MORRISON | FOERSTER

A LIMITED LIABILITY PARTNERSHIP

MEMORANDUM

TO:

FROM: Morrison & Foerster

CC:

DATE: 14 December 2011

RE: Lehman Brothers Treasury Co. B.V. Structured Notes

Reference is made to the notes issued under the Euro Medium Term Note Programme (the "Programme") of Lehman Brothers Treasury Co. B.V. ("LBTC"), guaranteed by Lehman Brothers Holdings Inc. ("LBHI"), and to the terms thereof, as contained in (i) the Information Memorandum for the U.S.$18,000,000,000 Euro Medium-Term Note Programme dated August 19, 2003, (ii) the Information Memorandum for the U.S.$25,000,000,000 Euro Medium-Term Note Programme dated August 18, 2004, (iii) the Base Prospectus for the U.S.$45,000,000,000 Euro Medium-Term Note Programme dated August 26, 2005, (iv) the Base Prospectus for the U.S.$60,000,000,000 Euro Medium-Term Note Programme dated August 9, 2006, (v) the Base Prospectus for the U.S.$100,000,000,000 Euro Medium-Term Note Programme dated July 24, 2007 and (vi) the Base Prospectus for the U.S.$100,000,000,000 Euro Medium-Term Note Programme dated July 24, 2008 (each being a "Prospectus" and together, the "Prospectuses").

Capitalised terms used, but not otherwise defined, herein in respect of any notes (the "Notes") issued under the Programme shall have the same meanings ascribed to such terms in the relevant Prospectus for such Notes.

This memorandum (the "Memorandum") has been prepared following the publication of various bankruptcy reports by the Dutch bankruptcy trustees (the "Trustees") of LBTC, most recently the 10th bankruptcy report (the "Report")[1] dated 11 November 2011. The Report contains the final valuation principles which the Trustees will apply in valuing the claims of holders of Notes ("the Noteholders"), and we set out below a summary of those principles and our related advice. Please note that this memorandum does not purport to be advice in respect of any individual Note by a Noteholder, though if required we will be happy to provide specific advice to any individual institution in relation to their Notes. In this memorandum we also consider *inter alia* the timeline and procedure for acceleration, the valuation principles provided by LBHI and its affiliated debtors (the "LBHI Debtors") in their US chapter 11 proceedings, and the relationship between the proceedings relating to LBTC in the Netherlands and the corresponding proceedings relating to LBHI in the U.S..

Valuation of Notes by the Trustees (the LBTC Claim)

In terms of how the value of the Notes in general is likely to be determined, we have obtained the advice of Nauta Dutilh, and reviewed the provisional valuation principles as set out in the 4th and 5th

---

[1] The Report may be found at: http://www.lehmanbrotherstreasury.com/pdf/english/LBT10everslagEN.PDF

public bankruptcy reports of the Trustees, as supplemented by the 6th, 7th, 8th and 9th public bankruptcy reports of the Trustees, and the final valuation principles as set out in the Report. The Trustees have indicated in the Report that these final valuation principles will be the ones that the Trustees will apply with respect to the valuation of claims arising out of the Notes.

The Report provides that "*the starting point for the valuation of claims arising from Notes is the terms and conditions of the underlying contracts (i.e. the Conditions). These Conditions specify the amounts that are payable to Noteholders and when such amounts are due and payable. The Bankruptcy Trustees will adhere to the Conditions as much as possible and to the extent permitted by Dutch law*". Once these amounts (each a "Contractual Amount") have been determined (or the Deemed Contractual Amounts (as defined below), which apply to undetermined Notes, have been estimated), the Trustees will then apply Dutch bankruptcy law to determine the amount that can actually be claimed for in the Dutch bankruptcy proceedings of LBTC. This is known as the "Admissible Amount".

It is important to highlight that in respect of a particular Note, there may be more than one Contractual Amount, to the extent that the Conditions provide that different amounts fall due on different dates. So, for example, a Note may pay monthly interest up until the date for its redemption. Each obligation to make a specific interest payment will generate a Contractual Amount, while the obligation to make payment of principal upon redemption will also generate a Contractual Amount[2]. The redemption obligation will typically occur when the Note reaches its Final Maturity Date, although may also occur earlier (at the Mandatory Early Redemption Date) following certain trigger events (such as fluctuations in the value of assets referenced to the Note). The Note will also become due and payable on an earlier Early Redemption Date if there has been a valid acceleration of the Note in accordance with its terms. The aggregate of each of the individual Contractual Amounts in respect of a Note will constitute the overall (aggregate) Contractual Amount for the purpose of determining the Admissible Amount.

For the purpose of determining the Admissible Amount in respect of each Note, the Trustees have distinguished between four categories of Notes as follows:

CATEGORY 1. These are "*Notes that became due and payable before the Bankruptcy Date (8 October 2008).*" In such circumstances, the Admissible Amount will be the Contractual Amount (which in most cases will be the Final Redemption Amount of the Notes (plus any accrued, scheduled interest), as defined in the Conditions) plus any accrued default interest (determined in accordance with the Conditions, or alternatively a statutory default rate of interest may be applicable if there is no contractual interest specified in those circumstances) which runs from the date on which the Notes became due and payable, up to the Bankruptcy Date.

CATEGORY 2. These are "*Notes that became due and payable within one year after the Bankruptcy Date.*" Here, the Admissible Amount will be based on the aggregate of all Contractual Amounts that became due and payable in the period from and including the Bankruptcy Date, up to 8 October 2009 (the "Anniversary Date"). Any Contractual Amounts that became due and payable in the first year after the Bankruptcy Date and that are legally defined as "interest", are discounted (as described in the paragraph below headed "Discounting") back to the Bankruptcy Date. Contractual Amounts which do not constitute interest (e.g., the Contractual Amount payable upon redemption, less any interest component) do not need to be discounted. The Contractual Amount upon

[2] In some cases, however, a component of the Contractual Amount due upon redemption may also include interest.

redemption will be the Final Redemption Amount for any Notes which matured prior to the Anniversary Date, or the Early Redemption Amount for accelerated Notes, or the Mandatory Early Redemption Amount for Notes that automatically redeemed early because of a trigger event. As in the case of Category 1 Notes above, any Contractual Amounts which arose prior to the Bankruptcy Date (e.g., installment amounts or payments of interest), shall also be increased to reflect either statutory or contractual default rate interest up to the Bankruptcy Date.

CATEGORY 3. These are "*Notes that became due and payable later than one year after the Bankruptcy Date but before the Claims Filing Date.*" In this situation, the Admissible Amount must be determined by calculating the "*present value*" of each Contractual Amount that becomes due and payable after the Anniversary Date, by discounting (as described below) such Contractual Amount from the date on which it became due and payable, back to the Anniversary Date. Any Contractual Amounts that are legally defined as "interest" and which became payable in the first year after the Bankruptcy Date are, as with Category 2 Notes, taken into account but discounted back to the Bankruptcy Date (instead of the Anniversary Date). Any Contractual Amounts that became due and payable within the first year after the Bankruptcy Date and which are not legally defined as "interest", will not be discounted. As in the case of Category 1 Notes above, any Contractual Amounts which arose prior to the Bankruptcy Date (e.g., installment amounts or payments of interest), shall also be increased to reflect either statutory or contractual default rate interest up to the Bankruptcy Date.

Discounting

In order to determine the present value of the Contractual Amount of the Notes, a discount rate will be applied to the relevant Contractual Amount, which consists of two elements, a "risk-free interest rate" and an additional "credit spread":

1. the risk-free interest rate is "*the interest rate on government bonds issued in the currency of the relevant Note that prevailed… as of September 12, 2008.*" A summary of the risk-free interest rates and the term structures that the Trustees will apply is set out herein at Annex A[3]. The appropriate risk-free interest rate will be comprised of the implied risk-free forward rate for the term to maturity that corresponds to the period between the Anniversary Date and the date when the relevant Contractual Amount became due.

2. the credit spread, which will be added to the risk-free interest rate, has been set at 2.5% (the "LBTC Credit Spread").

By way of example, imagine a Contractual Amount of US$500, which became due on 8 October 2011 (2 years after the Anniversary Date). Imagine also that the relevant implied risk-free rate is 2.205% (an approximate linear interpolation between the 1yr and 5yr USD risk-free rates), while the LBTC Credit Spread is 2.5%. If such amount were to be discounted back to the Anniversary Date (2 years prior to the due date of the Contractual Amount), the calculation would be as follows:

US$500 / $(1.047)^2$ = **US$456.12**

Or, put another way:

[3] The risk-free rates are extracted from the 4th Bankruptcy Report of the Trustees, which may be found at: http://www.lehmanbrotherstreasury.com/pdf/english/4th%20public%20report%20Lehman%20Brothers%20Treasury%20Co%20pdf.PDF

Yr 1 Discount = (500 / 1.047) = US$477.55
Yr 2 Discount = (477.55 / 1.047) = **US$456.12**

Please note that 104.7% (or 1.047 in decimal form) is used because it is the sum of the risk-free interest rate and the LBTC Credit Spread (2.5% + 2.205% = 4.705%, rounded to 4.7%).

CATEGORY 4. These are "*Notes that became due and payable after the Claims Filing Date.*" After the Claims Filing Date (which as yet remains unannounced), it is expected that a number of Notes will remain outstanding, i.e. their Final Maturity Date is due after the Claims Filing Date, no Mandatory Early Redemption Date has then occurred, and they have not been validly accelerated by 1 February 2012 (the "Acceleration Bar Date", see further below). If all the Contractual Amounts payable on such Category 4 Notes are determinable (see "*Determined vs Undetermined* Notes" below), their Admissible Amount will be calculated in accordance with the same methodology as is applied to Category 3 Notes. However, if any of the Contractual Amounts payable on such Notes cannot be determined e.g. because they are non-fixed amounts due in the future, then the Admissible Amount of the Note in its entirety will be calculated in accordance with the methodology set out below (see '*Valuation of Undetermined Notes*').

Determined vs Undetermined Notes

The Dutch Bankruptcy Act makes a distinction between claims with a *determined* amount and claims with an *undetermined* amount. The distinction will be assessed after the Acceleration Bar Date, after a determination of whether the Note will have matured at a Mandatory Early Redemption Date. When each of the Contractual Amounts in respect of a claim can be calculated in accordance with the applicable Conditions or if all the Contractual Amounts are related to fixed amounts, the claim is or can be *determined*. When any of the Contractual Amounts of a claim cannot be readily established in accordance with the applicable Conditions or can only be established by making subjective judgments or projections that could lead to a range of materially different outcomes, the claim is *undetermined*. To the extent that the Conditions of a specific Note are ambiguous, the Trustees will adopt an interpretation that is commercially reasonable and that reflects the economic and legal intent of the Note. If such an interpretation cannot reasonably be made, the Trustees shall consider the Note to be *undetermined*. It seems likely that in most cases, any Note which falls into Category 4 (i.e, the Note has not become due and payable (whether by maturity, acceleration or otherwise) prior to the Claims Filing Date) will be *undetermined*. This is on the basis that only Notes with a fixed redemption amount and paying a fixed rate of interest or no interest at all (as in a zero coupon bond), will have cash flows that are all completely determinable in advance of the dates for payment of such cash flows. Any payment which relies on a future unknown amount (such as a floating rate of interest (e.g., LIBOR) or the value of a particular share or index) will always be impossible to calculate without making an estimation of the relevant underlying future value.

The Trustees state that although this distinction is particularly important for Category 4 Notes, it is also relevant to Category 1, 2 and 3 Notes. For example, a note might contain a final redemption payment falling due in January 2012 and therefore fall into Category 3, although the payout on redemption may depend upon an unquantifiable value. It seems unlikely, however, that this position will arise in many cases, even where, for example, the Conditions of the Note provide for observations or calculations to be made or determined by Lehman Brothers International (Europe) (now in administration) to determine any Contractual Amounts. If such observations or calculations relate to objectively observable inputs, such as the closing level of an index, we understand that it is likely that the Trustees will be able to establish the Contractual Amounts objectively and readily based on observable data, and therefore the Notes will be viewed as *determined*. However, if the

Conditions of a Note provide for subjective judgments to be made by a particular entity that cannot be made by another party simply from objectively observable data, then such Note will be classified as *undetermined*, even if, like Category 1, Category 2 and some Category 3 Notes, it has then already become due and payable.

Valuation of Undetermined Notes

The Trustees have stated that *undetermined* Notes should be valued, based on their fair value (excluding any credit value adjustment) at 12 September 2008 (the "Commencement Date"). Such fair values (the "Fair Values") will be derived from the values attributed to each of such Notes in a list of ISIN codes published by LBHI on August 15, 2011(the "LBHI List")[4]. The LBHI List shows a proposed valuation and claim amount for each Note, as determined by LBHI on the basis of the valuation methodologies found in Exhibit 11 to the disclosure statement to the Lehman Debtors' chapter 11 plan (the "Structured Securities Valuation Methodologies")[5].

The Admissible Amount for a Note (being the estimated present value of the Note) in the LBTC Proceedings, is calculated at the Anniversary Date in a two stage process:

1. it is firstly necessary to determine a deemed Contractual Amount (the "Deemed Contractual Amount"), by applying the LBTC Credit Spread of 2.5% to the Fair Value of the relevant Note (the "Estimated Credit Spread Adjustment"). The aim here is to ensure that all Notes (whether *determined* or *undetermined*) are subject to the LBTC Credit Spread.

2. to arrive at the Admissible Amount, the Deemed Contractual Amount must then be 'rolled forward' to the Anniversary Date (at the applicable accrual rate that includes the LBTC Credit Spread).

Annex II to the Report shows a worked example of a determination of the Admissible Amount for a hypothetical "undetermined" Note.

Please note that a Note with both *determined* and *undetermined* elements will be estimated using the method described above, since the Fair Values should include the fair value of any *determined* elements of each Note as of September 12, 2008, and thus a separate valuation of the *determined* elements using the Category 3 valuation procedures would involve complicated deductions from the Fair Values in respect of such determined elements.

Acceleration

Acceleration Bar Date

At the moment, it is still possible for Noteholders to accelerate any Note that has not yet become due and payable. However, the Trustees have stated in the Report that they will only

---

[4] The LBHI List was published in accordance with the Order Pursuant to Sections 105(a) and 502(b) of the Bankruptcy Code and Bankruptcy Rule 9019 Approving Procedures for the Determination of the Allowed Amount of Claims Filed Based on Structured Securities Issued or Guaranteed by Lehman Brothers Holdings Inc. The LBHI List may be found under the "Case Information" tab at: http://chapter11.epiqsystems.com/LBH/Project/default.aspx

[5] The Structured Securities Valuation Methodologies may be found at: http://chapter11.epiqsystems.com/LBH/document/GetDocument.aspx?DocumentId=1421320

accept acceleration notices that are "Qualifying Acceleration Notices" (as defined below). They have also set a bar date of February 1, 2012 at 6pm Central European Time (the "Acceleration Bar Date") after which they will no longer accept such Qualifying Acceleration Notices. A Qualifying Acceleration Notice is an acceleration notice that includes evidence, such as a certificate from a relevant clearing system, showing, at the date of acceleration, direct or indirect ownership of the Note by the Noteholder, or a chain of ownership from the accelerating Noteholder to the relevant clearing system.

Some of the Noteholders have already sent notices of acceleration to LBTC, copied to LBHI. Further to this, on 11 November 2011, the Trustees published on their website an updated list (the "List")[6] containing the Trustees' records of all series of Notes issued under the Programme. The List sets out details of the relevant ISIN code for each Note, its principal amount in US Dollars and as converted into Euros at the date of bankruptcy of LBTC (8 October 2008), as well as whether or not such Note has been accelerated. The List is coded to indicate whether a particular series of Notes appears to have been accelerated in accordance with the Conditions of such series of Notes, whether the Trustees consider that the Notes were not validly accelerated or whether the Trustees have still not made a decision regarding valid acceleration. The Trustees stress that the List is not exhaustive and is updated from time to time, following the provision of more information from Noteholders or their representatives in relation to any acceleration notices they submitted. **We encourage the Noteholders to check whether the Notes in respect of which they have sent acceleration notices are indicated on the List as validly accelerated and to contact us with any questions or problems.**

If any Noteholder has served an acceleration notice, but the List indicates that such series of Notes has not been validly accelerated, then if the Noteholder decides that it wishes to contest such a finding, it is very important that they should contest the validity of any acceleration notice well in advance of the Acceleration Bar Date, since the Trustees have stated that they will not accept Qualifying Acceleration Notices after this date. This is in order to allow time to effect a "new acceleration" of any Notes if the Noteholders cannot demonstrate to the Trustees that the Notes have already been validly accelerated.

Effect of Acceleration on Valuation

For most Notes, acceleration will result in the Early Redemption Amount being calculated as at the Early Redemption Date (the date of valid acceleration) in accordance with the Conditions. The Early Redemption Date will also determine which of the above categories the Note falls into for calculating the cash flow and interest amounts payable.

For some Notes, early redemption will result in an Early Redemption Amount equal to the Note's "fair market value", plus accrued interest[7] as at the Early Redemption Date. For such Notes, the

---

[6] The current version of the list was published on 11 November 2011 and may be found at: http://www.lehmanbrotherstreasury.com/pdf/english/111111Accelstatuspublish.pdf

[7] Condition 10(c) of the Base Conditions of the Notes provides that on an acceleration of the Notes, accrued interest (if any) is payable in addition to the Early Redemption Amount, which is specified in the final terms in respect of the Note. However, a number of Notes have provisions, in the definition of Early Redemption Amount, that specify "For the avoidance of doubt, no accrued interest shall be payable upon redemption of the Notes…on event of default". The Trustees may try to argue that this provision means that no accrued unpaid interest at all can be claimed, on the basis that this is an inconsistency between the Base Conditions and the final terms (as to which the final terms would prevail). We consider that the relevant Noteholders would have a valid argument that there is no inconsistency – that this provision is

Trustees will establish the Deemed Contractual Amount by estimating the Early Redemption Amount, using the following procedure:

1) *Estimate the Early Redeemed Contractual Amount based on input parameters at the acceleration date.* A determination of all future cash flows is made, based on the information and appropriate reference data available at the acceleration date. No account is taken of any possible movement or adjustment to such information or input data, between the Early Redemption Date and the Final Maturity Date. The Trustees have stated that they have decided to adopt this approach "*in order to avoid subjective and time consuming estimates of the impact of this volatility (as well as other parameters), which would likely deliver results that might still be the subject of protracted debate*". Using this approach, all future cash flows become determined at the point of acceleration.

The Deemed Contractual Amount of the Note will be the aggregate of the present value of all those future cash flows as of the Early Redemption Date, determined by discounting (see "Discounting" above) such cash flows at the applicable risk-free rate, as at the Early Redemption Date plus the LBTC Credit Spread.

2) *Discount the Deemed Contractual Amount to the Anniversary Date.* Having calculated the Deemed Contractual Amount as above, the Admissible Amount is determined by discounting the Deemed Contractual Amount from the Early Redemption Date back to the Anniversary Date, at a discount rate equal to the applicable risk-free rate plus the LBTC Credit Spread.

Annex III to the Report sets out an example of a valuation of a hypothetical accelerated Note.

Timing of Valuations

The Trustees have started preparing their calculations for Category 1, Category 2, Category 3 and validly accelerated Notes. They have stated that they expect to publish (on a rolling basis) a list of valuations of Notes in ISIN-by-ISIN format (the "LBT Note Valuations") starting in January 2012. Such valuations will be published on a designated website.

The Trustees intend to request that the District Court sets the Claims Filing Date and the Claims Admission Date in the second or third quarter of 2012. They expect to finalise the LBT Note Valuations for all ISINs by June-July 2012, unless there are any significant delays due to the complexity of the valuation process.

Corrections of Manifest Errors

The same designated website, upon which the LBT Note Valuations are to be published, will make available an option for Noteholders to notify the Trustees in circumstances where such Noteholders believe that a "manifest error" (as described below) has arisen with respect to the Trustee's application of the valuation principles described herein (a "Manifest Error Notification").

A Manifest Error Notification must provide certain key information (such as the nominal amount of the Note, the beneficial holder of the Note and any short position (whether physical or derivative)

---

merely part of the definition of Early Redemption Amount and is intended to make clear that there can be no double-claiming of accrued interest, bearing in mind that Condition 10(c) allows for it to be claimed. However, we cannot be certain that accrued interest will be allowed by the Trustees as part of the Contractual Amount.

held by the holder in relation to such Notes) and must be made in good faith. It must also clearly demonstrate one of three manifest errors (each a "Manifest Error"):

(i) *a self-evident, inconsistent or erroneous application of the Valuation Principles*;

(ii) *an application of the Valuation Principles to a situation obviously not contemplated by the Valuation Principles; or*

(iii) *a self-evident material mistake in the application or interpretation of the Conditions or in the use of relevant, observable and objective data.*

The Trustees have stated that they will not, in principle, reconsider an LBT Note Valuation unless it is based on one of the grounds set out above. They will also not consider any Manifest Error Notifications received after a cut-off date to be announced by the Trustees (the "Manifest Error Bar Date"). The Manifest Error Bar Date will not be less than 28 calendar days prior to the Claims Filing Date. The Trustees have stated that they will correct any self-evident calculation errors.

Valuation of Notes by LBHI

This section summarises the valuation methodologies currently proposed to be employed by the LBHI Debtors in valuing claims under the Notes. The Structured Securities Valuation Methodologies aim to inform Noteholders of the methodologies the LBHI Debtors are proposing to use to value Notes issued by LBTC. These values will then be used by the LBHI Debtors to value claims that have been brought against LBHI as Guarantor.

The Structured Securities Valuation Methodologies split the Notes into three categories described below, depending on their Conditions:

1. Par Par Notes – these are (A) Notes for which the Conditions specify either (i) redemption at par at maturity and that pay non-contingent periodic interest or (ii) redemption at par, no payments of interest and do not reflect any accrual yield; <u>or (B) FMV Notes (as defined below) that are at least 90% principal protected.</u> If there are any factors that may result in a Noteholder receiving less than par for a Note upon maturity, the Note is not classified as a Par Par Note.

2. Zero Coupon Notes – these are Notes that do not bear interest and were issued at a significant discount to their face value and specify an accrual yield in their terms.

3. Fair Market Value Notes ("FMV Notes") – these are Notes which do not fall into either of the abovementioned categories. LBHI states that the mere fact that a Note is linked to the performance of an underlying asset is sufficient to classify it as an FMV Note.

The Structured Securities Valuation Methodologies then set out general principles for valuing claims under the Bankruptcy Code before proceeding to discuss the application of certain valuation principles to the three categories listed above. LBHI starts by stating that a claim arising from the guarantee of a Note is generally treated no differently than a direct claim arising from the same obligation. LBHI also states that the amount of a claim must be determined and allowed as of 15 September 2008 (the "Petition Date"). As a result, interest stops accruing (for Par Par Notes and FMV Notes that bear interest) and stops accreting (for Zero Coupon Notes) as of the Petition Date. It is important to note that the Structured Securities Valuation Methodologies explicitly state that acceleration of the Notes is not discussed since there were no Notes accelerated as of the Petition

Date. Therefore, based on the current LBHI Trustee proposals, the question of acceleration/non-acceleration of the Noteholders' Notes would not seem to be relevant.

In relation to the FMV Notes, if a claim is contingent or unliquidated, the claim is estimated using "*whatever method is best suited to the particular contingencies at issue*". For such estimates, non-bankruptcy law controls the amount of the claim but bankruptcy law governs the allowable amount of such claim. The method of estimation must be (i) suited to the circumstances and (ii) follow the underlying principles of the Bankruptcy Code. The Structured Securities Valuation Methodologies opt for estimating the value of an FMV Note by the replacement cost of the lost investment (ie. its fair market value) as of the Petition Date. LBHI also states that such a fair market value determination inherently includes the notion of discounting expected cash flows back to the Petition Date using a market rate plus a credit spread. The relevant credit spread is proposed to be LBHI's credit spread, which was based upon "*weekly averages of a credit curve for LBHI issuances and incorporated actual trading volumes and spreads*" and is more fully described in Annex 1 to the LBT Note Issuance Valuation Memorandum dated October 29, 2010.

However, there is no guidance at all as to how the fair market value was determined. These appear to be based on the fair values of the Notes taken from the Lehman Brothers Group accounts as of September 12, 2008.

In relation to Par Par Notes, LBHI states that the allowed claims will be equal to the sum of the principal amount in addition to any accrued interest as of the Petition Date, regardless of any principal protection.

Based on the valuation principles and methodologies set out in the Structured Securities Valuation Methodologies, LBHI sets out within such statement the estimated maximum allowable claims for each category of Notes, in which it estimates that 2,192 series of Notes are FMV Notes and have a total estimated Maximum Allowable Claim Value of $9,102,150,159.

Interrelationship between LBHI proceedings in the U.S. and LBTC proceedings in the Netherlands

The Noteholders may continue to pursue their claims against both LBHI and LBTC, and each claim may be made for the full amount of the claims in respect of the Notes that they hold. In other words, a claim against LBTC does not need to be reduced by any amount claimed against LBHI. Nauta Dutilh have also informed us that the Noteholders can still file for the full amount of their claims in the bankruptcy proceedings of LBTC, even if they receive a distribution from LBHI under the Debtors' Second Amended Chapter 11 Plan, provided that they may not, in aggregate, recover more than 100% of the full amount of their claims from the two sets of proceedings. Therefore, the Noteholders can (it is estimated by LBHI) potentially recover 12.2% of the allowed claim amount in the LBHI proceedings and (it is estimated by LBTC) potentially receive a further 15% of the admissible amount of their claim in the LBTC proceedings.

The Noteholders will need to make sure that they do not make any statement, filing, submission etc or take any action in relation to either bankruptcy (LBTC or LBHI), which is inconsistent with their stated approach in the other bankruptcy.

Conclusion

We set out, for ease of reference, two summary flow charts of the valuation principles used by the Trustees and described in the Report in Annex B. Flow chart 1 may be used to understand the

Trustees' valuation principles for Notes which have not been accelerated before the Acceleration Bar Date, and Flow Chart 2 for Notes which have been accelerated before the Acceleration Bar Date. As discussed above, the starting point for valuing a Note depends on the date such Note becomes due and payable, either due to the Note reaching its Final Maturity Date, the triggering of Mandatory Early Redemption or the valid acceleration of the Note. Assuming a Noteholder's Notes have already become due and payable as a result of any of the above events, a valuation will be made by LBTC, based on the principles described in the Report. However if a Note which matures after the Claims Filing Date is not accelerated before the Acceleration Bar Date, it will be valued as a Category 4 Note and it will most likely (unless all future cash flows are fixed and/or determinable) be classed as *undetermined*, unless it becomes due and payable between the Acceleration Bar Date and the Claims Filing Date due to Mandatory Early Redemption being triggered, in which case it will be classed as a Category 3 Note (because it becomes due and payable before the Claims Filing Date) but will remain an *undetermined* Note. This is because the Trustees have stated that they will decide whether a claim is *determined* or *undetermined* at the Acceleration Bar Date, but the Category (1, 2, 3 or 4) into which a Note falls will be determined only at the Claims Filing Date. In fact, as you will see from Flow Chart 1, there is no material difference in the valuation principles applied to Category 3 and Category 4 Notes. The key distinction is whether the Notes are *determined* or *undetermined*, as this will dictate the valuation principles applied.

Therefore, in respect of any Notes that will not mature in advance of the Claims Filing Date (assuming that such date may arise in the middle to end of 2012), Noteholders should apply the Category 3 valuation principles to decide whether the acceleration of such Note on a *determined* basis would produce a higher valuation than not accelerating and such Note being valued using the *undetermined* Category 4 valuation principles. We would advise that Noteholders should apply the valuation principles to each of the Notes that they hold. We are willing to further assist them in this regard or answer any queries they may have in relation to the valuation principles or this memorandum.

ANNEX A

OVERVIEW OF RISK FREE RATES EXTRACTED FROM THE 4TH BANKRUPTCY REPORT

Term structures per country as of 12 September 2008 (in %)

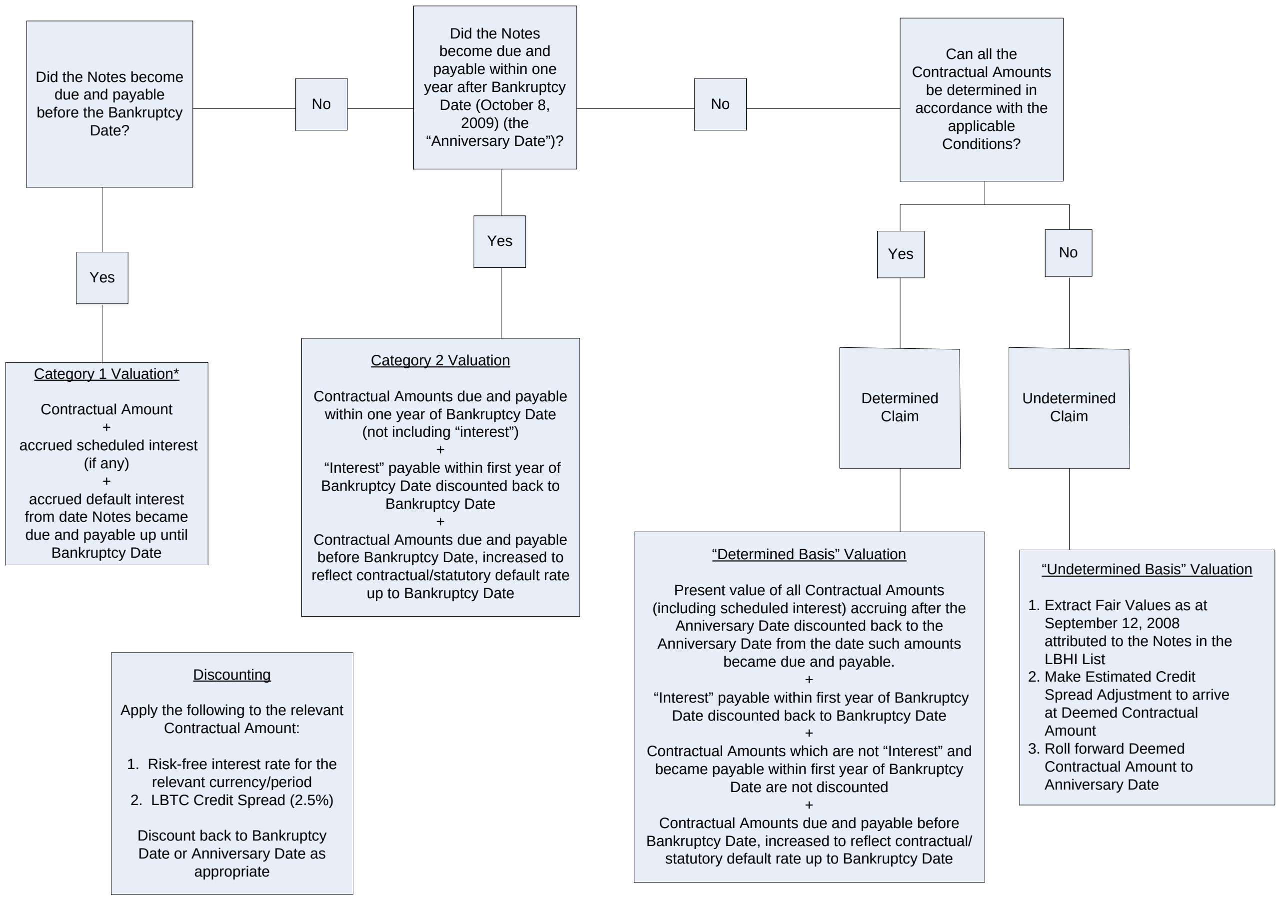
Country	**Currency**	**Maturity**				
		1Y	**5Y**	**10Y**	**15Y**	**20Y**
Germany	**EUR**	4.281	3.967	4.226	4.618	4.708
US	**USD**	1.965	2.926	4.058	4.307	4.398
UK	**GBP**	4.625	4.536	4.669	4.768	4.733
Japan	**JPY**	0.592	1.130	1.555	1.883	2.188
Switzerland	**CHF**	2.197	2.567	2.839	3.176	3.267
Australia	**AUD**	5.885	5.617	5.676	5.696	
Canada	**CAD**	2.764	3.175	3.753	4.082	4.158
Czech Republic	**CZK**	3.447	3.893	4.373	4.652	4.677
Denmark	**DKK**	4.432	4.225	4.415	4.716	4.849
Hong Kong	**HKD**	1.593	2.530	2.785		
Hungary	**HUF**	8.646	8.054	7.745	7.511	
Israel	**ILS**	2.080	3.210	4.230	4.580	4.640
Mexico	**MXN**	8.390	8.454	8.507	8.510	8.541
New Zealand	**NZD**	6.542	5.741	5.839		
Norway	**NOK**	5.884	4.546	4.501	4.559	
Poland	**PLN**	6.270	5.925	5.886	5.807	5.589
Russia	**RUB**	6.983	7.652	7.802	8.287	
Singapore	**SGD**	1.391	2.413	3.068	3.430	3.467
Slovakia	**SKK**	4.667	4.616	4.824	4.991	4.800
South Africa	**ZAR**	10.079	9.249	9.054	8.943	8.689
Sweden	**SEK**	4.399	3.904	3.890	3.869	

Source: Bloomberg

ANNEX B

LBTC VALUATION METHODOLOGIES FLOW CHARTS

Flow Chart 1 - LBTC Valuation Methology (if the Notes have not been accelerated before the Acceleration Bar Date)

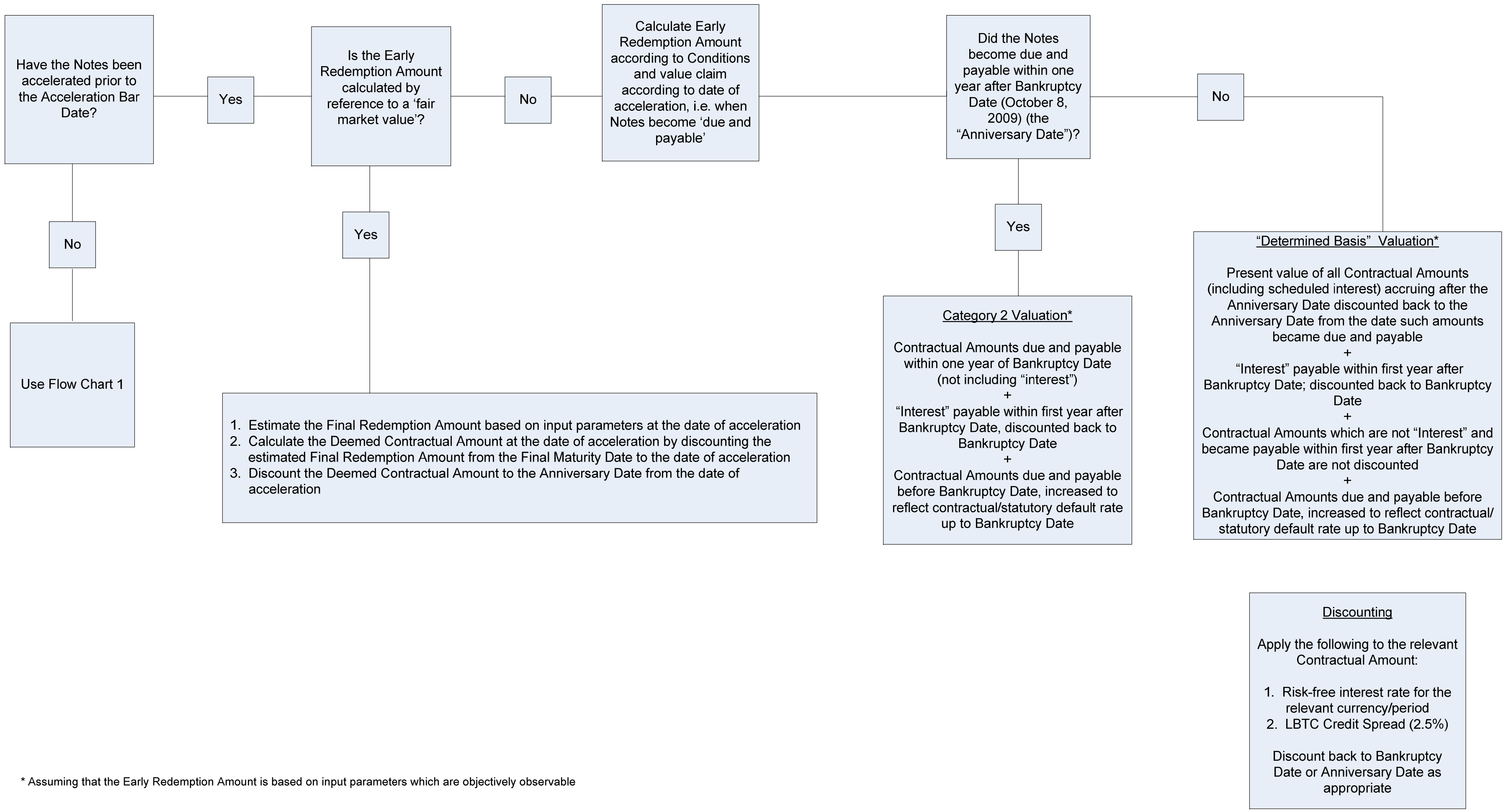


* In theory, if any of the Contractual Amounts for a Category 1 Note or a Category 2 Note are undetermined, then such Note will be valued using the Category 4 valuation principles, although this is likely to be very rare

MORRISON | FOERSTER

A LIMITED LIABILITY PARTNERSHIP

Flow Chart 2 - LBTC Valuation Methodology (if the Notes have been accelerated before the Acceleration Bar Date)



* Assuming that the Early Redemption Amount is based on input parameters which are objectively observable