

**LEHMAN BROTHERS UK CAPITAL FUNDING LP**

Interim Report and Accounts

(Unaudited)

For the period ended 31 May 2008

Registered No. LP 010312

# Lehman Brothers UK Capital Funding LP

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Registered No. LP 010312

## **PARTNERS**

LB GP No. 1 Limited – General Partner.

Chase Nominees Limited – Initial Limited Partner.

LB Investment Holdings Limited – Preferential Limited Partner.

## **BUSINESS ADDRESS**

25 Bank Street

London

E14 5LE

## **AUDITORS**

Ernst & Young LLP

1 More London Place

London SE1 2AF

## INTERIM PARTNERS' REPORT

The partners present their interim report and condensed unaudited accounts for the six months ended 31 May 2008.

This condensed interim financial information does not comprise statutory accounts within the meaning of section 240 of the Companies Act 1985 (section 434 of the Companies Act 2006).

Lehman Brothers UK Capital Funding LP is registered as a limited partnership under the Limited Partnership Act 1907.

The Limited Partnership agreement was made on 22 March 2005 between the companies:

1. **LB GP NO. 1 LIMITED**, a company incorporated in England and Wales and a wholly owned subsidiary of Lehman Brothers Holding Inc whose registered office is at 25 Bank Street, London E14 5LE, United Kingdom ("the General Partner");
2. **CHASE NOMINEES LIMITED**, a company incorporated in England and Wales whose registered office is at 125 London Wall, London EC2Y 5AJ, United Kingdom ("the Initial Limited Partner"); and
3. **LB INVESTMENT HOLDINGS LIMITED**, a company incorporated in England and Wales and a wholly owned subsidiary of Lehman Brothers Holdings Inc whose registered office is at 25 Bank Street, London E14 5LE, United Kingdom ("the Preferential Limited Partner").

The capital contribution made by the partners is disclosed in note 10 of the accounts.

Under the partnership agreement, no Partner shall have any right to withdraw from the partnership or make a demand for withdrawal of any part of its Capital Contribution until the dissolution of the partnership.

Further, any distribution made on the distribution payment date shall not have the benefit of reducing, withdrawing, returning or eliminating any part of the Aggregate Capital Contributions.

A Limited Partner may make further Capital Contribution to satisfy any commitment or may be separately agreed with the General Partner in line with the Limited Partnership agreement.

Partners' profit and losses are allocated between them in accordance with the Partnership Agreement, which also governs the rights of partners regarding drawings.

## PRINCIPAL ACTIVITY

The principal activity of the Limited Partnership is to raise capital by issuing preferred securities to the Initial Limited Partner, which is then further lent on to Lehman Brothers Holdings PLC.

## REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The profit and loss account for the period is set out on page 5. No distribution has been made during the period and none is proposed (2007 - Eur Nil).

The partners do not expect any significant changes to the business in the foreseeable future and the financial position of the partnership at the end of the year was satisfactory.

## RELATED PARTY TRANSACTIONS

There are no related party transactions to report. The partnership has taken advantage of the exemption in paragraph 3(c) of Financial Reporting Standard 8 from disclosing transactions with related parties that are part of Lehman Brothers Holdings Inc.

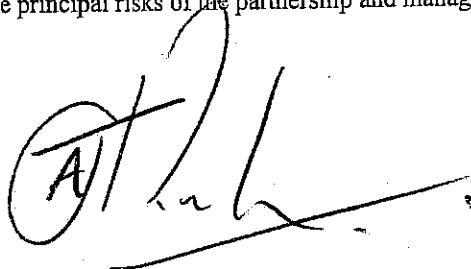
**INTERIM PARTNERS' REPORT (CONTINUED)**

**GROUP RISK MANAGEMENT**

Risk management policies and procedures for Lehman Brothers Holdings Inc. and subsidiaries (the "Group") (including all international locations) are developed on a global basis.

As a leading global investment bank, risk is an inherent part of our businesses. Global markets, by their nature, are prone to uncertainty and subject participants to a variety of risks. Risk management is considered to be of paramount importance in our day-to-day operations. Consequently, we devote significant resources (including investments in employees and technology) to the measurement, analysis and management of risk.

The principal risks of the partnership and management of risk are disclosed in note 11 of the accounts.



On behalf of the General Partner

11 SEP 2008

**STATEMENT OF PARTNERS' RESPONSIBILITIES**

The partners confirm that this condensed financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim partners' report includes a fair review of information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

# Lehman Brothers UK Capital Funding LP

## PROFIT AND LOSS ACCOUNT For the period ended 31 May 2008

		<i>Unaudited</i>	
		<i>6 months</i>	<i>6 months</i>
		<i>to</i>	<i>to</i>
		<i>31 May 2008</i>	<i>31 May 2007</i>
	<i>Notes</i>	<i>EUR</i>	<i>EUR</i>
Interest receivable	2	3,835,430	5,156,112
Interest payable	3	(3,835,430)	(5,156,112)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		-	-
Taxation on profit on ordinary activities	5	-	-
<b>PROFIT FOR THE FINANCIAL PERIOD</b>		-	-
<b>PROFIT APPROPRIATION</b>			
General Partner – LB GP No. 1 Limited	4	-	-
Initial Limited Partner – Chase Nominees Limited	4	-	-
Preferential Limited Partner - LB Investment Holdings Limited	4	-	-

There are no other gains or losses attributable to the partners of the partnership for the six months ended 31 May 2008 and 31 May 2007.

The results in the profit and loss account for the six month period to 31 May 2008 and 31 May 2007 relates to continuing activities.

# Lehman Brothers UK Capital Funding LP

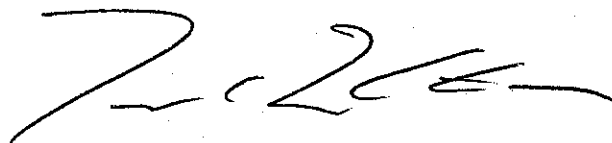
## BALANCE SHEET

As at 31 May 2008

	Notes	Unaudited 31 May 2008 EUR	30 Nov 2007 EUR
<b>FINANCIAL ASSETS</b>			
Loans and receivables	6	173,825,002	173,825,002
<b>CURRENT ASSETS</b>			
Debtors: amounts falling due within one year	6	1,316,435	5,101,493
<b>CURRENT LIABILITIES</b>			
CREDITORS: amounts falling due within one year	7	(1,316,435)	(5,101,493)
<b>NET CURRENT ASSETS</b>			
		173,825,002	173,825,002
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
CREDITORS: amounts falling due after more than one year	8	(173,825,000)	(173,825,000)
<b>NET ASSETS</b>		2	2
<b>FINANCED BY:</b>			
Partners' capital accounts	10	2	2
		2	2

The accounts and notes to the accounts on pages 5 to 12 were approved by the General Partner on and were signed on their behalf by:

1.1 SEP 2008



# Lehman Brothers UK Capital Funding LP

## CASH FLOW STATEMENT For the period ended 31 May 2008

	<i>Unaudited</i> 6 months to 31 May 2008 EUR	<i>6 months</i> to 31 May 2007 EUR
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		
Interest received	7,620,488	11,647,412
Interest paid	(7,620,488)	(11,647,412)
Net cash inflow from returns on investments and servicing of finance	<u>                    </u>	<u>                    </u>
<b>MOVEMENT IN NET CASH</b>	<u>                    </u>	<u>                    </u>

# Lehman Brothers UK Capital Funding LP

## NOTES TO THE ACCOUNTS

As at 31 May 2008

### 1. ACCOUNTING POLICIES

#### **Basis of Preparation**

The condensed interim accounts of Lehman Brothers UK Capital Funding LP have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim financial reporting'. The condensed interim financial information should be read in conjunction with the annual financial statements for the year ended 30 November 2007, which have been prepared under applicable accounting standards in the United Kingdom and in accordance with The Partnerships and Unlimited Companies (Accounts) Regulation 1993.

#### **Accounting Policies**

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 November 2007.

### 2. INTEREST RECEIVABLE

	<i>6 months to 31 May 2008 EUR</i>	<i>6 months to 31 May 2007 EUR</i>
Interest receivable on subordinated notes issued by other group undertakings	3,835,430	5,156,112

### 3. INTEREST PAYABLE

	<i>6 months to 31 May 2008 EUR</i>	<i>6 months to 31 May 2007 EUR</i>
Interest payable on perpetual preferred securities	(3,835,430)	(5,156,112)

### 4. PROFIT AND LOSS ACCOUNT

The partnership had no employees during the period (2007- Nil).

There was no income distribution paid to the General Partner, Initial Limited Partner and the Preferential Limited Partner during the period (2007- Nil).

### 5. TAX ON PROFIT ON ORDINARY ACTIVITIES

No provision for taxation has been made in the accounts. Each partner is exclusively liable for tax liabilities arising out of their interest in the partnership and this will be assessed on them and not the partnership.

# Lehman Brothers UK Capital Funding LP

## NOTES TO THE ACCOUNTS

As at 31 May 2008

### 6. LOANS AND RECEIVABLES

	<i>31 May 2008</i>	<i>30 Nov 2007</i>
	<i>EUR</i>	<i>EUR</i>
<b>(a) Debtors: amount falling due after one year</b>		
Amount receivable from other group undertakings	2	2
Financial assets at amortised cost - Subordinated notes issued by other group undertakings	173,825,000	173,825,000
	<u>173,825,002</u>	<u>173,825,002</u>

On 30 March 2005, the partnership subscribed to Subordinated notes of Lehman Brothers Holding PLC, listed on the Channel Islands exchange, maturing on 30 March 2035. The interest rate on the notes is 6.625% for the first two years and thereafter 10 year constant maturity swap rate in EUR + 0.10% (payment subject to maximum of 8%). The interest is receivable on 30 March each year from and including 30 March 2007 to and including the termination date.

The partnership's investment in the subordinated notes of Lehman Brothers Holdings PLC expose it to credit risk that the issuer of the subordinated notes, Lehman Brothers Holdings Inc will be unable to repay interest and principal in a timely manner. The maximum amount of the credit exposure as at 31 May 2008 is Eur 173,825,000 (2007- Eur 173,825,000).

	<i>31 May 2008</i>	<i>30 Nov 2007</i>
	<i>EUR</i>	<i>EUR</i>
<b>(b) Debtors: amount falling due within one year</b>		
Interest receivable from other group undertakings on subordinated notes	1,316,435	5,101,493
	<u>1,316,435</u>	<u>5,101,493</u>

The maximum amount of the credit exposure as at 31 May 2008 is Eur 1,316,435 (2007- Eur 5,101,493).

### 7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<i>31 May 2008</i>	<i>30 Nov 2007</i>
	<i>EUR</i>	<i>EUR</i>
Interest payable on perpetual preferred securities	(1,316,435)	(5,101,493)
	<u>(1,316,435)</u>	<u>(5,101,493)</u>

# Lehman Brothers UK Capital Funding LP

## NOTES TO THE ACCOUNTS

As at 31 May 2008

### 8. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<i>30 Nov 2008</i>	<i>30 Nov 2007</i>
	<i>EUR</i>	<i>EUR</i>
Financial Liabilities at amortised cost- Perpetual preferred securities	(173,825,000)	(173,825,000)

On 30 March 2005, the partnership issued Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities, listed on the London Stock Exchange. The Perpetual Preferred Securities are guaranteed by Lehman Brothers Holding PLC and include an optional redemption clause that may be exercised by the General Partner if the Subordinated notes issued by Lehman Brothers Holding PLC are redeemed.

The interest rate on the Perpetual Preferred Securities is 6.625% for the first two years and thereafter 10 year constant maturity swap rate in EUR + 0.10% (payment subject to maximum of 8%). The interest is payable on 30 March each year from and including 30 March 2007 to and including the termination date.

The partnership has not had any default of principal, interest or any other breaches with respect to their liabilities for the financial period (2007- Nil).

### 9. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	<i>31 May 2008</i>	<i>31 May 2008</i>
	<i>Carrying value</i>	<i>Fair value</i>
	<i>EUR</i>	<i>EUR</i>
<b>Financial Assets</b>		
(i) Loans and receivables	2	2
- Amount receivable from other group undertakings		
- Financial asset at amortised cost - Subordinated notes issued by other group undertakings	173,825,000	78,221,250
- Debtors: Amounts falling due within one year	1,316,435	1,316,435
<b>Financial Liabilities</b>		
(i) Financial liability at amortised cost		
- Perpetual preferred securities	(173,825,000)	(78,221,250)
(ii) Creditors: Amounts falling due within one year	(1,316,435)	(1,316,435)

# Lehman Brothers UK Capital Funding LP

## NOTES TO THE ACCOUNTS

As at 31 May 2008

### 9. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

	30 Nov 2007 Carrying value EUR	30-Nov 2007 Fair value EUR
<b>Financial Assets</b>		
(i) Loans and receivables	2	2
- Amount receivable from other group undertakings		
- Financial asset at amortised cost - Subordinated notes issued by other group undertakings	173,825,000	135,583,500
- Debtors: Amounts falling due within one year	5,101,493	5,101,493
<b>Financial Liabilities</b>		
(i) Financial liability at amortised cost	(173,825,000)	(135,583,500)
- Perpetual preferred securities	(5,101,493)	(5,101,493)
(ii) Creditors: Amounts falling due within one year		

The fair value of quoted instruments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using the valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis and pricing models.

The fair value approximates the carrying value of the half year end balance of the debtors – amounts falling due within one year and the creditors – amounts falling due within one year.

### 10. PARTNERS' ACCOUNTS

#### Capital Accounts

	<i>General Partner EUR</i>	<i>Initial Limited Partner EUR</i>	<i>Preferential Limited Partner EUR</i>	<i>Total EUR</i>
At 30 November 2007	1	–	1	2
At 31 May 2008	1	–	1	2

#### Loan Accounts

There are no loan accounts held by the General Partner, Initial Limited Partner and the Preferential Limited Partner during the period (2007- Nil).

NOTES TO THE ACCOUNTS

As at 31 May 2008

**11. FINANCIAL RISK MANAGEMENT**

**Market price risk** – Market price risk can be defined as the uncertainty from future price movements of the financial instrument issued and invested in by the partnership. Market price risk arises mainly from economic factors and is not limited to interest rate and currency movements. This exposure to market price risk may result in substantial fluctuations in the market price of the issued preferred securities and the invested subordinated notes from time to time. The partnership seeks to minimise these risks by holding the same notional value of the invested subordinated notes and the issued perpetual preferred securities as the market price of the two financial instruments are linked.

**Currency risk** – Foreign currency risk is the risk that the value of the partnership's investments and issued debt will fluctuate as a result of changes in foreign exchange rates. The partnership is not exposed to currency risk because the issued perpetual preferred securities and the investment in the subordinated notes are both in the same currency.

**Credit risk** – The partnership's transactions in the subordinated notes expose it to the risk that the counterparty will not be able to honour its contractual obligation to deliver the investment for the purchase or cash for a sale. The issuer's sole source of funds to pay distribution on the preferred securities will be payments which it receives from its investments in the subordinated notes issued by Lehman Brothers Holding PLC. The perpetual preferred securities will benefit from a subordinated guarantee entered into by Lehman Brothers Holding PLC which is a wholly owned subsidiary of Lehman Brothers Holdings Inc. which is the parent company of the Lehman Brothers group of companies.

**Liquidity risk** – The assets of the partnership include subordinated notes issued by Lehman Brothers Holding PLC.

Whilst, the preferred securities has no fixed final redemption date, the securities carry an optional redemption clause that may be exercised by the General Partner to redeem the preferred securities if the subordinated notes issued by Lehman Brothers Holding PLC are redeemed.

**Interest rate risk** – Interest rate risk is the risk that the value of the partnership's investments and issued debt will fluctuate as a result of changes in interest rates. Investments and Issued debt with fixed or floating rates may experience substantial fluctuations in net cash flow and valuation for changing interest rate. If interest rates rise, the income potential of the investment or issued debt may rise or fall depending on if the interest rate is fixed or floating and vice versa.

**12. ULTIMATE PARENT UNDERTAKING**

The ultimate parent undertaking of Lehman Brothers UK Capital Funding LP is LB GP No.1 Limited, a company incorporated in England and Wales and a wholly owned subsidiary of Lehman Brothers Holding Inc.

The largest group in which the results of the partnership are consolidated is that headed by LB GP No.1 Limited. The consolidated accounts of the group are available to the public from 25 Bank Street, London E14 5LE.