
Lehman Brothers Europe Limited – In Administration

Joint Administrators' progress
report for the period 23 March 2014
to 22 September 2014

22 October 2014

Contents

<i>Section 1 Purpose of the Joint Administrators' progress report</i>	<i>1</i>
<i>Section 2 Joint Administrators' actions to date</i>	<i>3</i>
<i>Section 3 Statutory and other information</i>	<i>5</i>
<i>Section 4 Financial information</i>	<i>6</i>
<i>Section 5 Receipts and payments account</i>	<i>8</i>

Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the twelfth 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' previous eleven progress reports. If any creditor requires copies of these reports, please contact Nigel Rackham at PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT. Alternatively, these are also available on the Administrators' website at <http://www.pwc.co.uk/business-recovery/administrations/lehman/lehman-brothers-europe-limited-in-administration.jhtml>.

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 2014 (the "Period").

Business activities

The Company's principal activity was the provision of investment banking services such as advising on mergers and acquisitions ("M&A") transactions.

LBEL utilised employees from Lehman Brothers Limited (in Administration) ("LBL") and operated from the Lehman Group's former premises at 25 Bank Street, London, E14 5LE.

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 LBEL's assets;
- Realise these assets; and
- Agree the value of creditors' claims and pay dividends as funds permit.

Creditors' Committee

A Creditors' Committee (the "Committee") was formed on 5 May 2009 and now has the following members:

- Lehman Brothers Commercial Services;
- Lehman Brothers Holdings plc (in Administration);
- Thomas Marsoner; and
- John Wakely.

The Administrators have met with the Committee nine times 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 Committee.

Interim distributions and outcome for creditors

On 23 September 2014, the Administrators paid a third interim dividend of 50 pence in the pound to creditors with agreed claims. The total paid out by way of dividend was £46m.

This takes the cumulative dividend to 100 pence in the pound. Any further potential dividend payments would relate to statutory interest. The Administrators are not yet in a position to estimate the likely timing or quantum of any further distributions because of the matters referred to in Section 2 below.

Administrators' remuneration

The Committee's duties include approving the basis and quantum of the Administrators' remuneration. To date, remuneration of £21.2m (excluding Value Added Tax ("VAT")) has been drawn in accordance with that approval and details of the remuneration are provided in Section 4 of this report. Based on the value of the property realised to date, a further £1.6m is available to be drawn as remuneration.

An explanatory note giving creditors a statement of their rights in relation to the Administrators'

remuneration and expenses, and their rights to request further information, can be found online at:

<http://www.icaew.com/~media/Files/Technical/Insolvency/creditors-guides/a-creditors-guide-to-administrators-fees-010407.pdf>

Extension of the Administration

Upon the application of the Administrators, the Court made an order on 23 October 2013 extending the period of the Administration to 30 November 2015.

Future reports

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

Signed:



D Y Schwarzmman
Joint Administrator
Lehman Brothers Europe Limited

DY Schwarzmman, AV Lomas, SA Pearson and JG Parr were appointed as Joint Administrators of Lehman Brothers Europe Limited to manage its affairs, business and property as agents without personal liability.

DY Schwarzmman, AV Lomas, SA Pearson and JG Parr are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

The Joint Administrators are Data Controllers of personal data as defined by the Data Protection Act 1998. PricewaterhouseCoopers LLP will act as Data Processor on their instructions. Personal data will be kept secure and processed only for matters relating to the Administration.

Section 2 Joint Administrators' actions to date

Progress to date

Claims

a) LBHI and its US debtor affiliates

LBEL, in conjunction with other UK affiliates, reached a final settlement agreement with Lehman Brothers Holdings Inc. ("LBHI") and its US debtor affiliates in Chapter 11. This agreement became fully binding and operational on 6 March 2012.

As a result, LBEL has received five dividends from LBHI and its US debtor affiliates totalling \$6.8m, of which \$1.6m was received in the Period. The majority of the \$6.8m received relates to a claim against LBHI in respect of affiliate claims guaranteed by LBHI. In accordance with the terms of the agreement, in the event that the underlying claims are paid in full, any dividend received under the LBHI guarantee claim will be subject to a potential clawback.

b) Other Debtors

The Administrators have continued to settle and submit claims against inter-company debtors where appropriate. A small number of debts remain outstanding on LBEL's books with a balance of less than £0.5m in total.

c) Creditor claims

Following extensive negotiations in the Period, significant developments have been made with two of the largest outstanding claims. This allowed the Administrators to pay the third interim dividend. One significant claim of £264m was agreed in June 2014, being admitted for dividend in the sum of £2.5m, and the pension reserve for a claim of £119m was released in August 2014. Details of the pension settlement are included below.

There remains one material claim by Lehman Brothers Limited (in administration) ("LBL") totalling £243m to be resolved which has been reserved in full. Pre-administration, LBL was the service company for the Lehman Brothers ("LB") UK group. LBL employed the majority of the personnel who worked in the UK and arranged for their secondments to other entities within the LB group, including LBEL. It also held most of the service contracts and maintained general

infrastructure and back office services to support the needs of the group. Consequently, the LB entities did not incur direct costs and liabilities in respect of personnel, premises, IT and other services; instead LBL would recharge these through various mechanisms. LBL's administrators have reviewed its balance sheet as at the date of administration, including claims received and admitted, to identify the adjustments that should be made to LBL's balance sheet to reflect the estimated actual outcome and the consequential recharge adjustments to LBL's inter-company accounts with LBEL and other entities. LBL's administrators have issued a Notice of Intended Dividend requiring its creditors to prove their claims by 31 October 2014. LBL's claim into LBEL is therefore expected to be resolved after this date, once LBL has reviewed its creditors' claims and other issues and confirmed the recharge adjustments to be made. The Administrators consider that LBL is a debtor of the Company and have made a claim against LBL in the sum of £447m in the Period. On the basis of the expected rate of dividend in LBL's estate, significant recoveries are not expected on this claim.

The Administrators are working to resolve these issues quickly and efficiently and will keep creditors informed of any material progress.

Surplus

The Administrators are not yet in a position to determine the quantum or likely distribution of these funds until all creditor claims described above are resolved. It will also be necessary to establish creditors' entitlements to post-administration statutory interest and how potential issues such as currency conversion claims will be dealt with.

Pension liability

As reported previously, it was necessary to retain a reserve of £119m against possible liability to the Lehman Brothers Pension Scheme under a Financial Support Direction ("FSD"). Following a settlement agreement with the pension scheme trustees and all other potential FSD targets, which became effective on 18 August 2014, LBEL no longer has a potential liability to the pension scheme.

LBEL has contributed £50.4m to this settlement including legal fees of £0.4m. This amount has

been paid as an expense of the Administration in the interests of providing certainty for the estate. The balance of the previously reserved amount of £119m has been released.

Taxation

The Administrators have agreed LBEL's Corporation Tax affairs with HM Revenue and Customs ("HMRC") for all periods up to the year ended 22 September 2011. LBEL claimed group relief in respect of 2011 of £35.6m of losses for which it paid £4.8m in May 2014.

Tax returns for 2012 (submitted to HMRC) and 2013 (in draft) show losses. There may be scope to sell these losses, for value, to other group companies.

The VAT returns for the periods ended 28 February, 31 May and 31 August 2014 have been prepared within the Period. VAT repayments totalling £0.5m have been received in the Period in respect of the VAT return periods ended February 2014 and 31 May 2014.

Future strategy

The Administrators will continue to:

- Seek agreement of the remaining disputed creditor claim;
- Review the treatment of creditors' claims in connection with their eligibility to receive statutory interest payments; and
- Formulate an exit plan for the Administration.

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>Date of the Administration appointment:</i>	23 September 2008.
<i>Administrators' names and addresses:</i>	DY Schwarzmann, AV Lomas, SA Pearson and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT.
<i>Appointer's name and address:</i>	High Court of Justice, Chancery Division, Companies Court
<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 of the Insolvency Act 1986, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by any or all of the Administrators may be done by any or 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 2015.
<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>	A total dividend of 100 pence in the pound has been paid in respect of all admitted claims. Any future dividend payments in respect of admitted claims will be for statutory interest. The Joint Administrators are not yet in a position to estimate the likely timing or quantum of any such payment.
<i>Estimated values of LBEL's net property and the prescribed part:</i>	In the absence of qualifying floating charges, the Insolvency Act 1986 (Prescribed Part) Order 2003 does not apply to these proceedings.
<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 applies to this Administration and the proceedings are the main proceedings.

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 held by correspondence on 20 February 2009, the creditors resolved to form a Committee whose duties would 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 Administrators have 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 with which the Administrators have to deal.

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 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 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 October 2008 a Court order authorised the Administrators, subject to ratification by the Committee, to draw remuneration of 75% of the time costs incurred at the time of the application, being £2.8m including VAT.

At the instigation of the Committee it was resolved not to agree the Administrators' remuneration on a time cost basis, but instead the independent members of the Committee resolved that the Administrators' remuneration be fixed at 5% of the value of the property with which the Administrators have to deal. The Administrators were authorised to draw such remuneration as and when realisations became available.

Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 22 September 2014, and a cumulative total since commencement of the Administration, is set out on page 8.

Significant receipts in the Period covered by this report include:

- Book debt receipts totalling £1.7m mainly comprising the fifth dividend from LBHI and its US debtor affiliates as per section 2 of this report; and
- £0.5m of VAT repayments as described in section 2 under Taxation.

Significant payments in the Period covered by this report include:

- £50.4m in respect of the pension settlement as described in section 2;
- £4.8m of payment for group relief losses; and
- £1.2m in respect of catch up dividends to unsecured creditors.

Total cash held as at 22 September 2014 was approximately £319m (GBP equivalent). This is prior to the payment of the third dividend made on 23 September 2014 totalling £46m.

Section 5 Receipts and payments account

RECEIPTS	As at 22 September 2014			As at 22 September 2014	Movements 23 March 2014 to 22 September 2014	As at 22 March 2014 (GBP equivalent) RESTATED at 22 September 2014 exchange rate	As at 22 March 2014 TOTAL GBP equivalent
	GBP (£)	US (\$)	EUR (€)	£	(GBP equivalent) £	£	£
	000's	000's	000's	000's	000's	000's	000's
Book debts	3,592	16,696	21,169	30,440	1,753	28,687	29,660
GMRA settlement agreement proceeds	371,589	-	-	371,589	-	371,589	371,589
Interest	2,197	34	110	2,304	569	1,735	1,740
Corporation tax repayment	48,443	-	-	48,443	-	48,443	48,443
VAT repayment	2,788	-	-	2,788	524	2,264	2,264
Foreign currency conversions*	27,891	-	1,540	29,099	2,227	26,872	26,872
Receipts Grand Totals	456,500	16,730	22,819	484,663	5,073	479,590	480,568
PAYMENTS							
Employee costs	6,027	80	67	6,129	17	6,112	6,115
Building and occupancy costs	878	-	-	878	1	877	877
Legal fees	1,881	227	-	2,019	290	1,730	1,729
Tax function costs	350	-	6	355	-	355	355
Payment for group relief losses	4,925	-	-	4,925	4,813	112	112
Distribution to unsecured creditors	43,883	-	2,677	45,985	1,211	44,774	44,831
Pension settlement	50,418	-	-	50,418	50,418	-	-
Administrators' remuneration**	25,408	-	-	25,408	1	25,409	25,408
Administrators' disbursements	39	-	-	39	17	21	21
Investment management charges	2,420	-	-	2,420	-	2,420	2,420
Foreign currency conversions*	1,250	16,404	20,068	27,054	2,284	24,770	25,686
Payments Grand Totals	137,479	16,711	22,818	165,630	59,050	106,580	107,554
NET POSITION	319,021	19	1	319,033	(53,977)	373,010	373,014
CASH BALANCES							
HSBC	47,218	19	1	47,230			
Money markets	271,803			271,803			
Total Cash****	319,021	19	1	319,033			

Exchange rates as at 22 March 2014:

US\$ 1 : GBP	0.6062
EURO €1 : GBP	0.8356

Exchange rates as at 22 September 2014

US\$ 1 : GBP	0.6124
EURO €1 : GBP	0.7852

Amounts include VAT where applicable

* The difference in total GBP equivalents arises from converted sums being converted at exchange rates as at the end of each reporting period. No actual gains/losses on currency were made in the Period.

** This amount includes £2.76m that had previously been paid by another Lehman Group company on behalf of LBEL.

*** Total cash held at 22 September 2014 is £319m. This is prior to the payment of the third interim dividend of £46m.



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