
Lehman Brothers Europe Limited – In Administration

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

19 October 2012

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the eighth 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 seven progress reports. If any creditor requires copies of these reports, please contact Deirdre Mitchell at PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT, alternatively, these are also available on the Administrators' website <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 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 (in administration) 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

An application to the High Court was made on 25 June 2012 and an Order has been granted permitting the Administrators to pay an initial distribution to the unsecured creditors of LBEL by no later than 31 October 2012.

The deadline to lodge proof of debt forms for inclusion in this distribution to creditors passed on 31 August 2012.

As previously reported, the most significant asset in the administration is the claim against Lehman Brothers International Europe ("LBIE") in relation to the reverse repo transaction. Following further extensive work this claim was settled very recently in LBEL's favour at the top of the range of expected outcomes. This is described in further detail below.

The quantum of the first dividend payable to unsecured creditors is yet to be determined, as some substantial claims remain to be resolved. It is still however anticipated to be significant.

Administrators' remuneration

The Committee's duties include approving the basis and quantum of the Administrators' remuneration. To date, remuneration of £2.9m (excluding Value Added Tax ("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 25 June 2012 extending the period of the Administration to 30 November 2013.

Future reports

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

Signed:



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

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

Inter-company claims

The principal material debtor balance relates to funds due to LBEL in connection with the Global Master Repurchase Agreement ("GMRA") between LBEL and LBIE (see below).

As previously reported, LBEL, in conjunction with other UK affiliates, reached a settlement agreement with LBHI and its US debtor affiliates in Chapter 11 to settle all claims between them. This agreement became fully binding and operational on 6 March 2012.

A first dividend of US\$1.4m was received by LBEL in the Period, with a second dividend payment expected in October 2012.

The Administrators have continued to investigate other 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 LBEL and LBIE

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 a subsequent 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 c.US\$856m.

The settlement provisions relating to the termination of the GMRA are complex. Further discussions during the Period with the Administrators of LBIE resulted in a revised offer being received. Following detailed work, an

agreement in full and final settlement was signed by the Administrators on 5 October 2012. The first payment in respect of the realisations of the securities is due to be received in the third week of October 2012. The outcome for LBEL was at the top end of expectations.

Initial distribution

On 25 June 2012, the Administrators were granted permission by the High Court to pay an initial distribution to creditors. The last date for proving for this initial distribution was 31 August 2012. The Administrators will make the initial distribution by 31 October 2012.

The majority of creditors' claims received to date by the Administrators have been agreed. However some substantial claims remain to be resolved. In addition, a full reserve of £124m for the potential future pension liabilities has been made.

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 and for the year to 22 September 2009, being the first year of the Administration. The tax return for the year to 22 September 2010 has been submitted to HMRC but is not yet agreed. The Company carried back £4.2m of losses from 2010 to offset against taxable profits in 2009. No losses were surrendered through group relief and the Company has £7.1m of unutilised tax losses as at 22 September 2010.

Before deductions pursuant to the group relief agreement, approximately £48.1m has been repaid to LBEL to date. No further tax repayments are expected for the accounting periods filed to date.

Pension liability

In our previous report we explained that the case in the Supreme Court relating to the status of the liability under a Financial Support Direction ("FSD") is due to be heard in May 2013. In the meantime, the Upper Tribunal Hearing as to whether LBEL should have a FSD made against it is likely to remain stayed.

As previously reported, it will be a significant period of time before any potential liability against LBEL under a FSD can be quantified. However, the

Administrators continue to keep the pensions issue under close review, with a view to finalising it as soon as possible.

Future strategy

The Administrators will continue to:

- Gather evidence for any further claims to be made against other Lehman estates;
- Pursue routes to finalise the pension liability; and
- Following the initial distribution to creditors, make further payments as funds permit.

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, 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 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 2013.
<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 expected that the dividend for unsecured creditors will be significant.
<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>	Such an application is considered unlikely.
<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 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 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 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.

Given realisations achieved to date, this results in remuneration of £3.5m excluding VAT of which the Administrators have drawn £2.9m excluding VAT.

Receipts and payments account

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

Significant receipts in the period covered by this report include £890k in respect of the first dividend from LBHI and its US debtor affiliates.

Total cash held as at 22 September 2012 was approximately £62.3m.

Section 5 Receipts and payments account

	As at 22 September 2012			As at 22 September 2012	Movements 23 March 2012 to 22 September 2012	As at 22 March 2012 (GBP equivalent) RESTATEd at 22 September 2012 exchange rate	As at 22 March 2012 (GBP equivalent)
	GBP (£)	US (\$)	EUR (€)	TOTAL GBP equivalent £	(GBP equivalent) £	£	£
RECEIPTS	000's	000's	000's	000's	000's	000's	000's
Book debts	443	10,963	21,137	24,079	890	23,189	24,069
Interest	138	28	110	244	78	166	170
Corporation Tax repayment	48,109	-	-	48,109	-	48,109	48,477
VAT repayment	380	-	-	380	-	380	-
Currency transfer*	11,833	-	-	11,833	-	11,833	11,833
Receipts Grand Totals	60,903	10,991	21,247	84,645	968	83,677	84,549
PAYMENTS							
Employee costs	5,938	80	67	6,041	(6)	6,047	6,051
Building and occupancy cost	889	-	-	889	0	889	889
Legal fees	797	227	-	936	11	925	929
Tax function costs	293	-	-	293	(154)	447	447
Payment for group relief losses	112	-	-	112	112	-	-
Administrators' remuneration**	3,348	-	-	3,348	(292)	3,640	3,640
Administrators' disbursements	21	-	-	21	10	11	11
Currency transfer*	-	170	13,220	10,669	0	10,669	11,117
Payments Grand Totals	11,398	477	13,287	22,309	(319)	22,628	23,084
NET POSITION	49,505	10,514	7,960	62,336	1,287	61,049	61,465
CASH BALANCES							
BoE	0	1	1	2			
HSBC	1,043	23	290	1,290			
Money markets	48,462	10,490	7,669	61,044			
Total Cash	49,505	10,514	7,960	62,336			

Exchange rates as at 22 March 2012:

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

Exchange rates as at 22 September 2012:

US\$ 1 : GBP	0.6152
EURO €1 : GBP	0.7991

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 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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