

LB RE Financing No. 2 Limited

Report and Accounts

For the period ended 30 November 2009

Registered number 06454167

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COMPANIES HOUSE

LB RE Financing No. 2 Limited

Registered No 06454167

DIRECTORS

Daniel Ehrmann

Jeffrey Fitts

SECRETARY

Puxon Murray LLP

AUDITORS

Mercer & Hole

76 Shoe Lane

London

EC4A 3JB

REGISTERED OFFICE

C/O Puxon Murray LLP

1 Royal Exchange Avenue

London

EC3V 3LT

LB RE Financing No. 2 Limited

DIRECTORS' REPORT

The directors present their report and accounts for the period ended 30 November 2009

RESULTS AND DIVIDENDS

The company's results for the year are set out on page 7. The directors are unable to recommend payment of a dividend for the year (2008 £ nil)

PRINCIPAL ACTIVITIES

The principal activity of the company is that of an intermediate holding company

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

On 15th September 2008, the Company's ultimate parent, Lehman Brothers Holdings Incorporated filed for insolvency in the United States under Chapter 11 of the U S Bankruptcy code. On the same day, the parent of the UK group to which the Company belongs, LB UK RE Holdings Limited, was placed in Administration by its directors.

As a result of the Lehman bankruptcy, the Company has experienced a significant impairment in the value of its assets, which are largely made up of receivables from Lehman affiliates. While the Company is optimistic that some value may be recovered from its assets, due to uncertainty the directors have adopted a conservative approach and the assets have been shown as fully impaired.

During the accounting period, Lehman Brothers Holdings Inc ("LBHI") and the joint administrators of LB RE Financing No 3 Limited ("LB RE 3"), a wholly-owned subsidiary of the Company and debtor to the Company, entered into an arrangement to enable LBHI to provide advice to LB RE 3 in respect of LB RE 3's main asset, a €722,181,000 Class B Note due 2054 (the "B Note") issued by Excalibur Funding No 1 PLC ("Excalibur"), with the intention to improve the likely recovery to LB RE 3 of amounts under the B Note, and thereby the amount available for distribution to LB RE 3's creditors, including the Company.

The arrangements include (among others) a facilities agreement (the "Facilities Agreement") and an advisory agreement (the "Advisory Agreement") entered into by LBHI and LB RE 3 (acting through its joint administrators).

Pursuant to the Facilities Agreement, LBHI provided an initial loan facility to LB RE 3 in an amount of £1,600,000, to meet expenses incurred by LB RE 3 in connection with its administration. LBHI further agreed that it may, in its absolute discretion, provide additional loans to permit LB RE 3 to discharge potential liabilities associated with the B Note. The obligation of LB RE 3 to repay the loan is limited to the proceeds of the B Note and subject to distribution provisions set out in the Facilities Agreement.

The maturity date of the loan is the earlier of (i) 3 business days after the date on which LB RE 3 completes a disposal of the B Note, (ii) 3 business days after the date on which Excalibur redeems the B Note or otherwise satisfies all obligations of LB RE 3 under the B Note, or (iii) May 15, 2018.

As security for the loan, LB RE 3 granted LBHI, inter alia, a first ranking charge over the B Note and over certain reserve accounts of LB RE 3.

Pursuant to the Advisory Agreement, LBHI acts as the day to day asset manager of the B Note and has the right to exercise LB RE 3's rights under the B Note including the ability to direct Excalibur to take certain actions relating to the B Note and the portfolio of collateral debt obligations underlying the B Note as it deems appropriate.

LB RE Financing No. 2 Limited

DIRECTORS' REPORT

As part of the arrangements, the Company entered into an option agreement (the "**Option Deed**") with LB RE 3 and LBHI on 28 October 2009. Pursuant to the Option Deed, the Company granted LBHI an option to acquire all of the shares of LB RE 3 and the intercompany loans advanced by the Company to LB RE 3 (the "**Share Option**"). In addition, LB RE 3 granted LBHI an option to acquire the B Note (the "**B Note Option**"). The Share Option and the B Note Option may only be exercised by LBHI after (i) any potential funding obligations of LB RE 3 under the terms of the B Note have been terminated, and (ii) the claims of all creditors of LB RE 3 (other than claims of LBHI and connected entities) have been satisfied, released or assigned or otherwise transferred to LBHI or its affiliates. In addition, the B Note Option may only be exercised after the transfer restrictions under the terms and conditions of the B Note have been waived by Excalibur or satisfied by the parties or no longer apply.

The Share Option and the B Note Option may be exercised at any time after the above conditions have been satisfied until the earlier of (i) five years after such conditions have been satisfied, (ii) May 15, 2018, or such later date as agreed by the parties in writing. The consideration payable by LBHI on exercise of either option is £1.00.

Post Balance Sheet Events

On 11 June 2010, Excalibur issued an application for permission to institute and continue proceedings for specific performance against LB RE 3 and Lehman Brothers International (Europe) ("LBIE"), pursuant to Schedule B1, paragraph 43(6) of the Insolvency Act 1986.

In the event that the court grants Excalibur leave to institute and continue proceedings against LB RE 3, there is a risk that LB RE 3 will be directed to transfer the B Note to a qualifying transferee acceptable to Excalibur.

We understand that LBHI and LB RE 3 intend to defend these proceedings. A hearing on the application is expected to take place in early 2011.

DIRECTORS AND THEIR INTERESTS

The directors during the period and subsequent to the period end were:

Daniel Ehrmann (appointed 12th October 2009)
Jeffrey Fitts (appointed 12th October 2009)

DIRECTOR'S STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

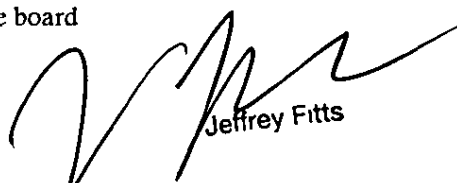
- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Mercer & Hole, are deemed to be reappointed under section 487(2) of the Companies Act 2006.

By order of the board

Director



Jeffrey Fitts

November 5, 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The accounts are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these accounts, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with Companies House 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT
to the members of Lehman Brothers RE Financing No.2 Limited

We have audited the financial statements of Lehman Brothers RE Financing No 2 Limited for the year ended 30 November 2009 set out on pages 7 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 November 2009 and of its profit and loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern. The company incurred a loss of \$7,900 during the year ended 30 November 2009 (2008 –\$7,949,137,284) and, at that date, the company's current liabilities exceeded its current assets by \$32,614,289. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.



Andrew Crook ACA (Senior Statutory Auditor)
for and on behalf of Mercer & Hole

16 November 2010

Chartered Accountants
Statutory Auditor

International press centre
76 Shoe Lane
London
EC4A 3JB

LB RE Financing No. 2 Limited

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 NOVEMBER 2009

		<i>Year ended 30 November 2009 USD</i>	<i>Period ended 30 November 2008 USD</i>
	<i>Notes</i>		
Interest receivable and similar income	4	65,194,458	249,506,050
Interest payable and similar charges	5	(40,010,382)	(135,565,486)
Provisions for doubtful debts		(25,185,329)	(8,030,471,458)
Impairment of Fixed Asset Investment		-	(1)
Operating expenses	2	(6,647)	(5,394)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(7,900)	(7,916,536,289)
Tax on loss on ordinary activities	6	-	(32,600,995)
LOSS FOR THE FINANCIAL YEAR\PERIOD		(7,900)	(7,949,137,284)

There are no recognised gains or losses for the period ended 30 November 2009, other than the loss attributable to the shareholders of the company

LB RE Financing No. 2 Limited

BALANCE SHEET at 30 November 2009

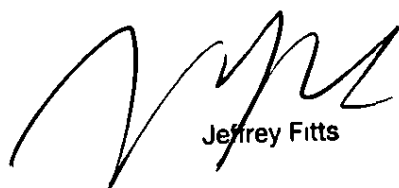
		30 November 2009 USD	30 November 2008 USD
	Notes		
CURRENT ASSETS			
Debtors amounts falling due within one year	8	-	-
CREDITORS . amounts falling due within one year			
	9	(32,614,289)	(32,606,389)
NET CURRENT ASSETS LESS CURRENT LIABILITIES		(32,614,289)	(32,606,389)
CAPITAL AND RESERVES			
Called up share capital	10	7,916,530,895	7,916,530,895
Retained Earnings	11	(7,949,145,184)	(7,949,137,284)
EQUITY SHAREHOLDER'S FUNDS		(32,614,289)	(32,606,389)

Approved by the board of directors on
behalf by

November 5, 2010

and signed on its

Director



Jeffrey Fitts

Registered number 06454167

NOTES TO THE ACCOUNTS
at 30 November 2009

1. ACCOUNTING POLICIES

Basis of Preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards

No cash flow statement has been produced as there were no cash flows in the year

Going Concern

The accounts have been prepared on a going concern basis. The company has net current assets but currently has no cash resources with which to meet its current liabilities. The ability of the Company to satisfy its main creditors is dependent on (i) the realisation of assets in former Lehman affiliated entities or (ii) the availability of group losses surrendered by former affiliates. There are uncertainties regarding both these events and therefore the company may be unable to continue as a going concern.

Exemption from preparation of group financial statements

The financial statements present information about the company as an individual undertaking and not about its group. The company and its subsidiary undertaking comprise a small-sized group. The company has therefore taken advantage of the exemptions provided by section 399 of the Companies Act 2006.

Functional currency

The company's functional currency is US dollars as the directors consider this to be the most appropriate currency for the company's business.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at underlying net asset value. Any permanent diminution in the net asset value of an investment as compared to historical cost is charged to the profit and loss account. In all other cases the difference between net asset value and historical cost is charged or credited to a revaluation reserve.

Foreign currency translation

The company's assets and liabilities denominated in foreign currencies are translated into US dollars at rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into dollars at the rates of exchange for the month in which they occur. Any differences arising from translation are dealt with in the profit and loss account. Exchange differences arising on translation of the company's net equity interest in subsidiaries with a functional currency other than dollars are dealt with as movements on reserves.

2. ADMINISTRATIVE EXPENSES

	<i>Year ended 30 November 2009 USD</i>	<i>Period ended 30 November 2008 USD</i>
Auditor's remuneration	6,647	5,394

The company has entered into a liability limitation agreement with Mercer & Hole, the statutory auditor, in respect of the statutory audit for the year ended 30 November 2009. The cap of liability agreement follows the standard terms in Appendix D to the Financial Reporting Council's June 2008 Guidance on Auditor Liability Agreements and was approved by the shareholders on 5 November 2010.

NOTES TO THE ACCOUNTS
at 30 November 2009

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The directors received no remuneration and the company had no employees during the year

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 30 November 2009 USD	Period ended 30 November 2008 USD
Interest received from other group undertakings	<u>65,194,458</u>	<u>249,506,050</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 30 November 2009 USD	Period ended 30 November 2008 USD
Interest paid to other group undertakings	40,009,129	135,565,486
Forex loss	1,253	-
	<u>40,010,382</u>	<u>135,565,486</u>

6. TAXATION

	Year ended 30 November 2009 USD	Period ended 30 November 2008 USD
a) Tax on loss on ordinary activities		
UK corporation tax	-	32,600,995
Total current tax	<u>-</u>	<u>32,600,995</u>

b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the current year differs from the standard rate of corporation tax in the UK of 28% (2008 – 30%) The differences are reconciled below

Loss on ordinary activities before tax	<u>(7,900)</u>	<u>(7,916,536,289)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28%	(2,212)	(2,216,630,161)
Non deductible expenses	7,051,892	2,297,809,901
UK Corporation Tax rate change to 28% from 1 April 2008	-	(48,578,745)
Group relief claimed	(7,049,680)	-
Current tax charge for the year (note 7 (a))	<u>-</u>	<u>32,600,995</u>

LB RE Financing No. 2 Limited

NOTES TO THE ACCOUNTS at 30 November 2009

7. FIXED ASSET INVESTMENTS

	USD
Cost at 1 December 2008 and 30 November 2009	<u>1</u>
Impairment	
Impairment at 1 December 2008 and 30 November 2009	<u>(1)</u>
Net carrying amount as at 30 November 2009	<u>-</u>
Net carrying amount as at 30 November 2008	<u>-</u>

The following information as at 30 November 2009 relates to the fixed asset investment of LB RE Financing No 2 Limited, which is registered in England and Wales

<i>Name of company</i>	<i>Description of shares held by company</i>	<i>Proportion of nominal value and voting rights of shares held</i>	<i>Principal business</i>
LB RE Financing No 3 Limited	Ordinary	100%	Holding Company

LB RE Financing No 3 is currently in Administration. The cost of the investment of US \$1 has been fully provided for.

As disclosed in the directors report, the company has entered into an agreement by giving Lehman Brothers Holdings Inc an option to acquire the investments under certain circumstances.

LB RE Financing No 2 Limited

NOTES TO THE ACCOUNTS at 30 November 2009

8. DEBTORS

	<i>30 November 2009 USD</i>	<i>30 November 2008 USD</i>
<i>Falling due within one year</i>		
Amounts due from other group undertakings	8,055,656,785	8,030,471,458
Provision for doubtful debts	(8,055,656,785)	(8,030,471,458)
	<u>-</u>	<u>-</u>

Following on from the Lehman Bankruptcy, the Company is optimistic that some value may be recovered from its assets. Due to the uncertainty the directors have adopted a conservative approach and the assets have been shown as fully impaired.

Included in 'Amounts due from other group undertakings' above is \$987,319,352 due from LB Re Financing No 3 Limited over which, as disclosed in the directors report, the company has entered into an agreement giving Lehman Brothers Holdings Inc an option to acquire this debt under certain conditions. This balance has been provided for in these accounts.

9. CREDITORS

	<i>30 November 2009 USD</i>	<i>30 November 2008 USD</i>
<i>Falling due within one year</i>		
Accruals	13,294	5,394
Corporation tax	32,600,995	32,600,995
	<u>32,614,289</u>	<u>32,606,389</u>

The directors believe the tax liability will be met by transfer of losses from group companies.

LB RE Financing No. 2 Limited

NOTES TO THE ACCOUNTS at 30 November 2009

10. SHARE CAPITAL

	30 November 2009 £	30 November 2009 USD
Authorised		
10,000,000,000 Ordinary shares of \$1 each	-	10,000,000,000
100 Ordinary shares of £1 each	100	-
	<u>100</u>	<u>10,000,000,000</u>

USD

Allotted, called up and fully paid

1 Ordinary share of £1	2
7,916,530,893 Ordinary share of USD 1 each	7,916,530,893
	<u>7,916,530,893</u>

11. RECONCILIATION OF SHAREHOLDER'S FUNDS AND MOVEMENT ON RESERVES

	Share capital USD	Profit and shareholder's loss account USD	Total funds USD
At 14 December 2007	-	-	-
Shares Issued In the Period	7,916,530,895		7,916,530,895
Loss for the year	-	(7,949,137,284)	(7,949,137,284)
At 30 November 2008	<u>7,916,530,895</u>	<u>(7,949,137,284)</u>	<u>(32,606,389)</u>
Loss for the year	-	(7,900)	(7,900)
At 30 November 2009	<u>7,916,530,895</u>	<u>(7,949,145,184)</u>	<u>(32,614,289)</u>

12. PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent of the Company is LB RE Financing No 1 Limited. The Company's ultimate parent is Lehman Brothers Holdings Inc, which is incorporated in the State of Delaware in the United States of America. On 15th September 2008 Lehman Brothers Holding Inc filed for Chapter 11 bankruptcy protection in the United States of America.

LB RE Financing No. 2 Limited

NOTES TO THE ACCOUNTS at 30 November 2009

13. RELATED PARTY TRANSACTIONS

All transactions are with related parties

14. POST BALANCE SHEET EVENTS

Details of the post balance sheet events are disclosed in the Directors' report