
Lehman Brothers Europe Limited – In Administration

Joint Administrators' progress
report for the period 23 September
2014 to 22 March 2015

22 April 2015

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the thirteenth 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 twelve 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 March 2015 (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 eleven 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 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 of this report.

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. The Administrators are considering an application to seek a further extension.

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 six dividends from LBHI and its US debtor affiliates totalling \$7.0m, of which \$0.2m was received in the Period. \$4.6m received to date 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. The Administrators are currently assessing whether any clawback is due to LBHI.

On 3 October 2014, a settlement agreement was executed between LBEL and certain Lehman US entities not included in the 2011 Joint Chapter 11 Plan. A one-off settlement totalling \$0.4m was received on 6 October 2014.

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 face value of less than £0.5m in total. Some of these balances have now been agreed in principle.

c) Creditor claims

The total value of claims agreed to date is £96.3m.

The Administrators have received notice of a further claim for circa €51 million (the "Further Claim") and are seeking particulars to assess the merit of this claim.

Positive progress has been made in respect of the claim received from Lehman Brothers Limited (in administration) ("LBL") totalling £243m. Whilst LBL is not in a position to settle its final claim, it has agreed, subject to contract, to a reduction in the

amount of reserves to be held in respect of its claim. 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 continue to receive claims which are to be recharged to LBEL making the agreement of LBL's inter-company accounts with LBEL challenging. As previously reported the Administrators consider that LBL is a debtor of the Company and have made a claim against LBL in the sum of £447m. To date, LBL has paid a total dividend of 1.66 pence in the pound.

The Administrators continue to seek to resolve these issues quickly and efficiently and will keep creditors informed of further material progress.

Surplus

LBEL has paid 100 pence in the pound on agreed claims and there may be a surplus once all the remaining claims are resolved. Any further distributions to creditors will relate to statutory interest.

The Administrators are not yet in a position to determine the quantum or likely distribution of these funds until the Further Claim is resolved and the agreement in principle with LBL, described above, is documented. 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.

Taxation

The Administrators have agreed LBEL's Corporation Tax affairs with HM Revenue and Customs ("HMRC") for all periods up to the period ended 5 October 2012. The tax return for 2013 shows a loss of £3.5m. There may be scope to sell this loss, for value, to other group companies.

The VAT returns for the periods ended 31 August 2014 and 30 November 2014 have been prepared and submitted within the Period. Immaterial VAT repayments are expected shortly.

Future strategy

The Administrators will continue to:

- Deal with the remaining creditor claims;
- Review the treatment of creditors' claims in connection with their eligibility to receive statutory interest; 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 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 March 2015, and a cumulative total since commencement of the Administration, is set out overleaf.

Significant receipts in the Period covered by this report include:

- Book debt receipts totalling £0.6m mainly comprising a settlement with certain US Lehman entities as per section 2 of this report; and
- £0.5m in relation to interest earned on funds invested.

Significant payments in the Period covered by this report include:

- £0.4m in respect of legal fees; and
- £46m in respect of the third dividend to all admitted creditors.

Total cash held as at 22 March 2015 was approximately £274m (GBP equivalent).

Section 5 Receipts and payments account

	As at 22 March 2015			As at 22 March 2015 TOTAL GBP equivalent £	Movements 23 September 2014 to 22 March 2015 (GBP equivalent) £	As at 22 Sept 2014 (GBP equivalent) RESTATED at 22 March 2015 exchange rate £	As at 22 Sept 2014 TOTAL GBP equivalent £
RECEIPTS	GBP (£)	US (\$)	EUR (€)	000's	000's	000's	000's
Book debts	3,750	17,304	21,193	30,666	582	30,084	30,440
GMRA settlement agreement proceeds	371,589	-	-	371,589	-	371,589	371,589
Interest	2,652	34	110	2,754	455	2,299	2,304
Corporation tax repayment	48,443	-	-	48,443	-	48,443	48,443
VAT repayment	2,974	-	-	2,974	186	2,788	2,788
Foreign currency conversions*	28,275	-	1,541	29,389	385	29,004	29,099
Receipts Grand Totals	457,683	17,338	22,844	485,815	1,608	484,207	484,663
PAYMENTS							
Employee costs	6,047	80	67	6,149	19	6,130	6,129
Building and occupancy costs	885	-	-	885	7	878	878
Legal fees	2,320	227	-	2,472	440	2,032	2,019
Tax function costs	350	-	6	355	-	355	355
Payment for group relief losses	4,925	-	-	4,925	-	4,925	4,925
Distribution to unsecured creditors	140,271	-	2,677	142,206	45,970	96,236	96,403
Administrators' remuneration**	25,487	-	-	25,487	79	25,408	25,408
Administrators' disbursements	39	-	-	39	-	39	39
Investment management charges	2,420	-	-	2,420	0	2,420	2,420
Foreign currency conversions*	1,250	17,012	20,068	27,156	406	26,750	27,054
Payments Grand Totals	183,994	17,319	22,818	212,094	46,921	165,173	165,630
NET POSITION	273,689	19	26	273,721	(45,313)	319,034	319,033
CASH BALANCES							
HSBC	732	19	26	764			
Money markets	272,957	-	-	272,957			
Total Cash	273,689	19	26	273,721			

Exchange rates as at 22 September 2014:

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

Exchange rates as at 22 March 2015

US\$ 1 : GBP	0.6700
EURO (€) : GBP	0.7230

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.



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