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# ***Lehman Brothers Europe Limited – In Administration***

Joint Administrators' progress  
report for the period 23 March 2010  
to 22 September 2010

21 October 2010

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# ***Section 1 Purpose of the Joint Administrators' progress report***

## ***Introduction***

This is the fourth progress report by the Joint Administrators (the "Administrators") of Lehman Brothers Europe Limited ("LBEL" or the "Company").

Creditors should have received the Administrators' proposals (the "Proposals") dated 14 November 2008 which were approved at a meeting of creditors held on 1 December 2008. Creditors should also have received the Administrators' first progress report dated 21 April 2009, second progress report dated 22 October 2009 and third progress report dated 20 April 2010.

This report provides an update on the work that the Administrators have undertaken and the progress made since our appointment, with particular focus on the six months to 22 September 2010.

## ***Objectives of the Administration***

The Administrators are pursuing the objective of achieving a better result for LBEL's creditors as a whole than would be likely if LBEL were wound up (without first being in Administration).

The specific aims of the Administration are to:

- Protect and manage the Company's assets;
- Realise these assets; and
- Agree in principle the value of creditor claims once there is some degree of certainty as to the likely dividend.

## ***Creditors' Committee***

A Creditors' Committee has been formed with the following members:

- Lehman Brothers Holdings Inc. – subject to Chapter 11 Bankruptcy proceedings in the US;
- Lehman Brothers Holdings plc – in Administration;
- Thomas Marsoner; and
- John Wakely (joined 20 August 2010)

During the period Lehman Brothers International (Europe) ("LBIE") resigned from the Committee and John Wakely has joined in its place.

The Administrators have met with the Creditors' Committee twice and consulted with them on an ad-hoc basis on certain issues.

The Administrators will continue to manage the Administration in accordance with the Proposals approved by creditors and in consultation with the Creditors' Committee.

## ***Outcome for Creditors***

At this time the Administrators are unable to provide a reliable estimate of the likely dividend to ordinary unsecured creditors as there are significant uncertainties regarding net realisations. The timing and level of any dividend therefore remains uncertain.

Until there is more certainty regarding the dividend prospects, claims agreement work will be restricted to gathering information. If you have not already submitted your claim to the Administrators please do so by completing and returning the attached statement of claim form.

## ***Extension of the Administration***

On the application of the Administrators the High Court made an Order extending the period of the Administration to 30 November 2011.

## ***Future Reports***

The Administrators will next report to creditors in approximately six months.

Signed:



D Y Schwarzmenn  
Joint Administrator  
Lehman Brothers Europe Limited

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## ***Section 2 Joint Administrators' actions to date***

### ***Business Activities***

LBEL's principal activity was the provision of investment banking services such as advising on Mergers and Acquisitions ("M&A") transactions.

LBEL utilised employees seconded from Lehman Brothers Limited and principally operated from the Lehman Group's former premises at 25 Bank Street, London.

### ***Progress to Date***

#### **Debts due from advisory services clients**

During the period covered by this report the Administrators have continued negotiations with two parties for the recovery of remaining M&A debts. Total recoveries to date are £22.5m.

#### **Inter-company Claims**

To date, the Administrators have evidenced and submitted claims totalling US\$1,505m against inter-company debtors.

LBEL has over 70 inter-company debtor and creditor balances, representing US\$1.2bn of debtors and US\$187m of creditors at book value on 12 September 2008.

In the period covered by this report the Administrators have continued to investigate inter-company balances and the outcome of work conducted to date would suggest the majority of balances will be relatively straightforward to agree.

#### **Repo transaction between LBIE and LBEL**

The Administrators have continued negotiations with LBIE in relation to LBEL's claim to the title of certain securities returned to LBIE by JP Morgan Chase Bank N.A. ("JP Morgan"). These securities were valued prior to the Administration at c.US\$856m.

LBIE has provided LBEL with a statement of its position and a statement of facts based on LBIE's initial investigations. Furthermore, during the period LBEL entered into an "information sharing agreement" with LBIE. As a result of this LBIE has provided a list of the securities which it has recovered from JP Morgan. We have now finalised an Interim Management Agreement whereby LBIE

is engaged to manage and liquidate these recovered securities. The proceeds from this process will be held by LBIE in a segregated account until the ownership issue is resolved.

Negotiations continue between LBIE and LBEL as to the substantive merits of the legal issues between them.

### **Taxation**

The corporation tax returns for the Company for all accounting periods to 30 November 2007 have now been agreed by HM Revenue & Customs.

As LBEL made significant profits in the accounting periods from 2004 to 2007, group losses (and LBEL's losses from 2008) need to be purchased to secure a tax repayment. LBEL is now party to an over arching tax sharing agreement which could recover tax paid in prior years of up to c.£45m after payment for group relief, but before LBEL's share of tax function costs. The agreement is complex and the repayment is expected in 2011.

Tax computations have been prepared for 2008 and 2009 and are in the process of being finalised.

### **Pension Financial Support Direction ("FSD")**

Following a hearing before the Pension Regulators' Determination Panel on 8 and 9 September 2010, the Panel gave notice that LBEL will be issued with a FSD pursuant to Section 43 of the Pension Act 2004. This notice was also given to five other Lehman Group companies. The value of the FSD is not known at this time.

An appeal against the Determinations Panel's decision is being made to the Upper Tribunal. In addition, an application is also being made to the Court on the status of liability under a FSD, i.e. whether it could constitute (i) a debt that would be provable in the Administration as an unsecured claim, (ii) an expense of the Administration, or (iii) neither of these. This hearing is expected to take place in November 2010.

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## ***Future Strategy***

The Administrators will continue to:

- Pursue recoveries from M&A deals;
- Gather evidence and support for claims to be made against the other estates;
- Establish title to the securities held with LBIE;  
and
- Consider the most appropriate route to distribute dividends to the creditors.

## Section 3 Statutory and other information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 8243 of 2008.
<i>Full name:</i>	Lehman Brothers Europe Limited
<i>Trading name:</i>	Lehman Brothers Europe Limited
<i>Registered number:</i>	03950078
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom.
<i>Company directors:</i>	D Gibb (resigned 17/07/09), JM Isaacs (resigned 29/09/08), IM Jameson (resigned 17/07/09), WT John (resigned 23/10/08), R Magnoni (resigned 22/10/08), JP Phizacherley (resigned 24/10/08), AJ Rush (resigned 23/10/08), PR Sherratt (resigned 06/10/2008) and A Wright (resigned 23/10/08).
<i>Company secretary:</i>	P Dave (resigned 25/01/10), M Smith (resigned 25/01/10) and ESE Upton (resigned 25/01/10).
<i>Shareholdings held by the directors and secretary:</i>	None of the directors own shares in the Company.
<i>Date of the Administration appointment:</i>	23 September 2008.
<i>Administrators' names and addresses:</i>	DY Schwarzmamm, MJA Jervis, AV Lomas, SA Pearson and DA Howell of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT, England.
<i>Appointer's name and address:</i>	The directors of the Company, whose address at appointment was 25 Bank Street, London, E14 5LE, United Kingdom.
<i>Objective being pursued by the Administrators:</i>	Achieving a better result for LBEL's creditors as a whole than would be likely if LBEL were wound up (without first being in Administration).
<i>Division of the Administrators' responsibilities:</i>	In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Joint Administrators, may be done by any one or more of the persons for the time being holding that office.
<i>Details of any extensions of the initial period of appointment:</i>	The Court has granted an extension of the Administration to 30 November 2011.
<i>Proposed end of the Administration:</i>	The Administrators are not yet in a position to determine the most likely exit route from the Administration and wish to retain the options available to them.
<i>Estimated dividend for unsecured creditors:</i>	It is too early to estimate the likely dividend for unsecured creditors.
<i>Estimated values of the prescribed part and LBEL's net property:</i>	There is no prescribed part in this matter.
<i>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</i>	Not applicable.
<i>The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):</i>	The European Regulation on Insolvency Proceedings does apply to this Administration and these are the main proceedings.

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## ***Section 4 Financial information***

### ***Administrators' Remuneration***

The manner in which Administrators' remuneration is determined and approved is set out in the Insolvency Rules 1986 2.106 to 2.109 (the "Rules").

At a meeting by correspondence held on 20 February 2009, creditors resolved to form a Creditors' Committee (the "Committee"), whose duties will include approving the basis and quantum of the Administrators' remuneration.

There are two bases of determining the remuneration under the Rules, either:

- A percentage of the value of the property with which the Administrator has to deal; or
- By reference to the time properly given by the insolvency practitioner and his staff in attending to matters arising in the Administration.

The Rules also provide that in arriving at its decision on remuneration the Committee is required to consider the following matters:

- The complexity (or otherwise) of the case;
- Any responsibility of an exceptional kind or degree which falls on the Administrators;
- The effectiveness with which the Administrators appear to be carrying out, or have carried out, their duties; and
- The value and nature of the property which the Administrators have to deal with.

### ***Statement of Insolvency Practice No.9 ("SIP 9")***

In addition to the Rules, SIP 9, issued by the Joint Insolvency Committee provides guidance to insolvency practitioners and Creditors' Committees in relation to the remuneration of, inter alia, Administrators.

The purpose of SIP 9 is to:

- Ensure that Administrators are familiar with the statutory provisions relating to office holders' remuneration;
- Set out best practice with regard to the observance of the statutory provisions;
- Set out best practice with regard to the provision of information to those responsible for the approval of remuneration to enable them to exercise their rights under the insolvency legislation; and
- Set out best practice with regard to the disclosure and drawing of disbursements.

When seeking agreement for remuneration, the Administrators are required to provide sufficient supporting information to enable those responsible for approving their remuneration ("the approving body") to form a judgement as to whether the proposed remuneration is reasonable, having regard to all the circumstances of the case. The nature and extent of the supporting information which should be provided will depend upon:

- The nature of the approval being sought;
- The stage during the Administration of the case at which it is being sought; and
- The size and complexity of the case.

### ***Remuneration Review and Approval Process***

In accordance with SIP 9 the Committee has been provided with details of the charge-out rates for all grades of staff that has been or will be involved on the case.

The Committee has not yet resolved the basis or quantum of the Administrators' remuneration.

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## ***Receipts and Payments Account***

An account of the receipts and payments in the Administration for the six months to

22 September 2010, and a cumulative total since commencement of the Administration, is set out in section 5 to this report.

Significant receipts in the period covered by this report include:

- £17k in respect of interest income.

Significant payments in the period covered by this report include:

- £43k in respect of employee costs.
- £89k in respect of legal fees.

Total Cash held as at 22 September 2010 was £15.4m.



## Section 5 Receipts and payments

	As at 22 September 2010			As at 22 September 2010	Movements 23 March 2010 to 22 September 2010	As at 22 March 2010 (GBP equivalent) RESTATEd at 22 September 2010 exchange rate	As at 22 March 2010 (GBP equivalent)
	GBP (£)	US (\$)	EUR (€)	TOTAL GBP equivalent £	(GBP equivalent) £	£	£
RECEIPT	000	000	000	000	000	000	000
Book debts	443	6,317	21,137	22,539	-	22,539	23,710
Interest	-	9	22	24	17	7	7
Currency transfer	8,367	-	-	8,367	-	8,367	8,367
<b>Receipts Grand Totals</b>	<b>8,810</b>	<b>6,326</b>	<b>21,159</b>	<b>30,930</b>	<b>17</b>	<b>30,913</b>	<b>32,084</b>
<b>PAYMENT</b>							
Employee costs	5,938	80	67	6,046	43	6,003	6,007
Building and occupancy cost	889	-	-	889	-	889	889
Legal fees	585	73	-	631	89	542	543
Office holders' disbursements	11	-	-	11	-	11	11
Currency transfer	-	170	9,196	7,966	-	7,966	8,403
<b>Payments Grand Totals</b>	<b>7,423</b>	<b>323</b>	<b>9,263</b>	<b>15,543</b>	<b>132</b>	<b>15,411</b>	<b>15,853</b>
<b>NET POSITION</b>	<b>1,387</b>	<b>6,003</b>	<b>11,896</b>	<b>15,387</b>	<b>-</b>	<b>15,502</b>	<b>16,231</b>
<b>CASH BALANCES</b>							
BoE	-	1	1	2			
HSBC	1,387	12	725	2,014			
Money markets	-	5,990	11,170	13,371			
<b>Total Cash</b>	<b>1,387</b>	<b>6,003</b>	<b>11,896</b>	<b>15,387</b>			

Exchange rates as at 22 March 2010:

US\$ 1 : GBP	0.6664
EURO €1 : GBP	0.9016

Exchange rates as at 22 September 2010:

US\$ 1 : GBP	0.6386
EURO €1 : GBP	0.8545

Amounts include VAT where applicable



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