,714)
Increase (decrease) in operating liabilities		
Payable to affiliated companies	192,697,112	16,993,076
Liabilities arising from selling securities short - warrants	145,648,235	17,068,699
Accrued expenses and deferred income	-	103
Other liabilities	3,948	917
Net (decrease) increase in operating liabilities	338,349,295	34,062,795
Net cash provided by (used in) operating activities	(82,218)	2,220
Cash flow from financing activities		
Proceeds from issuance of shares	0	100,000
Net cash provided by financing activities	0	100,000
Net increase (decrease) in cash and cash equivalents	(82,218)	102,220
Net cash and cash equivalents, beginning of the year	102,220	0
Net cash and cash equivalents, end of the year	<u>20,002</u>	<u>102,220</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest, taxes and dividends	-	-

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 November 2004

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2004

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 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 investments”.

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 expire, 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 on 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.

Derivatives with affiliates are valued at the market of fair value. Realised and unrealised gains or losses are booked to the profit and loss account in “income from investments”.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2004

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2004

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, 2004, 100 shares were issued and paid-in.

4. INCOME (LOSS) FROM INVESTMENTS

Income (loss) from investments consists of the following:

Unrealised gain (loss) on options	82,598
Unrealised gain (loss) on warrants	<u>(82,598)</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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2004

7. RELATED PARTY TRANSACTIONS

As at November 30, 2004, the Company has USD 162,716,934 of Liabilities arising from selling warrants short of which the related positions for the amount of USD 162,716,934 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.