
Lehman Brothers Holdings plc – In Administration

Joint Administrators' progress
report for the period 15 September
2011 to 14 March 2012

12 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 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 2012.

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 five occasions since 12 December 2008, in order to discuss significant issues and outline key decisions. The most recent meeting was held on 25 January 2012.

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 anticipate that LBH will become a distributing Administration in due course.

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

In July 2011 the Court of Appeal heard the Joint Administrators' appeal against a Financial Support Direction ("FSD") ranking as an expense of the Administration. The Court of Appeal Judgment was handed down on 14 October 2011 and upheld the original decision.

The Court of Appeal gave leave for appeal to the Supreme Court and that appeal has now been filed. The Administrators have been advised that the Supreme Court hearing has been listed for May 2013.

The Upper Tribunal hearing to review the findings of the Pensions Regulator Determination Panel that LBH should be subject to an FSD has been stayed and is likely to remain so until the Supreme Court appeal is heard.

It will therefore be a significant period of time before any potential liability against the Company can be quantified.

Extension of the administration

On 2 November 2011 the High Court of Justice granted an Order to extend the period of the Administration to 30 November 2013.

Future reports

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

Signed:



DA Howell
Joint Administrator
Lehman Brothers Holdings plc

AV Lomas, SA Pearson, DY Schwarzmann, MJA Jervis and DA Howell 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, DY Schwarzmann, MJA Jervis and DA Howell are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

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

As previously advised LBH incurred significant tax losses in pre-appointment tax accounting periods which have proved to be of value to other group companies.

A tax loss agreement was entered into with, inter alia, the other PwC Lehman administration companies. This agreement set out the basis for allocating tax losses, and the value to be paid to loss surrendering companies such as LBH. This has resulted in receipts of £7.4m as at 14 March 2012.

In line with the tax loss agreement, tax function costs (which are an allocation of centrally incurred tax costs) have been deducted from the payments received.

Investments in subsidiary undertakings

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

As previously advised, the business and assets of LBAM were sold on 7 May 2009. The benefit of the residual tax losses were retained by LBH and the Administrators have received £1.4m to date in respect of these losses. This is in addition to the £7.4m detailed above.

Other Subsidiaries

There are a number of other subsidiary companies where LBH's equity interest may have value but,

until significant matters in those companies are resolved, including the pension FSD, the amount of potential realisations for LBH remains uncertain.

Financial assets

The most significant outstanding financial assets are:

EPE Special Opportunities plc ("ESO")

LBH's shareholding in ESO was previously held within Lehman Brothers International (Europe)'s ("LBIE") depot. In the period, LBH's shares were sold with the consent of LBIE, for almost £1m.

As LBIE is a creditor of LBH, it is likely that LBIE will seek to exercise a lien over the sale proceeds.

Campo Iris ("CI")

CI is a wholly owned subsidiary of LBH which entered into a joint venture with a Spanish company. CI's only asset is cash at Bank within the joint venture, which is understood to be c.€1m.

Previously, the Administrators wrote to the public prosecutor in Luxembourg requesting that CI be wound up. This request was denied and the Administrators have recently been advised that this decision is final.

The Creditors' Committee has approved the appointment of an independent director to CI in order to bring its financial and statutory affairs up to date and then to seek to wind up CI in order to realise the funds in the joint venture. The Administrators are currently in discussions with the proposed director regarding the appointment and meeting the necessary costs.

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 subordinated debt and cash funding to LBIE.

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

intercompany debtor and creditor balances respectively.

The Administrators established a specific workstream to work on the intercompany balances of the UK Administration companies. Its primary task on behalf of LBH is to provide evidence to support LBH's claim against its 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.

On 11 October 2012, the Administration entered into a settlement agreement with Lehman Brothers Holdings Inc ("LBHI") and certain other affiliates previously subject to Chapter 11 proceedings in the USA in conjunction with other UK affiliates. The Plans of Reorganisation became effective on 6 March 2012. Pursuant to this agreement LBH had its claims against Lehman Brothers Special Financing Inc ("LBSF") and Lehman Commercial Paper Inc ("LCPI") agreed at \$19.3m and \$2.2m respectively. The first distribution from those estates is expected to be made on or after 17 April 2012.

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, 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>	The High Court of Justice has granted three successive extensions to the Administration period to: 30 November 2010, 30 November 2011 and most recently 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>	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 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.

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 Creditors' Committee which has approved the basis and quantum of the Administrators' remuneration to 31 December 2010, totalling £2,476,586. The Administrators are in discussion with your committee for the remuneration for 1 January to 31 December 2011.

In the six months to 14 March 2012, a further £112,759 of remuneration has been drawn, being 75% of the Administrators' time costs for the period of 1 January 2011 to 30 June 2011, in line with the resolution agreed with your Creditors' Committee.

The Administrators' total time costs to 31 December 2011 are £2,782,598 which represents 7,782 hours at an average hourly rate of £357.59.

Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 14 March 2012, and a cumulative total since commencement of the Administration, is set out overleaf.

Key movements in period

- In the six months to 14 March 2012 a further £908k has been realised from the sale of tax losses to group companies.
- The 'Net proceeds from from the sale of LBAM' have reduced due to the reallocation of VAT.
- A further £91k has been earned in interest.
- The beneficiaries of the assets held on trust are: LB Redditch No 1 Limited and LB Redditch No 2 Limited. These funds are their recoveries in respect of tax refunds.
- The benefit of retaining LBAM's residual tax losses has resulted in recoveries of £1.4m.
- 'Assets held on trust – LB ODC3' have now been offset for reporting purposes.

Net receipts as at 14 March 2012 total £50.8m.

Section 5 Receipts and Payments Account

	GBP			USD			EUR		
	14-Sep-11	Movements in Period	14-Mar-12	14-Sep-11	Movements in Period	14-Mar-12	14-Sep-11	Movements in Period	14-Mar-12
Receipts									
Investments in subsidiaries	895,933	10	895,943	476,050	-	476,050	-	-	-
Tax refund	15,000	-	15,000	-	-	-	-	-	-
Sale of tax losses	6,518,540	908,470	7,427,010	-	-	-	-	-	-
Book debts	82,083	(10)	82,073	-	-	-	-	-	-
Financial assets	-	-	-	23,459	-	23,459	250,000	-	250,000
Bank Interest	100,475	90,822	191,297	227,212	-	227,212	5,785	-	5,785
Assets held on trust	6,043	1,265	7,308	-	-	-	-	-	-
LBAM tax loss receipts	-	1,421,326	1,421,326	-	-	-	-	-	-
Net proceeds from sale of LBAM	(846,921)	(1,039)	(847,960)	74,087,363	-	74,087,363	7,102	(3,725)	3,377
Assets held on trust - LB ODC3	4,115,021	(4,115,021)	-	-	-	-	-	-	-
Total Receipts	10,886,174	(1,694,177)	9,191,997	74,814,084	-	74,814,084	262,887	(3,725)	259,162
Payments									
Legal fees	488,642	23,046	511,688	4,161	-	4,161	-	-	-
Postage	988	-	988	-	-	-	-	-	-
Payments on behalf of subsidiaries	28,004	5,000	33,004	-	-	-	-	-	-
Assets held on trust - LB ODC3	4,115,021	(4,115,021)	-	-	-	-	-	-	-
Wages & salaries	4,339	4,562	8,901	-	-	-	-	-	-
Bank charges	8,302	21	8,323	841	39	880	67	-	67
IT costs	150,000	-	150,000	-	-	-	-	-	-
Joint Administrators' remuneration	2,476,587	112,759	2,589,346	-	-	-	-	-	-
Joint Administrators' category 1 disbursements	38,549	-	38,549	-	-	-	-	-	-
Professional fees	94,251	3,699	97,950	-	-	-	-	-	-
Insurance	154,272	7,494	161,766	-	-	-	-	-	-
Corporation Tax	289,610	(289,610)	-	-	-	-	-	-	-
Contribution to tax costs	35,188	549,378	584,566	-	-	-	-	-	-
VAT	485,084	(223,955)	261,129	-	-	-	3,725	(3,725)	-
Total Payments	8,368,837	(3,922,627)	4,446,210	5,002	39	5,041	3,792	(3,725)	67
Intercompany Transfers									
Payment	-	-	-	(74,702,478)	(101,000)	(74,803,478)	-	(254,000)	(254,000)
Receipt	45,828,094	272,360	46,100,454	-	-	-	-	-	-
Net Position	48,345,431	2,500,810	50,846,241	106,604	(101,039)	5,565	259,095	(254,000)	5,095
Cash Balances									
HSBC	304,014	250,283	554,297	106,604	(101,039)	5,565	259,095	(254,000)	5,095
Money market deposits	48,041,418	2,250,526	50,291,944	-	-	-	-	-	-
Total Cash/Movements	48,345,432	2,500,809	50,846,241	106,604	(101,039)	5,565	259,095	(254,000)	5,095

Total Cash as at 14 March 2012 based on exchange rates on 14 March 2012 was £50,854,063

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

