
Lehman Brothers Europe Limited – In Administration

Joint Administrators' progress
report for the period 23 September
2011 to 22 March 2012

20 April 2012

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the seventh 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 progress reports.

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 2012 ("the Period").

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 from Lehman Brothers Limited 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 the Company's assets;
- Realise these assets; and
- Agree in principle the value of creditors' claims once there is some degree of certainty as to the likely dividend.

Creditors' Committee

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

- Lehman Brothers Holdings Inc. ("LBHI") – formerly in Chapter 11 Bankruptcy proceedings in the US;
- Lehman Brothers Holdings plc – in Administration;
- Thomas Marsoner; and
- John Wakely.

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

The Administrators will continue to manage the Administration in accordance with the Proposals and in consultation with the 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 and certain claims. The timing and amount of any dividend therefore continues to remain uncertain. Significant progress has been made during the Period with Lehman Brothers International Europe ("LBIE") in relation to the reverse repo transaction, which is described further below, and it is now anticipated that creditors will receive a significant dividend.

If you have not already submitted your claim to the Administrators, please do so by completing and returning the attached statement of claim form.

Administrators' remuneration

The Committee's duties include approving the basis and quantum of the Administrators' remuneration. To date, remuneration of £3.6m (including VAT) has been drawn in accordance with that approval and further details of the remuneration is provided in Section 4 of this report.

Extension of the Administration

On the application of the Administrators, the High Court made an Order on 23 November 2011 extending the period of the Administration to 30 November 2012.

Future reports

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

Signed:

A handwritten signature in black ink, appearing to be 'D Y Schwarzmman', with a long horizontal stroke extending to the right.

D Y Schwarzmman
Joint Administrator
Lehman Brothers Europe Limited

Section 2 Joint Administrators' actions to date

Progress to date

Debts due from advisory services clients

During the Period the Administrators have continued negotiations for the recovery of the few remaining M&A debts. Total recoveries to date are £24.1m, with £2m having been collected in the Period (although a significant proportion of this recovery is owed to third parties).

The Administrators do not expect to recover any further material M&A debts.

Inter-company claims

LBEL had over 70 inter-company debtor and creditor balances, representing US\$1.2bn of debtors and US\$197m of creditors at book value on 12 September 2008.

In conjunction with other UK affiliates, LBEL reached agreement with LBHI and its US debtor affiliates in Chapter 11 to settle all claims between them. The agreement was executed by LBHI and certain US debtor affiliates and by LBEL and certain UK affiliates on 24 October 2011. The settlement agreement was disclosed within the plan supplement filed by the Chapter 11 entities on 25 October 2011, which formed part of the plan confirmed by the US Bankruptcy Court on 6 December 2011.

The settlement agreement became fully binding and operational when the plan became effective on 6 March 2012. The principal material debtor balance relates to funds due to LBEL under the Global Master Repurchase Agreement ("GMRA") between LBEL and LBIE (see below).

The Administrators continued to investigate inter-company balances in the Period. The outcome of work conducted to date suggests that the majority of the balances will be relatively straightforward to agree. Claims have been submitted against inter-company debtors where appropriate.

Repo transaction between LBIE and LBEL

The Administrators have continued discussions 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 part of a reverse repo transaction (under the GMRA) between LBEL and LBIE under which LBEL purchased such securities from LBIE for US\$575m with an obligation to sell equivalent securities back to LBIE at a later date. The securities were held by LBIE, as custodian for LBEL, with J P Morgan being engaged as a sub-custodian. The securities were valued prior to the Administration at approximately US\$856m.

The settlement provisions relating to the termination of the GMRA are complex. The Administrators received an initial offer letter from LBIE with a settlement proposal in August 2011. Following continued negotiations with LBIE during the Period, a significantly increased offer has now been received and the Administrators expect to reach a full and final settlement in this matter shortly.

Taxation

The Administrators have agreed with HM Revenue and Customs ("HMRC") the corporation tax affairs of LBEL for accounting periods up to the date of Administration. After deductions pursuant to the group relief agreement, approximately £48.5m has been repaid to LBEL to date, with £44.2m having been repaid in the Period. There are not expected to be any further material corporation tax repayments from HMRC to LBEL.

Pension liability

In our previous report we explained that the Pensions Regulator's Determinations Panel (the "Panel") had issued a Determination Notice under which it decided that a Financial Support Direction ("FSD") should be imposed against six Lehman companies, one of which is LBEL. This decision has been referred to the Upper Tribunal, which has powers under the Pensions Act 2004 to reconsider decisions made by the Panel.

The referrals to the Upper Tribunal were stayed pending the outcome of an application to the High Court made by the Administrators of LBEL and the other three Lehman companies which are in administration and which the Panel decided should receive a FSD.

On 10 December 2010, the High Court ruled that a liability derived from a FSD would constitute an

expense of the Administration (or a provable debt in a subsequent liquidation, in certain circumstances). This decision was appealed to the Court of Appeal and on 14 October 2011 the first instance decision was upheld. The Court of Appeal's decision has now been appealed to the Supreme Court, and the hearing in the Supreme Court has been listed to begin on 14 May 2013.

In the meantime, the reference to the Upper Tribunal, in relation to the determination by the Pensions Regulator's Determinations Panel that there should be a FSD against LBEL, remains stayed.

As a consequence, it is likely that it will be a significant period of time before any potential pension liability against the Company can be quantified.

Future strategy

The Administrators will continue to:

- Pursue a final settlement agreement with LBIE with regards to the reverse repo transaction;
- Gather evidence for further claims to be made against other Lehman estates;
- Pursue routes to finalise the pension liability; and
- Consider the most appropriate method to distribute funds to 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.
<i>Date of the Administration appointment:</i>	23 September 2008.
<i>Administrators' names and addresses:</i>	DY Schwarzmann, MJA Jervis, AV Lomas, SA Pearson and DA Howell of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT.
<i>Appointer's name and address:</i>	The directors of the Company, whose address at appointment was 25 Bank Street, London, E14 5LE.
<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 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 2012.
<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.

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 Creditors' 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 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 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 have been or will be involved on the case.

In October 2008 a Court Order authorised the Administrators, subject to ratification by the Committee, to draw 75% of the time costs at the time of the application on a time and materials basis, being £2.8m including VAT.

At the instigation of the Committee it was resolved not to agree the Administrators' remuneration on a time and material basis but instead they determined 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 become available.

Given realisations to date, this results in remuneration of £4.2m including VAT of which the Administrators have so far drawn £3.6m.

Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 22 March 2012, and a cumulative total since commencement of the Administration, is set out overleaf.

Significant receipts in the period covered by this report include:

- a corporation tax repayment of £44.2m;
- a £2m M&A fee recovery. Negotiations are continuing with third parties who are owed a significant proportion of this recovery; and
- £77k in respect of interest income.

The significant payments in the period covered by this report are £447k in respect of tax function costs, a reallocation of costs incurred by a centralised Lehman tax team and £114k in respect of legal fees.

Total cash held as at 22 March 2012 was approximately £61.5m.

Section 5 Receipts and payments account

	As at 22 March 2012			As at 22 March 2012 TOTAL GBP equivalent	Movements 23 September 2011 to 22 March 2012 (GBP equivalent)	As at 22 September 2011 (GBP equivalent) RESTATED at 22 March 2012 exchange rate	As at 22 September 2011 (GBP equivalent)
	GBP (£)	US (\$)	EUR (€)	£	£	£	£
RECEIPTS	000	000	000	000	000	000	000
Book debts	443	9,517	21,137	24,069	2,024	22,045	23,113
Interest	68	23	104	170	77	93	96
Corporation Tax repayments	48,477	-	-	48,477	44,214	4,263	4,263
Currency transfer	11,833	-	-	11,833	-	11,833	11,833
Receipts Grand Totals	60,821	9,540	21,241	84,549	46,315	38,234	39,305
PAYMENTS							
Employee costs	5,945	80	67	6,051	3	6,048	6,052
Building and occupancy costs	889	-	-	889	-	889	889
Legal fees	785	227	-	929	114	815	819
Tax function costs	447	-	-	447	447	-	-
Office holders' remuneration	3,640	-	-	3,640	880	2,760	2,760
Office holders' disbursements	11	-	-	11	-	11	11
Currency transfer	-	170	13,220	11,117	-	11,117	11,714
Payments Grand Totals	11,717	477	13,287	23,084	1,444	21,640	22,245
NET POSITION	49,104	9,063	7,954	61,465	44,871	16,594	17,060
CASH BALANCES							
Bank of England	0	1	1	2			
HSBC	713	46	289	983			
Money markets	48,391	9,016	7,664	60,480			
Total Cash	49,104	9,063	7,954	61,465			

Exchange rates as at 22 September 2011:

US\$ 1 : GBP	0.6518
EURO €1 : GBP	0.8777

Exchange rates as at 22 March 2012:

US\$ 1 : GBP	0.6329
EURO €1 : GBP	0.8328



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