
Lehman Brothers Holdings plc – In Administration

Joint Administrators' progress
report for the period 15 March 2014
to 14 September 2014

9 October 2014

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Purpose of the Joint Administrators' progress report

Introduction

This is the twelfth progress report by the Joint Administrators (the "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 September 2014.

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 were 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 ("the Committee") on six occasions since its constitution on 12 December 2008 to discuss significant issues and outline key decisions. The most recent meeting with the Committee was held on 18 March 2014.

Outcome for creditors

On 2 May 2014, the Court granted the Administrators permission to agree and pay a dividend in respect of the claims of its unsecured non-preferential creditors.

On 3 September 2014, the Administrators declared and paid a first interim dividend of 4.08 pence in the £ to the Company's unsecured creditors.

The quantum and timing of any further dividend remains uncertain at this stage.

Subordinated unsecured creditors

LBH guaranteed the following Lehman Brothers Capital funds:

- Lehman Brothers UK Capital Funding LP (ISIN: XS0215349357)
- Lehman Brothers UK Capital Funding II LP (ISIN: XS0229269856): and
- Lehman Brothers UK Capital Funding III LP (ISIN: XS0243852562)

Investors of the above funds are entitled to submit a claim against LBH for the amount they have invested in each fund. However, the guarantee provided by LBH is subordinated to LBH's ordinary unsecured creditors and, accordingly, any claim an investor has will be a subordinated claim.

Consequently, LBH's unsubordinated unsecured creditors will have to be paid in full before any distribution can be made to subordinated unsecured creditors. Based on current estimates, the Administrators consider that there is unlikely to be any surplus funds available to pay a dividend to creditors with subordinated claims.

Pension Liability

As previously reported, the Pensions Regulator's determination panel issued a Financial Support Direction ("FSD") against LBH and five other entities (including three other UK companies in administration), in relation to the Lehman Brothers Pension Scheme. The FSD required financial support to be provided to the pension scheme, in relation to the scheme's deficit. LBH appealed against this decision and has been involved in an ongoing court process. The hearing to determine whether a FSD should be made, and against which entities was due to be held at the Upper Tribunal in February 2015.

However, following a settlement agreement with the pension scheme trustees and all other potential FSD targets which became effective on 18 August 2014, LBH no longer has a potential liability to the pension scheme.

As part of the settlement LBH has contributed to certain legal costs of the pension scheme trustees and the Pensions Regulator. LBH has not contributed to the cost of funding pension benefits

under the settlement, which is being discharged by other Lehman companies.

Future reports

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

Signed:



GE Bruce
Joint Administrator
Lehman Brothers Holdings plc

AV Lomas, SA Pearson, DA Howell, GE Bruce and JG Parr were appointed as Joint Administrators of Lehman Brothers Holdings plc to manage its affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, DA Howell, GE Bruce 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.

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

As creditors are aware, LBH incurred significant tax losses in pre-appointment tax accounting periods.

A tax loss agreement was entered into with the other PwC Lehman administration companies and LBH has realised £7.6m from the sale of tax losses to date. There have been no recoveries in the period.

Investments in subsidiary undertakings

There are a number of subsidiary companies where LBH's equity interest may have value but, until significant matters in those companies are resolved, the amount of potential total realisations for LBH remains uncertain.

Financial assets

The most significant outstanding financial assets are:

ESE Special Opportunities Plc ("ESO")

At the date of administration, LBH held a 36.57% interest in ESO, a private equity fund. In June 2009, ESO raised additional funding and undertook a share consolidation, diluting LBH's interest to 9%, although LBH did remain a major shareholder of the fund.

In August 2011, LBH disposed of its shares with the agreement of the Creditors' Committee and Lehman Brothers International (Europe) ("LBIE").

The resulting cash proceeds of c. £1m were then ring-fenced by LBIE (the shares were held in LBIE's depot).

LBIE is a creditor of LBH and initially indicated that it intended to exercise a lien over the sale proceeds. However, following recent negotiations between the respective Administrators of LBIE and LBH, an Asset Return Deed was signed and the c.£1m proceeds were released to LBH shortly after the period covered by this report.

Campo Iris ("CI")

As previously reported, LBH is the majority shareholder of CI, which entered into a joint venture with a Spanish company. The joint venture's sole asset is cash at bank which totals c.€1m.

The financial and statutory affairs of CI have been brought up to date and the monies from the joint venture realised. All residual payments and tax issues arising from the realisation of the asset have now been finalised. The documentation to place CI into liquidation is being prepared and is expected to conclude early 2015.

The monies will be distributed to the joint venture shareholders on a 50/50 basis. It is anticipated that LBH will receive c.€0.5m (before costs) from its investment in CI.

Inter-company debts

LBH 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 subordinated debt and cash funding to Lehman Brothers International (Europe).

The current status of inter-company debts is summarised in the table below:

	USD \$'m	GBP £'m	Notes
Debtors as per directors' statement of affairs	608	338	
Current status of debtors			
Claims submitted	463	361	(1)
Claim set off	51	28	(1)
Claims subject to standstill agreements	62	38	(1)
Claims written off/ not pursued	34	21	(1)
Total	610	448	
Note:			
(1) GBP equivalent based on exchange rates at 12 September 2014.			

- The book value of unsecured associated company debtors as per the LBH directors' statement of affairs is c.£338m.
- The Administrators have submitted claims totalling c.£361m on behalf of LBH. Certain adjustments have been made to these claims during the period reducing the total claims by c. £19m. To date, £13m has been realised in respect of these balances.
- As part of the claims adjudication process, a debtor balance of \$51m has been set off against a larger creditor claim against LBH.
- LBH has entered into standstill agreements with six solvent debtors where the debt is either in dispute or settlement negotiations are ongoing. The book value of these debts is \$62m (£38m) according to LBH's records.
- Debtor balances with a book value of \$34m (£21m) have been written off due to debtors either being sold, dissolved or on the basis that the balances are not commercially viable to pursue.

Realisations during the period comprise the following:

Interim distributions from the estates of Mable Commercial Funding Limited and Lehman Brothers (PTG) Limited totalling approximately £1.5m and £1.2m respectively.

A fifth distribution from the estates of Lehman Brothers Special Financing Inc ("LBSF") and Lehman Commercial Paper Inc ("LCPI") of \$0.6m and \$0.2m respectively.

The receipts from LBSFI and LCPI were immediately converted to GBP to minimise the foreign exchange risk. Further dividends from these companies are anticipated to be received on a six monthly basis.

First interim distribution paid to unsecured creditors

As stated in our previous report, the Administrators had concluded that it was appropriate to pay a dividend to LBH's unsecured creditors and applied to Court for permission to do so. The court granted such permission to the Administrators on 2 May 2014.

The Administrators issued a Notice of Intended Dividend on 13 June 2014 to the unsecured creditors of LBH, setting a final date for proving of 31 July 2014.

On 3 September 2014, the Administrators declared and paid a first interim dividend of 4.08 pence in the £ to unsecured creditors whose claims had been admitted.

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>Current Administrators' names and addresses:</i>	AV Lomas, SA Pearson, DA Howell, GE Bruce 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 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>	On 23 October 2013, the High Court of Justice granted an extension of the Administration to 30 November 2015.
<i>Proposed end of the Administration:</i>	The Administrators wish to retain various exit options available to them. However it is most likely that the Administrators will continue to distribute from the Administration (the Administrators having obtained permission from the Court to do so on 2 May 2014). If this route is pursued, once the final distribution has been made they will apply for the dissolution of the Company.
<i>Estimated dividend for unsecured creditors:</i>	The Administrators declared a first interim dividend of 4.08p in the £ to unsubordinated unsecured creditors on 3 September 2014. The quantum and timing of any further dividend remains uncertain at present.
<i>Estimated values of the prescribed part and LBH's net property:</i>	Not applicable as there is no qualifying floating charge.
<i>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</i>	Not applicable as there is no prescribed part.
<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.

Financial Information

Administrators' remuneration

The Committee is responsible for approving the basis and amount of the Administrators' remuneration. The Committee has resolved that the Administrators' remuneration be fixed by reference to the time properly given by the Administrators and their staff in attending to matters arising in the Administration.

As at 14 September 2014, the Administrators have drawn remuneration of £3,573,040 plus VAT in respect of time costs incurred to 30 June 2014. Of this sum, £3,301,746 plus VAT is remuneration approved by the Creditors' Committee for time costs incurred in the period 15 September 2008 to 31 January 2014.

The balance of £271,293 plus VAT has been drawn on account in accordance with a resolution passed by the Creditors' Committee, being 75% of time costs incurred from 1 February 2014 to 30 June 2014.

The Joint Administrators' have drawn remuneration totalling £426,342 plus VAT in the period.

Net receipts as at 14 September 2014 total approximately £23.5m.

Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 14 September 2014, and a cumulative total since commencement of the Administration, is set out overleaf.

Sums have been rounded to the nearest £0.1m.

Key movements in period

- Intercompany debtor receipts of c.£2.7m;
- Dividend receipts from LBSF and LCPI totalling \$0.8m;
- A further £100k has been earned in interest from the investment of funds on the money market;
- A first interim dividend paid to unsubordinated unsecured creditors of £40.2m; and
- Legal costs totalling £0.4m plus VAT paid in respect of the pension issue and Supreme Court litigation.

Receipts and Payments Account

	GBP Movements			USD Movements			EUR Movements		
	14-Sep-14 £m	in Period £m	14-Mar-14 £m	14-Sep-14 £m	in Period £m	14-Mar-14 £m	14-Sep-14 £m	in Period £m	14-Mar-14 £m
Receipts									
Investments in subsidiaries	1.0	-	1.0	0.5	-	0.5	-	-	-
Intercompany debtors	8.6	2.7	5.9	7.1	0.8	6.3	-	-	-
Book debts	0.1	-	0.1	-	-	-	-	-	-
Sale of tax losses	7.6	-	7.6	-	-	-	-	-	-
Financial assets	-	-	-	-	-	-	0.3	-	0.3
Bank Interest	0.6	0.1	0.5	0.2	-	0.2	-	-	-
LBAM tax loss receipts	2.5	-	2.5	-	-	-	-	-	-
Net proceeds from sale of LBAM	(0.8)	-	(0.8)	74.1	-	74.1	-	-	-
Total Receipts	19.6	2.8	16.8	81.9	0.8	81.1	0.3	-	0.3
Payments									
Legal fees	1.1	-	1.1	-	-	-	-	-	-
Legal fees relating to Pension costs	0.4	0.4	-	-	-	-	-	-	-
Payments on behalf of subsidiaries	0.1	-	0.1	-	-	-	-	-	-
Wages & salaries	0.1	0.1	-	-	-	-	-	-	-
IT costs	0.2	-	0.2	-	-	-	-	-	-
Joint Administrators' remuneration	3.5	0.4	3.1	-	-	-	-	-	-
Professional fees	0.1	-	0.1	-	-	-	-	-	-
Insurance	0.2	-	0.2	-	-	-	-	-	-
Net contribution to tax costs	0.3	-	0.3	-	-	-	-	-	-
Net VAT	0.5	0.1	0.4	-	-	-	-	-	-
Total Payments	6.5	1.0	5.5	-	-	-	-	-	-
Intercompany Transfers									
Payment	-	-	-	(81.9)	(0.8)	(81.1)	(0.3)	-	(0.3)
Receipt	50.6	0.6	50.0	-	-	-	-	-	-
Total receipts less total payments	63.7	2.4	61.3	0.0	0.0	0.0	0.0	-	0.0
Distributions									
1st dividend to unsecured creditors, declared in September 2014	40.2	40.2	-	-	-	-	-	-	-
Total	23.5	(37.8)	61.3	0.0	0.0	0.0	0.0	-	0.0
Cash Balances									
HSBC	2.0	1.7	0.3	-	-	-	-	-	-
Money market deposits	21.5	(39.5)	61.0	-	-	-	-	-	-
Total Cash/Movements	23.5	(37.8)	61.3	0.0	0.0	0.0	0.0	-	0.0

Total Cash as at 14 September 2014 based on exchange rates on 12 September 2014 was £23.5m

Funds are invested on the money markets in order to accrue interest and to manage risk.