
Lehman Brothers Holdings plc – In Administration

Joint Administrators' progress
report for the period 15 September
2010 to 14 March 2011

12 April 2011

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the fifth progress report by the Joint Administrators of Lehman Brothers Holdings plc ("LBH" or the "Company").

This report provides an update on the work that the Administrators have undertaken and the progress made since their appointment, with particular focus on the progress made in the six months to 14 March 2011.

Objectives of the Administration

The Administrators are pursuing the objective of achieving a better result for LBH's creditors as a whole than would be likely if LBH were wound up (without first being in Administration).

The specific aims of this Administration are to:

- Realise all assets, including all cash and derivative positions on a managed basis;
- Mitigate as far as is possible and agree in principle the claims of all creditors; and
- Continue to manage its subsidiaries with a view to maximising returns to LBH.

Creditors' Committee

The Administrators have met with the Creditors' Committee on four occasions since 12 December 2008, in order to discuss significant issues and outline key decisions. The most recent meeting was held on 24 February 2011.

Outcome for creditors

At this time the Administrators are unable to provide a reliable estimate of the likely dividend to ordinary unsecured creditors.

As it seems likely that funds will become available for unsecured creditors, the Administrators are continuing the process of establishing in principle the claims of unsecured creditors. This is in line with the proposals agreed by creditors on 20 November 2008.

The Administrators will continue to manage the Administration in accordance with the proposals

approved by creditors and will also consult with your Creditors' Committee.

Pension Liability

The Pensions Regulator listed LBH as one of the Lehman companies from which it was seeking a Financial Support Direction ("FSD") in relation to the Lehman Brothers Pension Scheme. The FSD requires financial support to be provided to the pension scheme, in relation to the scheme's deficit. An FSD does not create a debt due from the targeted company (LBH) to the pension scheme, but such a debt can be imposed by the Pensions Regulator at a later stage of the process.

On 13 September 2010 the Pensions Regulator's determinations panel decided to issue an FSD against LBH and five other Lehman entities including three other UK administration companies. LBH is appealing against this decision. At present it is not clear how the liability will be divided among the targeted entities. The Panel's decision has been referred to the Upper Tribunal requesting that the Panel's decision should be overturned and to rule that LBH should not be subject to an FSD.

However, the referral to the Upper Tribunal has currently been stayed pending the outcome of a Court application made by the Administrators in relation to LBH and three other Lehman entities which are in administration and which the Panel decided should receive an FSD. The Administrators sought directions from the Court on the status of FSD liability in an administration.

On 10 December 2010, it was ruled that a liability derived from an FSD would constitute an expense of the administration (or a provable debt in a subsequent liquidation, in certain circumstances).

This decision is being appealed to the Court of Appeal, and there could be a subsequent appeal to the Supreme Court. In the meantime, the Upper Tribunal process is likely to remain stayed.

Your Committee has been kept fully apprised of the pension position and the Administrators will continue to seek their views as necessary.

Extension of the administration

On the application of the Administrators, the High Court made an Order to further extend the period of the Administration to 30 November 2011. The Administrators are expecting to apply to Court for a further extension to the Administration in due course.

Future reports

The Joint Administrators' next progress report to creditors will be sent in approximately six months.

Signed:

A handwritten signature in blue ink, appearing to read 'DA Howell', is written over a faint, light blue rectangular background.

DA Howell
Joint Administrator
Lehman Brothers Holdings plc

Section 2 Joint Administrators' actions to date

Asset review

Following the appointment of Administrators, a detailed review of the asset position was undertaken which identified the following categories of assets:

- Investments in subsidiary undertakings;
- Financial assets; and
- Inter-company debts.

The Administrators continue to monitor all of the investments, ensuring that the strategy put in place remains the most effective way to realise value for the benefit of LBH's creditors.

Tax

LBH incurred significant tax losses in pre-appointment tax accounting periods which could be of value to the other group companies to secure tax repayments.

A significant amount of work was undertaken by the Administrators of LBH and Lehman Brothers Limited to agree the group tax position with HMRC and to enable the tax repayments to be made. The work included preparing accounts and tax computations for all open years, being 2005 to 2007, together with the relevant group relief documentation for each year.

A Tax Loss agreement was entered into with the other PwC Lehman administration companies and a separate agreement entered into with Bankhaus. These agreements set out the basis for allocating losses, and the value to be paid to loss surrendering companies such as LBH. These agreements required significant tax and legal input, together with negotiation with the relevant parties.

Following the submission of all pre-appointment returns, meetings and negotiations with HMRC, all tax years to 2007 have been agreed and repayments have commenced.

In 2003 and 2004, surplus losses in LBH were surrendered to Bankhaus for which a payment of £6.3 million from Bankhaus has been received. Additional tax repayments and loss payments from UK administration companies have been received by LBH for years ended 2005 to 2007 of £760k.

In line with the Tax Loss agreement, tax function costs have been deducted from the payments received, the above payments being gross of such costs.

Investments in subsidiary undertakings

Lehman Brothers Asset Management (Europe) Limited ("LBAM")

The sale of business and assets of LBAM, a solely owned subsidiary of the Company, was concluded on 7 May 2009 for \$74m (c.£48m). Residual tax losses were also retained by LBH, and the Administrators are continuing to work with tax specialists to realise value for these losses.

Financial assets

The most significant outstanding financial assets are:

EPE Special Opportunities plc ("ESO")

LBH's shareholding was diluted to 9% following a share consolidation of ESO, however it remains a significant shareholder of the fund.

The Administrators are continuing to work closely with the investment advisors in order to maximise realisations from this asset in line with the strategy agreed with the Creditors' Committee.

Campo Iris

Campo Iris is a solely owned subsidiary of LBH which entered into a joint venture with a Spanish company. The joint venture currently has approximately £867k cash at Bank.

The Administrators have tried a number of procedures to realise the cash in the subsidiary and have been left with only one option which is to request that Campo Iris be compulsorily wound up. To this end, the Administrators have written to the public prosecutor in Luxembourg requesting that the liquidation process be commenced.

Inter-company debts

The Company had two key functions:

- As a holding company for a number of entities in the UK Group; and
- As a “pass-through” vehicle for the transfer of sub-debt and cash funding to Lehman Brothers International (Europe).

There are 59 intercompany relationships which have been identified. The six largest debtors total c.£329m and the six largest creditors total c.£874m which represents 89% and 90% of the total debtor and creditor balances respectively.

The Administrators established a specific workstream to work on the intercompany book debt position of the UK Administration companies. Its primary task on behalf of LBH is to provide evidence to support LBH’s claim against the debtors and to adjudicate upon the evidence submitted by LBH’s creditors. Discussions regarding creditors’ claims are continuing and the Administrators will shortly issue letters of understanding to some creditors in order to agree claims in principle. Undertaking this process will enable the Company to distribute funds promptly when it is in position to do so.

Other activities

Subsidiary Companies

All assets previously held on trust for LB ODC 3 Limited have now been returned to the liquidator of LB ODC 3 Limited.

There are a number of other subsidiary companies from which the quantum of realisations for the Administration estate remains uncertain.

Extension of the Administration

On 27 July 2010 the Administrators made an application to Court to extend the period of the Administration and the Court made an Order extending the Administration until 30 November 2011. It is the Administrators’ intention to apply to Court for a further extension to the administration.

Section 3 Statutory and other Information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 7943 of 2008
<i>Full name:</i>	Lehman Brothers Holdings plc
<i>Trading name:</i>	Lehman Brothers Holdings plc
<i>Registered number:</i>	01854685
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<i>Company directors:</i>	Mr IM Jameson (resigned 25/07/09), Mr AJ Rush (resigned 19/11/08), Mr DS Rushton (resigned 25/07/09), Mr C Pellerani (resigned 13/11/08), Mr D Gibb (resigned 28/07/09)
<i>Company secretary:</i>	Ms M Smith (resigned 06/02/10), Ms P Dave (resigned 09/02/10), Ms ESE Upton (resigned 09/02/10)
<i>Shareholdings held by the directors and secretary:</i>	None of the directors own shares in the Company
<i>Date of the Administration appointment:</i>	15 September 2008
<i>Administrators' names and addresses:</i>	AV Lomas, SA Pearson, DY Schwarzmann, MJA Jervis and DA Howell, of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT
<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 LBH's creditors as a whole than would be likely if LBH 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 Joint 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 2011.
<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>	There are too many uncertainties to accurately estimate the likely dividend for unsecured creditors.
<i>Estimated values of the prescribed part and LBH's net property:</i>	Not applicable.
<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

Time cost information including a detailed narrative describing the work undertaken by the Administrators and their staff has been provided to your Committee which has approved the basis and quantum of the Administrators' remuneration to 31 December 2010, totalling £2,476,586.

This remuneration has been drawn in full however £105k of remuneration was drawn down after 14 March 2011 and is therefore not shown on the receipts and payments account.

The Administrators' total time costs to 31 December 2010 are £2,476,586 which represents 6,883 hours at an average hourly rate of £359.80.

Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 14 March 2011, and a cumulative total since commencement of the Administration, is set out overleaf.

Material realisations in the period include the sale of tax losses of some £6.4m. Further realisations include £15k of tax refunds.

Net receipts as at 14 March 2011 total £49.4m.

Section 5 Receipts and Payments Account

	GBP		USD		EUR	
	14-Sep-10	14-Mar-11	14-Sep-10	14-Mar-11	14-Sep-10	14-Mar-11
Receipts						
Investments in subsidiaries	895,933	895,933	476,050	476,050	-	-
Tax refund	-	15,000	-	-	-	-
Sale of tax losses	-	6,445,024	-	-	-	-
Book debts	-	12,901	-	-	-	-
Financial assets	-	-	23,459	23,459	250,000	250,000
Bank Interest	12,103	14,897	158,191	214,615	5,785	5,785
Assets held on trust	-	3,199	-	-	-	-
Net proceeds from sale of LBAM	(784,552)	(844,175)	74,087,363	74,087,363	7,102	7,102
Assets held on trust - LB ODC3	4,506,820	4,115,021	-	-	-	-
Total Receipts	4,630,304	10,657,800	74,745,063	74,801,487	262,887	262,887
Payments						
Legal fees	439,782	466,400	4,161	4,161	-	-
Statutory costs	24,271	28,991	-	-	-	-
Assets held on trust - LB ODC3	1,428,419	4,115,021	-	-	-	-
Wages & salaries	-	1,968	-	-	-	-
Bank charges	8,251	8,302	520	602	64	67
IT costs	150,000	150,000	-	-	-	-
Joint Administrators' remuneration	2,289,763	2,370,808	-	-	-	-
Joint Administrators' category 1 disbursements	38,549	38,549	-	-	-	-
Professional fees	90,407	94,251	-	-	-	-
Insurance	147,000	154,272	-	-	-	-
Contribution to tax costs	-	83,129	-	-	-	-
VAT	1,091,751	466,679	-	-	3,725	3,725
Total Payments	5,708,193	7,978,370	4,681	4,763	3,789	3,792
Intercompany Transfers						
Payment	-	-	(6,823,943)	(6,823,943)	-	-
Receipt	4,351,468	4,351,468	-	-	-	-
Net Position	3,273,579	7,030,898	67,916,439	67,972,781	259,098	259,095
Cash Balances						
Bank of England pre designated account						
HSBC	3,273,579	1,446,104	324,344	200,938	259,098	259,095
Money market deposits	-	5,584,794	67,592,095	67,771,843	-	-
Total Cash	3,273,579	7,030,898	67,916,439	67,972,781	259,098	259,095

Total cash at 14 March 2011 based on exchange rates on 14 March 2011 was £49,446,264

Funds are invested on the money markets in order to accrue interest

