
Lehman Brothers Europe Limited – In Administration

Joint Administrators' progress
report for the period 23 September
2012 to 22 March 2013

8 April 2013

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the ninth 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 eight 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 March 2013 (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 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 with the following members:

- Lehman Brothers Holdings Inc. ("LBHI") – formerly in Chapter 11 Bankruptcy proceedings in the US - replaced by Lehman Brothers Commercial Services on 23 January 2013;
- Lehman Brothers Holdings plc (in Administration);
- Thomas Marsoner; and
- John Wakely.

The Administrators have met with the Committee four 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 of Justice (the "Court") was made on 25 June 2012 and an order was granted permitting the Administrators to make an initial distribution to the unsecured creditors of LBEL.

As previously reported, the deadline to lodge proof of debt forms for inclusion in this distribution to creditors passed on 31 August 2012.

An initial dividend to unsecured creditors of 40 pence in the pound was declared on 31 October 2012 and subsequently paid on 9 November 2012. Subject to the resolution of a small number of substantial remaining claims it is anticipated that a second dividend will be paid to unsecured creditors in 2013. The quantum of a second dividend is yet to be determined but it is expected to be significant.

Administrators' remuneration

The Committee's duties include approving the basis and quantum of the Administrators' remuneration. To date, remuneration of £17.2m (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

Upon the application of the Administrators, the Court made an order on 25 June 2012 extending the period of the Administration to 30 November 2013. It is expected that a further extension will be required.

Change of Administrators

Upon the application of the Administrators, the Court made an order on 22 March 2013 that JG Parr be appointed Administrator and that DA Howell and MJA Jervis cease to be Administrators of the Company.

The Court also ordered that the former Administrators shall be released from all liability pursuant to the relevant sections in the Insolvency Act 1986 in respect of their acts and omissions and otherwise in respect of their conduct as Administrators of the Company and that such release will take effect 56 days after the date of this progress report. The Court gave permission for each creditor and member of the Company to apply to vary or discharge its order by an application issued within 28 days of receipt of this progress report.

Future reports

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

Signed:



D Y Schwarzmann
Joint Administrator
Lehman Brothers Europe Limited

DY Schwarzmann, AV Lomas, SA Pearson, MJA Jervis and DA Howell were appointed as Joint Administrators of Lehman Brothers Europe Limited. Upon the application of the Joint Administrators, the High Court of Justice made an order on 22 March 2013 that JG Parr be appointed Joint Administrator and that MJA Jervis and DA Howell cease to be Joint Administrators. The Joint Administrators were appointed to manage the Company's affairs, business and property as agents without personal liability.

DY Schwarzmann, AV Lomas, SA Pearson, MJA Jervis, DA Howell 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

Debts due from advisory services clients

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

Inter-company claims

a) Repo transaction between LBEL and Lehman Brothers International (Europe) (in Administration) ("LBIE")

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

The Administrators have finalised 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 JP 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. Following detailed work, an agreement in full and final settlement was signed by the Administrators on 5 October 2012. The outcome for LBEL was at the top end of expectations. The first payment in respect of the realisation of the securities of £280.9m was received on 18 October 2012, with a subsequent tranche of £85.8m being received on 1 February 2013. Further recoveries are not expected to be material. These are dependent upon the realisation of a small number of illiquid securities.

The settlement agreement also gave rise to a small unsecured claim against LBIE.

b) LBHI and its US debtor affiliates

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 second dividend of US\$1.3m was received by LBEL in the Period following the first dividend of US\$1.4m which was received in the previous reporting period. A further dividend is expected in April 2013. The quantum and timing of additional future dividends are uncertain.

c) Other

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 debtor balances will be relatively straightforward to agree. Claims have been submitted against inter-company debtors where appropriate.

Initial distribution

On 25 June 2012, the Administrators were granted permission by the Court to pay an initial distribution to creditors. The last date for proving for this initial distribution was 31 August 2012. The Administrators paid an initial dividend to creditors totalling £35.7m during the Period.

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 liability has been made.

Taxation

The Administrators have agreed with HM Revenue and Customs ("HMRC") the Corporation Tax affairs of LBEL for all periods up to the year ended 22 September 2010. The tax returns for the years to 22 September 2011 and 22 September 2012 have been prepared and will be submitted to HMRC shortly. The 2011 tax return shows significant trading profits which will be sheltered by brought forward trading losses and group relief claims from other group companies, whilst the 2012 tax return shows a loss.

After deductions pursuant to the group relief agreement, approximately £48.4m has been repaid to LBEL to date. No further material tax repayments are expected.

VAT repayments of £0.4m for returns filed to February 2012 have been paid to LBEL to date. No further amounts have been received in the Period.

Pension liability

As previously reported, it will be a significant period of time before any potential liability for LBEL under a Financial Support Direction ("FSD") can be quantified. The next step is the hearing in the Supreme Court in May 2013. The Administrators continue to keep the pensions issue under close review.

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
- Make further payments to creditors 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, AV Lomas, SA Pearson and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT. JG Parr was appointed Joint Administrator and MJA Jervis and DA Howell ceased to be Joint Administrators by order of the Court on 22 March 2013.
<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>	A first dividend of 40 pence in the pound was paid on 9 November 2012. It is expected that a further significant dividend for unsecured creditors will be paid in 2013.
<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 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.

Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 22 March 2013, 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 £1.3m comprising the second dividend from LBHI and its US debtor affiliates and a first dividend from LBIE in relation to LBEL's unsecured claim; and
- £368.2m in respect of the first and second tranches of the GMRA settlement agreement with LBIE, including derived income and interest.

Significant payments in the Period covered by this report include:

- £35.7m in respect of the first dividend to unsecured creditors;
- £17.3m in respect of Administrators' remuneration (including VAT); and
- £2.4m in respect of investment management charges paid to LBIE.

Total cash held as at 22 March 2013 was approximately £377.4m (GBP equivalent).

Section 5 Receipts and payments account

RECEIPTS	As at 22 March 2013			As at	Movements	As at	As at
	GBP (£)	US (\$)	EUR (€)	22 March 2013	23 September 2012	22 September 2012	22 September 2012
	000's	000's	000's	TOTAL GBP	to 22 March 2013	(GBP equivalent)	RESTATED at 22
				equivalent	(GBP equivalent)	exchange rate	March 2013
				£	£	£	exchange rate
				000's	000's	000's	£
							000's
Book debts	893	12,224	21,168	26,968	1,302	25,666	24,079
GMRA Settlement Agreement proceeds	368,233	-	-	368,233	368,233	-	-
Interest	476	32	110	591	340	251	244
Corporation Tax repayment	48,443	-	-	48,443	334	48,109	48,109
VAT repayment	386	-	-	386	6	380	380
Currency transfer*	22,216	-	-	22,216	10,383	11,833	11,833
Receipts Grand Totals	440,647	12,256	21,278	466,837	380,598	86,239	84,645
PAYMENTS							
Employee costs	5,976	80	67	6,086	38	6,048	6,041
Building and occupancy cost	889	-	-	889	-	889	889
Legal fees	1,146	227	-	1,295	349	946	936
Tax function costs	350	-	-	350	57	293	293
Payment for group relief losses	112	-	-	112	-	112	112
Distribution to unsecured creditors	34,886	-	918	35,668	35,668	-	-
Administrators' remuneration**	20,607	-	-	20,607	17,259	3,348	3,348
Administrators' disbursements	21	-	-	21	-	21	21
Investment management charges	2,420	-	-	2,420	2,420	-	-
Currency transfer*	-	9,734	18,220	21,927	10,540	11,387	10,669
Payments Grand Totals	66,407	10,041	19,205	89,375	66,331	23,044	22,309
NET POSITION	374,240	2,215	2,073	377,462	314,267	63,195	62,336
CASH BALANCES							
HSBC	695	20	304	967			
Money markets	373,545	2,195	1,769	376,495			
Total Cash	374,240	2,215	2,073	377,462			

Exchange rates as at 22 September 2012:

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

Exchange rates as at 22 March 2013:

US\$ 1 : GBP	0.6562
EURO €1 : GBP	0.8529

Amounts include VAT where applicable

* The difference in total GBP equivalent arises from the exchange rate movement between the end of each reporting period. No actual 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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