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MANAGING DIRECTORS' REPORT

MANAGING DIRECTORS' REPORT

The managing directors have pleasure in presenting their report to the shareholder, together with the accounts for the year ended 30 November 2007.

PRINCIPAL ACTIVITIES

The company, a wholly-owned subsidiary of Lehman Brothers UK Holdings (Delaware) Inc, raises funds on the international capital markets to support the working capital needs of various, principally European, group companies.

RISK MANAGEMENT POLICY

The company is not exposed to any material risk as these are fully hedged by offsetting derivatives instruments with group companies. The derivative element of any structured notes is consistently valued with the related hedging instrument.

RESULTS FOR THE YEAR

The profit for the year attributable to the shareholder amounts to USD 27,116,000 (2006: USD 15,687,000) as shown on the profit and loss account on page 4. The Managing Directors recommend a transfer to reserves of USD 27,116,000 (2006: USD 15,687,000).

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The economic prospects for the entity are positive. The markets are giving support to the entity by subscribing to new issuances. The company has continued to issue debt as part of its European Medium Term Note programme. During the year the maximum issuance level was increased to USD 100,000,000,000.

The company continued its Equity Linked Investment Programme in Asia, issued in 2006, with a subscription limit of USD 2,000,000,000 and a certificates programme in the Swiss Stock Exchange.

The company has continued to issue debt in the German Domestic Market. During the year the maximum issuance level was increased to USD 4,000,000,000.

Net Financial income and expense is a key indicator of the company's performance. During the financial year, Lehman Brothers Treasury Co. B.V recorded 45% increase in its net financial income and expense.

The company will continue with its activities as a finance company and it is expected the financial fixed assets will continue to increase in line with the level of issued debt.

Managing Directors

Leonard Fuller

Wolbert Kamphuijs

Rumoldus de Schutter

Rushton Dave

Christian Fischer

Amsterdam, 30 May 2008

ANNUAL ACCOUNTS

Lehman Brothers Treasury Co. B.V.

BALANCE SHEET

At 30 November 2007

(After proposed appropriation of the net profit)

		2007	2006
	<i>Notes</i>	<i>USD '000</i>	<i>USD '000</i>
ASSETS			
FINANCIAL FIXED ASSETS			
Due from group companies – amounts due more than one year	7	23,014,032	19,080,440
CURRENT ASSETS			
Due from group companies – amounts due within one year	6	11,331,314	3,502,636
Cash at bank	8	24,623	91,035
Taxation receivable		147	-
Other assets		68,034	-
		<u>11,424,118</u>	<u>3,593,671</u>
TOTAL ASSETS		<u><u>34,438,150</u></u>	<u><u>22,674,111</u></u>
SHAREHOLDER'S EQUITY AND LIABILITIES			
SHAREHOLDER'S EQUITY			
Common shares - EUR 454 par value; authorised – 7,500 shares; Issued and fully paid – 4,406 shares (EUR 2,000,324)	9	2,545	2,545
Retained earnings		77,412	50,296
		<u>79,957</u>	<u>52,841</u>
TOTAL SHAREHOLDER'S EQUITY		<u><u>79,957</u></u>	<u><u>52,841</u></u>
LONG-TERM LIABILITIES			
Guaranteed notes payable - amounts due after more than one year	10	29,857,275	19,275,620
CURRENT LIABILITIES			
Guaranteed notes payable - amounts due within one year	10	4,271,283	3,106,544
Bank overdrafts		26,012	46,027
Payable to group company		3,962	4,566
Accrued interest payable		199,309	150,387
Taxation payable		-	2,350
Other accrued liabilities		352	35,776
		<u>4,500,918</u>	<u>3,345,650</u>
TOTAL CURRENT LIABILITIES		<u><u>4,500,918</u></u>	<u><u>3,345,650</u></u>
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		<u><u>34,438,150</u></u>	<u><u>22,674,111</u></u>

Lehman Brothers Treasury Co. B.V.

PROFIT AND LOSS ACCOUNT
for the year ended 30 November 2007

		2007	2006
	Notes	USD '000	USD '000
Operating income	3	33,188	1,167
Operating expense	3	(32,964)	(111)
NET OPERATING INCOME AND EXPENSE		<u>224</u>	<u>1,056</u>
Interest and similar income	4	1,415,884	770,179
Interest and similar expense	5	(1,384,562)	(748,632)
NET FINANCIAL INCOME AND EXPENSE		<u>31,322</u>	<u>21,547</u>
RESULT FROM ORDINARY OPERATIONS BEFORE TAX		<u>31,546</u>	<u>22,603</u>
Tax on result from ordinary operations	12	(4,430)	(6,916)
RESULT FROM ORDINARY OPERATIONS AFTER TAX		<u><u>27,116</u></u>	<u><u>15,687</u></u>

Lehman Brothers Treasury Co. B.V.

STATEMENT OF SHAREHOLDERS EQUITY
for the year ended 30 November 2007

	<i>Issued capital</i> USD '000	<i>Retained Earnings</i> USD '000	<i>Total Equity</i> USD '000
As at December 1, 2005	1,088	34,609	35,697
Increase in Share capital issued	1,457	-	1,457
Net Profit for the year		15,687	15,687
As at November 30, 2006	<u>2,545</u>	<u>50,296</u>	<u>52,841</u>
As at December 1, 2006	2,545	50,296	52,841
Net Profit for the year		27,116	27,116
As at November 30, 2007	<u>2,545</u>	<u>77,412</u>	<u>79,957</u>

Lehman Brothers Treasury Co. B.V.

CASH FLOW STATEMENT

for the year ended 30 November 2007

	2007 USD '000	2006 USD '000
Cash flow from operating activities		
Net profit for the year after taxation	27,116	15,687
Adjustments to Reconcile net income to net cash used in operating activities		
(Gain) / Loss on early redemption of debt	(32,873)	1,088
Amortisation of Debt Discount	40,040	16,227
Amount due from group companies waived	32,873	-
(Increase) in amounts due from group companies	(11,795,143)	(6,395,508)
(Increase) / Decrease in Debtors	(68,181)	-
Increase / (Decrease) in Creditors	10,544	73,217
Net cash flow from operating activities	(11,785,624)	(6,289,289)
Cash flows from financing activities		
Net Increase in issued debt	11,739,227	6,322,860
Net Increase/(Decrease) in Bank overdraft	(20,015)	46,026
Net Increase in share capital	-	1,457
Net cash flow from financing activities	11,719,212	6,370,343
Net cash flow, movement in cash	(66,412)	81,054
Net Cash at beginning of year	91,035	9,981
Net Cash at end of year	24,623	91,035

Lehman Brothers Treasury Co. B.V.

NOTES TO THE ANNUAL ACCOUNTS

at 30 November 2007

1. GENERAL

The company was incorporated in The Netherlands (with registration number 33267-322 with the Chamber of Commerce and Industry of Amsterdam) as a private limited company on 8 March 1995. The company's registered office and principal place of business is at Atrium building, 7th floor, Strawinskylaan 3105, 1077 ZX Amsterdam.

The company is wholly-owned by Lehman Brothers U.K. Holdings (Delaware) Inc. and is engaged in the borrowing and lending of funds.

The group in which the results of the company are consolidated is that headed by Lehman Brothers Holdings Inc. The consolidated accounts for this group are available to the public from 745 7th Avenue, New York, USA.

Change in Accounting Principle (In year ending 2006)

The company had reported its 2006 annual accounts in USD. The 2005 comparatives had also been restated in USD. In prior years the annual accounts were reported in Euros.

The company's functional currency is US dollars as the directors consider this to be most appropriate currency for the company's business. Hence there was a change in the accounting principle in year ending 2006 (as stated above).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accounts have been prepared in accordance with the provisions of Title 9, Book 2 of the Dutch Civil Code.

Accounting convention

The accounts are prepared under the historical cost convention, modified by the translation of foreign currencies.

Income recognition

Income and expense are, based on the above fundamental basis of reporting, allocated to the reporting period to which they relate. Swap fees payable which represent a return for risk transferred to group entities which are in the nature of interest are taken to the profit and loss account over the period of the underlying note or on a systematic basis over the expected life of the transaction to which they relate.

Currency translation

Transactions arising in foreign currencies are translated into US Dollars at the rate of exchange ruling at the end of the month in which the transaction occurs. Assets and liabilities denominated in foreign currencies are translated into US Dollars at the rates of exchange ruling at the balance sheet date. Resulting exchange gains and losses are recognised in the profit and loss account on a net basis.

Guaranteed notes payable, which are swapped into a currency other than the original currency of denomination, are translated from the original currency at the rate ruling at the balance sheet date. The adjustments for the effects of the related swap contracts are included in amounts due from group companies and other accrued liabilities. Such swap contracts generally mature in accordance with the terms of the related borrowings.

Financial Instruments

All notes are shown in the accounts at contractual amounts. Cross currency swaps are shown in the accounts at contractual amounts. All other derivatives are shown at their net accrual value as at the balance sheet date.

Lehman Brothers Treasury Co. B.V.

NOTES TO THE ANNUAL ACCOUNTS at 30 November 2007

Recognition and Derecognition

Financial assets and liabilities are recognised and derecognised according to the substance of the transaction. A financial asset is derecognised when no significant benefits or risks are retained. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

General

Unless otherwise indicated, assets and liabilities are stated at face value.

3. OPERATING INCOME AND EXPENSE

	2007	2006
	USD '000	USD '000
Other Income	315	79
Gain from Early Retirement of Debt	32,873	1,088
Operating Income	<u>33,188</u>	<u>1,167</u>
Administrative expenses	91	111
Early Retirement of Debt	32,873	-
Operating Expense	<u>32,964</u>	<u>111</u>

Operating expense mainly includes transferring the gains made on the early redemption / buyback of liability to a group company (as a waiver) amounting to USD 32,873,000.

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2007	2006
	USD '000	USD '000
Group Undertakings	1,415,884	770,179
Others	-	-
	<u>1,415,884</u>	<u>770,179</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2007	2006
	USD '000	USD '000
Group Undertakings	1,384,299	749,153
Others	263	(521)
	<u>1,384,562</u>	<u>748,632</u>

6. DUE FROM GROUP COMPANIES – AMOUNTS DUE WITHIN ONE YEAR

	2007	2006
	USD '000	USD '000
Amount owed from Group Undertakings	11,274,201	3,465,248
Others	57,113	37,388
	<u>11,331,314</u>	<u>3,502,636</u>

Lehman Brothers Treasury Co. B.V.

NOTES TO THE ANNUAL ACCOUNTS at 30 November 2007

7. FINANCIAL FIXED ASSETS

	2007	2006
	USD '000	USD '000
Due from group companies – amounts due after more than one year		
At 30 November 2006	19,080,440	12,872,298
Early Redemption	(3,801,753)	(1,719,040)
Additions	9,329,808	9,551,303
FX Revaluation	1,635,312	939,585
Transfers to Current Assets	(3,229,775)	(2,563,706)
At 30 November 2007	<u>23,014,032</u>	<u>19,080,440</u>

8. CASH AT BANK

Cash at bank comprises a short-term deposit.

9. SHAREHOLDER'S EQUITY

The authorised share capital comprises 7,500 common shares of EUR 454 each, of which 1,700 common shares were issued on 8 March 1995 for cash, fully paid (converted at the rate of 1.0496 to USD 1,087,900) and 2,706 common shares were issued on 22 December 2005 for cash, fully paid (converted at the rate of 1.1865 to USD 1,457,681). There were no movements in authorised share capital during the year.

NOTES TO THE ANNUAL ACCOUNTS

at 30 November 2007

10. GUARANTEED NOTES PAYABLE

On 31 March 1995, the company issued an offering memorandum together with Lehman Brothers Holdings PLC and Lehman Brothers Holdings Inc. relating to a programme for the issuance of debt instruments. Since 2001 Lehman Brothers Holdings PLC is no longer part of the Euro Medium Term Note (EMTN) Programme. Lehman Brother Bankhaus AG has been participating in the programme since 2004.

The instruments may be denominated in any currency. The total amount of the EMTN Programme was not originally to exceed USD 4,000,000,000.

On 2 July 1997, the maximum issuance was increased to USD 7,000,000,000.

On 19 June 1998, the maximum issuance was increased to USD 10,000,000,000.

On 25 August 2000, the maximum issuance was increased to USD 15,000,000,000.

On 19 August 2003, the maximum issuance was increased to USD 18,000,000,000.

On 18 August 2004, the maximum issuance was increased to USD 25,000,000,000.

On 18 August 2005, the maximum issuance was increased to USD 45,000,000,000.

On 10 August 2006, the maximum issuance was increased to USD 60,000,000,000.

On 24 July 2007, the maximum issuance was increased to USD 100,000,000,000.

On 20 November 2004, the company issued an offering memorandum for the issuance of debt in the German Domestic Market. The maximum amount of the programme is not to exceed USD 3,000,000,000. On 28 August 2007, the maximum amount of the programme was increased to USD 4,000,000,000.

On 30 November 2005, the company issued an offering memorandum for the issuance of debt in the Italian Domestic market amounting to EUR 15,000,000. During the year, there were two partial terminations amounting to EUR 262,000 on 28 August 2007 and EUR 2,000,000 on 22 December 2007, bringing the notional down to EUR 12,738,000.

On 23 February 2006, the company issued an Asian Equity Linked Investment Programme. The maximum issuance is not to exceed USD 2,000,000,000.

On 29 November 2006, the company issued a Certificates Programme on the SWX Swiss Exchange, without a defined maximum limit on the issuances.

Lehman Brothers Treasury Co. B.V.

NOTES TO THE ANNUAL ACCOUNTS at 30 November 2007

10. GUARANTEED NOTES PAYABLE (continued)

	2007 USD '000	2006 USD '000
Guaranteed notes due within one year denominated in:		
Euros	1,395,121	1,475,145
US dollars	2,297,950	1,189,347
Japanese yen	257,180	131,026
Hong Kong dollars	88,358	24,164
Swiss francs	93,128	129,367
Sterling	36,405	27,103
Australian dollars	75,327	30,990
Czech Koruna	-	3,315
Swedish krona	7,677	91,621
Singapore Dollars	15,596	4,466
New Zealand Dollar	1,307	-
Mexican Nuevo Peso	3,234	-
	4,271,283	3,106,544
Guaranteed notes due between one and five years denominated in:		
Euros (balance sheet interest rates range between 0.00 % - 10.50 %)	7,789,309	5,011,771
US dollars (balance sheet interest rates range between 0.00 % - 10.90 %)	5,398,496	5,001,575
Japanese yen (balance sheet interest rates range between -0.0 % - 2.40 %)	578,999	451,315
Swedish krona (balance sheet interest rates range between 0.00 % - 4.53 %)	268,331	26,550
Hong Kong dollars (balance sheet interest rates range between 0.00 % - 8.88 %)	201,956	215,630
Swiss Francs (balance sheet interest rates range between 0.00 % - 3.08 %)	860,378	523,318
Australian dollars (balance sheet interest rates range between 0.00 % - 7.50 %)	1,156,046	631,267
Sterling (balance sheet interest rates range between 0.00 % - 6.82 %)	909,320	740,945
Canadian Dollars (balance sheet interest rates range between 0.00% - 0.00 %)	0	6,591
Czech Koruna (balance sheet interest rates range between 0.00 % - 3.45 %)	27,913	2,736
Hungarian Forint (balance sheet interest rates range between 0.00 % - 7.57 %)	13,748	1,565
Israeli Shekel (balance sheet interest rates range between 4.28 % - 4.28 %)	2,999	2,700
New Zealand Dollars (balance sheet interest rates range between 0.00% - 0.00 %)	54,422	6,587
Polish Zloty (balance sheet interest rates range between 5.05 % - 5.30 %)	5,341	4,538
Singapore Dollars (balance sheet interest rates range between 0.00 % -3.86 %)	73,467	38,838
Mexican Nuevo peso (balance sheet interest rates range between 7.59 %- 7.59%)	91,582	90,810
Norway Krone (balance sheet interest rates range between 0.00% - 0.00 %)	47,627	0
	17,479,934	12,756,736
Guaranteed notes due after more than five years denominated in:		
Euros (balance sheet interest rates range between 0.00 % - 7.42 %)	9,701,014	4,739,896
US dollars (balance sheet interest rates range between 0.00 % - 11.25 %)	1,375,245	1,227,744
Japanese yen (balance sheet interest rates range between 0.00 % - 15.00 %)	334,661	284,521
Singapore dollars (balance sheet interest rates range between 4.10 % - 4.35%)	120,765	113,276
Swedish krona (balance sheet interest rates range between 4.39 % - 4.39 %)	7,863	7,238
Swiss Francs (balance sheet interest rates range between 0.00 % - 2.95 %)	228,559	32,665
Sterling (balance sheet interest rates range between 0.00 %- 6.55 %)	97,996	58,484
Australian dollars (balance sheet interest rates range between 0.00 % - 6.90 %)	203,026	29,068
Canadian Dollars (balance sheet interest rates range between 0.00% - 0.00 %)	-	-
Czech Koruna (balance sheet interest rates range between 3.30 %- 3.56 %)	16,313	18,575

Lehman Brothers Treasury Co. B.V.

NOTES TO THE ANNUAL ACCOUNTS

at 30 November 2007

10. GUARANTEED NOTES PAYABLE (continued)

	2007	2006
	USD '000	USD '000
Slovak Koruna (balance sheet interest rates range between 4.08% - 4.08%)	8,847	7,417
Israeli Shekel (balance sheet interest rates range between 0.00% - 0.00 %)	211,268	0
Hong Kong dollars (balance sheet interest rates range between 5.10 % -5.10 %)	71,784	0
	<u>12,377,341</u>	<u>6,518,884</u>
	<u>29,857,275</u>	<u>19,275,620</u>
Total	<u><u>34,128,558</u></u>	<u><u>22,382,164</u></u>

Notes issued comprise a variety of structures ranging from plain vanilla notes to highly structured notes paying zero coupon and where the redemption amount is dependant upon external factors, such as credit default linked and equity linked. Where the redemption of the note is linked to external factors, the risk is hedged by derivative instruments, the derivative element of the notes being valued consistent with the hedging instrument. The proceeds of issuance of the Notes have been lent to group companies on terms matching the hedged notes of the company plus a basis points spread.

The notes are unconditionally and irrevocably guaranteed by Lehman Brothers Holdings Inc.

11. FINANCIAL INSTRUMENTS

The company's financial instruments, other than derivatives, comprise borrowings, cash and receivables from group companies. The main purpose of these financial instruments is to raise finance for the group's operations. The company also enters into derivative transactions (principally interest rate swaps, cross currency swaps, credit default swaps, equity swaps and currency swaps). The purpose of such transactions is to manage the interest rate and currency risks arising from the company's sources of finance.

The main risks arising from the company's financial instruments are interest rate risk and foreign currency risk. All such risks are managed through the use of derivatives, transacted with other group entities, to transfer the risks to these other group entities.

The maximum Credit risk related exposure is stated as below:

	2007	2006
	USD '000	USD '000
Due from Group companies more than a year	23,014,032	19,080,440
Due from Group companies within a year	11,331,314	3,502,636
Cash at bank	24,623	91,035
Other Assets	68,034	-
	<u>34,438,003</u>	<u>22,674,111</u>

Lehman Brothers Treasury Co. B.V.

NOTES TO THE ANNUAL ACCOUNTS at 30 November 2007

12. TAXATION

	2007	2006
	USD '000	USD '000
Tax at average statutory rate	6,330*	6,916
True up for prior year provisions	(1,900)	-
	<u>4,430</u>	<u>6,916</u>
Tax on result from ordinary operations	<u>4,430</u>	<u>6,916</u>

The provision for taxation is based on an interest rate spread and other factors as described in rulings from the Dutch tax authorities. (*) Based on sliding scale rates.

13. FAIR VALUE

The comparison in Fair Value vs. Balance Sheet Value is as below:

	<i>Fair Value</i>		<i>Balance Sheet Value</i>	
	2007	2006	2007	2006
	USD '000	USD '000	USD '000	USD '000
Financial assets				
Financial Fixed Assets	23,014,032	19,080,440	23,014,032	19,080,440
Current Assets				
Due from group companies within a year	10,166,293	3,264,924	11,331,314	3,502,636
Cash at bank	24,623	91,036	24,623	91,036
Other Current Assets	68,034	-	68,034	-
	<u>33,272,982</u>	<u>22,436,400</u>	<u>34,438,003</u>	<u>22,674,112</u>
Financial liabilities				
Guaranteed Notes Payable more than a year	27,970,172	19,096,724	29,857,275	19,275,620
Current Liabilities				
Guaranteed Notes Payable within than a year	4,235,558	3,049,732	4,271,283	3,106,544
Bank Overdrafts	26,012	46,027	26,012	46,027
Payable to group companies	3,962	4,566	3,962	4,566
Accrued Interest payable	16,906	172,294	199,309	150,387
Other Accrued Liabilities	484	35,896	352	35,776
	<u>33,253,094</u>	<u>22,405,239</u>	<u>34,358,193</u>	<u>2,618,920</u>

14. EMPLOYEES

The company has no employees. Managing directors received no remuneration from the company in either year.

Managing Directors

Wolbert Kamphuijs

Rumoldus de Schutter

Leonard Fuller

Rushton Dave

Christian Fischer

OTHER INFORMATION

OTHER INFORMATION

Statutory Arrangements in Respect of Profit Distribution

According to Article 22 of the company's Articles of Incorporation, the net results are at the disposition of the shareholder.

Proposed Appropriation of Profit

No dividend was proposed during the year. The net profit after taxation for the year ended 30 November 2007 was USD 27,116,000. The Managing Directors propose that this amount is taken to retained earnings.

Auditor's report

Report on the annual accounts

We have audited the annual accounts for the year ended 30 November 2007 of Lehman Brothers Treasury Co. B.V., Amsterdam, which comprise the balance sheet as at 30 November 2007, the profit and loss account and the cash flow statement for the year then ended and the notes.

Managing directors' responsibility

The managing directors are responsible for the preparation and fair presentation of the annual accounts and for the preparation of the managing director's report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the annual accounts based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the managing directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of Lehman Brothers Treasury Co. B.V. as at 30 November 2007 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the managing directors' report is consistent with the annual accounts as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 30 May 2008

for Ernst & Young Accountants

signed by J.W. Moison