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# ***Lehman Brothers Limited – In Administration***

Joint Administrators' progress  
report for the period 15 March 2013  
to 14 September 2013

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27 September 2013

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# ***Section 1 Purpose of the Joint Administrators' progress report***

## ***Introduction***

This progress report has been prepared by the Joint Administrators (the 'Administrators') of Lehman Brothers Limited ('LBL' or the 'Company') under Rule 2.47(3)(a) of the Insolvency Rules 1986 (the 'Rules').

This is the tenth such progress report and provides an update on the work that the Administrators have undertaken, with particular focus on the progress made during the six months since 15 March 2013.

## ***Objectives of the Administration***

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

The specific aims of this Administration are to:

- Realise all assets of LBL, where value may exist;
- Provide ongoing employee and infrastructure support to the other Group companies that are in Administration in exchange for appropriate reimbursement; and
- Mitigate, as far as possible, any further liabilities against LBL by the transfer or termination of contracts.

## ***Creditors' Committee***

The Administrators regularly meet with the Creditors' Committee (the 'Committee') and, to date, seventeen meetings of the Committee have taken place.

The meetings with the Committee provide the Administrators with the opportunity to explain in detail how the Administrators are dealing with key aspects of the Administration and to consult the Committee on critical issues.

## ***Outcome for unsecured creditors***

The Administrators have now commenced payment of dividends to creditors with preferential unsecured claims (comprising claims for unpaid wages and holiday pay).

The Administrators are not in a position to give an estimate of the timing or quantum of any dividend to non-preferential unsecured creditors.

However, creditors should be aware that LBL is a shareholder of Lehman Brothers International (Europe) in Administration ('LBIE'), an unlimited company. LBL is therefore potentially liable for any shortfall to creditors of that estate (which may include both subordinated claims and interest). Clearly, this could have a significant impact on funds available to other creditors of LBL.

## ***Extension of the Administration***

As previously reported, on the application of the Administrators, the High Court granted an Order on 2 November 2011 to further extend the period of the Administration to 30 November 2013.

## ***Future reports***

The Administrators anticipate that they will circulate their next report to creditors in approximately six months or, if the period of the Administration Order is not extended, at the conclusion of the Administration.

Signed:



MJA Jervis  
Joint Administrator  
Lehman Brothers Limited

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## *Section 2 Joint Administrators' actions to date*

Prior to the Administration and as previously reported, LBL held most of the UK service and employee contracts on behalf of the Lehman Brothers Group of companies (the "Group") and provided all HR, IT, property, accounting and other services for the Group in the UK and Europe. LBL was also the lessee of the former European headquarters, located at 25 Bank Street, Canary Wharf.

From the commencement of the Administration, LBL continued to provide services to the other UK based Lehman Brothers Companies that are in Administration (the "Lehman Administration Companies"). LBL has recovered the associated costs of providing these services and sought to reduce the level of services provided by either discontinuing specific services, novating or transferring services to end users.

Since their appointment, the Administrators have utilised specialist teams from within PricewaterhouseCoopers LLP ("PwC"), who have worked with retained LBL employees, to ensure that the operations of LBL are properly coordinated and the objective of the Administration is met.

In the period of this report, the teams continued to be formed around the following activities:

- Human Resources & Pensions;
- Corporation Tax and VAT;
- Intercompany; and
- Recharges.

Further detail on the activities of the current teams is provided in the following pages of this report.

As at the date of the Administration, LBL's primary assets included inter-company receivables, tax refunds, IT assets and fixtures & fittings. The management and realisation of these assets have been the responsibility of the teams in order to maximise the outcome to the creditors of LBL together with the reduction of obligations to creditors.

Key progress from 15 March 2013 to 14 September 2013 includes:

- The Administrators have agreed with LBIE and other Lehman Administration companies to transfer to LBIE both the continuing services and the 400 employees still retained as at 31 May 2013, to settle the final balances in respect of the costs of service provision, and for the provision by LBIE of such services as LBL may require;
- As previously reported, in February 2013 the Administrators made an application to the High Court jointly with the Administrators of LBIE and Lehman Brothers International Holdings 2 Ltd (LBHI2) for directions in relation to the potential liability of LBL and LBHI2 in respect of shares held in LBIE, an unlimited company, and in relation to subordinated debt owed by LBIE to LBHI2. A discovery and disclosure process has been undertaken, including interviews of key Lehman personnel, and witness statements prepared and exchanged. The matter is now listed for hearing in the High Court in November 2013;
- Commenced payment of agreed preferential claims and increase of submitted claims to 62% of the total expected;
- Continued to pursue and recover amounts due to LBL from other Lehman Group companies; and
- The receipts and payments account on page 10 shows cash held in the six month period increasing by £39.5m and is now £170.1 m.

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## **2.1 Human Resources and Pensions**

### **Overview**

Human Resources (“HR”) was responsible for all matters relating to the provision of ongoing ‘business as usual’ HR support to c.400 Lehman employees and contractors. The cost effective management of a stable workforce has always been critical to achieving the objectives of the Lehman entities in Administration.

### **Highlights**

As the LBL Administration has progressed, LBIE became the predominant user of retained Lehman staff. The Administrators therefore agreed with LBIE and the other Lehman Administration companies that LBL would transfer to LBIE responsibility for the provision of services with effect from close of business on 31 May 2013.

Following consultation, the contracts of employment of all of the 400 staff then employed transferred to LBIE under the TUPE Regulations.

Payment of former employees’ agreed preferential claims commenced in June 2013.

### **Progress**

Notable areas of progress include:

- Transfer of all employees to LBIE, effective 31 May 2013;
- Continued progress with HMRC to resolve pre and post-Administration PAYE / NIC reconciliations;
- Continued progress made in the recovery of the remaining outstanding loans due to LBL from former employees, with £240k collected either directly or in connection with expatriate tax loans in this period. A total of £6.8m recoveries have been collected overall. It is anticipated that up to a further £100k may be recoverable.; and
- Of the submitted preferential claims, 100% have been reviewed and admitted or rejected. A total of 62% of former employees recorded as potentially entitled to make preferential claims have submitted claims.

### **Issues and Challenges**

Following the transfer of all employees to LBIE, the challenges faced by the HR workstream have significantly diminished.

The challenges for the next six months are:

- Review, adjudication and payment of former employees’ preferential claims as they are received;
- Review of former employees’ contracts and employment records to ascertain possible unsecured claims; and
- Continued recovery of the remaining outstanding loans due to LBL from former employees, either directly or in connection with expatriate tax loans.

### **Pensions**

Creditors may be aware of the judgment of the Supreme Court in July 2013 in the case of Nortel / Lehman.

This judgment concerned the potential liability of other Lehman Group companies to contribute to the deficiency in the Lehman Brothers Pension Fund (“the Fund”) either pursuant to Financial Support Directions or under Contribution Notices. The judgment did not directly impact LBL as the employer in relation to the Fund.

There have not been any further developments in relation to the claim for £119m submitted by the Trustees of the Fund under s. 75 of the Pensions Act 2004.

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## 2.2 Corporation Tax and VAT

### Overview

LBL was the Group Paying Agent of the Lehman UK tax Group and continues to be the representative member of the Lehman VAT Group. LBL, therefore, plays a key role in the Lehman UK tax affairs.

The primary objective of the tax team was the recovery of up to £466m (excluding interest but subject to Crown set-off) of corporation tax. This has largely been achieved, so the ongoing key objectives for the tax team, in addition to agreement of set off issues and recovery of the final repayments of corporation tax, have included:

#### Compliance

- Ensuring tax compliance and statutory filing obligations are met.

#### Planning

- Effective projection and planning to minimise tax leakage from the UK Group.

#### HMRC Relationship

- Maintaining a good working relationship with HMRC to facilitate the pragmatic and timely resolution of issues.

### Progress

Specific progress in the period includes:

#### Corporation Tax

- To date corporation tax repayments of £484m (including interest) have been received by LBL on behalf of the Group. However, no tax repayment was received in the six months ended 14 September 2013;
- Only one corporation tax repayment continued to remain outstanding, which may be subject to Crown set-off, i.e., reduced by PAYE and other employment tax liabilities due to HMRC;

#### VAT

- LBL is part of a VAT group for which it is the representative member. All group VAT returns have been submitted up to and including the quarter ended May 2013; and
- LBL continues to be due a VAT repayment of £1.2m for the November 2012, February and May 2013 VAT quarters.

### PAYE and other employment taxes

- Negotiations with HMRC have progressed to the point where the HMRC's claim has been agreed, however, discussions are ongoing as to whether certain elements are an expense (i.e., post appointment) rather than an unsecured claim; and
- Employee Benefit Trust (EBT) – a full response to issues raised by HMRC is currently being considered and a meeting may be required to discuss issues with a view to obtaining clearance and closure.

Over the next six months the tax team will focus on the following areas:

- Preparation and finalisation of 2012 financial accounts to enable 2012 corporation tax returns to be prepared;
- Continue to review, on a quarterly basis, the tax position of the Group and make corporation tax payments to HMRC, as required;
- Finalise and submit the 2011 Group loss position to HMRC, ensuring tax leakage from the Group is minimised;
- Progress the outstanding PAYE and other employment tax matters to facilitate the final corporation tax repayment, after set off; and
- Meet HMRC to discuss issues on EBT submission with a view to obtaining clearance and closure.

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## 2.3 Intercompany

### Overview

The global nature of the Lehman business, with highly integrated trading and non-trading relationships across the Group, led to a complex series of intercompany positions being outstanding at the date of Administration. These included 289 debtor and creditor balances between LBL and the rest of the Group representing, at book value, £1.2bn of receivables and £0.7bn of payables as at 15 September 2008. LBL has a high concentration of its overall Affiliate debtor balances (c. £1.1bn) in just 5 relationships. In addition LBL held guarantees from LBHI in respect of some claims against other group companies.

### Progress

The Intercompany team has continued to make progress on a number of significant receivable balances.

LBL was a service company for the Group and as such substantially all of the costs it incurred in the provision of services were recharged to other Group companies, either when incurred or over time. In aggregate, approximately 95% of all service provision costs were recharged to LBIE and Lehman Brothers Europe Limited ('LBEL').

LBL has submitted claims in the estate of LBIE and LBEL. These claims are potentially subject to adjustment in respect of both costs incurred by LBL in relation to the provision of services but not recharged prior to Administration (e.g., capitalised costs depreciated over time), and accrued costs recharged by LBL prior to Administration that may not materialise.

LBL is in discussion with the Administrators of LBIE and LBEL with the objective of identifying and as far as possible agreeing adjustments to LBL's claims to reflect costs actually incurred by LBL. Pending completion of this exercise the final balances between LBL and respectively LBIE and LBEL remain uncertain.

As described in Section 2 above, the Administrators have made application to the UK High Court, jointly with LBIE and LBHI<sup>2</sup>, for determination of various issues. It is not possible to indicate what recovery may be made in relation to LBL's claim against LBIE pending the Court's decision.

LBEL has already paid a dividend of 40p in the £ to its unsecured creditors and is holding a material reserve in respect LBL's claim.

Other material developments include:

- As creditors are aware, a Plan of Reorganisation of Lehman Brothers Holdings Inc ('LBHI') and the other Affiliates in US Chapter 11 proceedings ('the US Estates'), became fully operational and binding on 6 March 2012. To date LBL has received distributions totalling £27.4m (\$43.2m). The total recovery from these claims remains uncertain but is still anticipated to be in excess of \$55m;
- LBL's claim for \$225m in LBLIS has been agreed and an initial payment of \$44m (£28.6m) received. The quantum and timing of further payments remain contingent on the recovery by LBLIS of intercompany receivables and other balances, but material further recoveries are expected;
- LBL has agreed a settlement with Alvarez and Marsal (acting for LBHI) in respect of 76 Affiliates that were not subject to Chapter 11 proceedings, and \$8.25m has been received in full and final settlement of the amounts outstanding;
- LBL has received notification from the liquidators of Lehman Brothers Treasury B.V. ("LBT") that its claim of £1.89m has been admitted and the LBT plan of composition, which envisages regular distributions, was approved by the Dutch Court. LBL has now received a first dividend of £0.2m; and
- LBL has submitted a revised claim of CHF 1 m against Lehman Brothers Finance AG ("LBF"). The LBF liquidators have confirmed the claim has been validly submitted, but we await formal admittance.

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As previously reported, LBL's largest claim, for £710m, is against Lehman Brothers Holdings Plc ('LBH Plc'), which is in Administration. LBL's overall recovery from LBH Plc remains difficult to assess at this stage. However, the judgment of the Supreme Court in the Nortel / Lehman case has clarified the ranking of any potential pension liability in both LBH Plc and other Lehman Administration companies and in doing so, has cleared a significant obstacle to those companies making payments to their creditors including (where applicable) LBL.

The Intercompany team continues to proactively progress approximately 100 smaller LBL Affiliate balances where there remains a reasonable prospect of future realisations. This includes pursuit of a number of balances outstanding from US entities, additional to the 76 companies which are included in the settlement recently agreed.



## Section 3 Statutory and other Information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - Case 7945 of 2008
<i>Full name:</i>	Lehman Brothers Limited
<i>Trading name:</i>	Lehman Brothers Limited
<i>Registered number:</i>	846922
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<i>Company directors:</i>	D Gibb (resigned 17/07/2009), CL Heiss (resigned 31/10/2008), IM Jameson (resigned 17/07/2009), AJ Rush (resigned 28/10/2008), PR Sherratt (resigned 06/10/2008)
<i>Company secretary:</i>	M Smith, P Dave, ESE Upton (all resigned 25/01/2010)
<i>Shareholdings held by the directors and secretary:</i>	None of the directors own shares in LBL
<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 JG Parr, of PricewaterhouseCoopers LLP, 7 More London Riverside, 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 LBL's creditors as a whole than would be likely if LBL 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 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>Estimated dividend for unsecured creditors:</i>	It is too early to estimate the likely dividend for unsecured creditors.
<i>Estimated values of the prescribed part and LBL's net property:</i>	There is no qualifying floating charge holder, so there will be no prescribed part.
<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 applies to this Administration and the proceedings are the main proceedings.

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## ***Section 4 Joint Administrators' Remuneration***

### ***Background***

This section sets out the process for setting and monitoring the Administrators' remuneration.

In this case, the Creditors' Committee is responsible for agreeing the basis and quantum of the Administrators' remuneration.

### ***Insolvency Rules 1986***

By way of context, the manner in which the Administrators' remuneration is determined and approved is set out in the Insolvency Rules 1986 (2.106-2.109).

There are two alternative bases under the Insolvency Rules 1986, either:

- A percentage of the value of the property with which the Administrator has 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 Insolvency 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 to 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 ('SIP9')***

In addition to the Insolvency Rules, SIP9 provides guidance to insolvency practitioners and creditors' committees in relation to the remuneration of, inter alia, Administrators. The purpose of SIP9 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 fees 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.

The Committee members have each been provided with a copy of SIP9.

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***

As the remuneration is based on time costs the Committee has been provided with the time spent and the charge-out value, together with additional information setting out the approach to the project.

SIP9 guidance suggests the following areas of activity as a basis for the analysis of time spent:

- Administration and planning;
- Investigations;
- Realisation of assets;
- Trading;
- Creditors; and
- Any other case-specific matters.

The following categories are suggested by SIP9 as a basis for analysis by grade of staff:

- Partner;
- Manager;
- Other senior professionals; and
- Assistants and support staff.

In both cases the level of analysis and disclosure to the Committee has met or exceeded these standards.

SIP9 also suggests that an explanation of what has been done should include an outline of the nature of the assignment and the Administrator's own initial assessment, including the anticipated return to creditors. To the extent applicable it should also explain:

- Any significant aspects of the case, particularly those that affect the amount of time spent;
- The reasons for subsequent changes in strategy;
- Any comments on any figures in the summary of time being spent accompanying the request the Administrator wishes to make;
- The steps taken to establish the views of creditors, particularly in relation to agreeing the strategy for the assignment, budgeting, time recording, fee drawing or fee agreement;
- Any existing agreement about fees; and
- Details of how other professionals, including subcontractors, were chosen, how they were contracted to be paid, and what steps have been taken to review their fees.

Each of these matters has been covered in some length in the sessions the Administrators have held with your Committee.

Members of the Committee are bound by a confidentiality undertaking as some of the matters the Administrators have covered with them are commercially sensitive and could impact the level of recoveries by creditors if disclosed.

## **Resolution of the Creditors' Committee**

### *To pay costs on a 'time properly given' basis*

Given the fundamental uncertainties about the value of the property with which the Administrators have to deal, the Committee resolved to use the 'time properly given' basis – i.e. an hourly billing basis.

### *Hourly rates*

In accordance with SIP9, details of the hourly rates have been provided to the Committee.

### *Cost approvals to date*

During the period covered by this progress report, the Committee has approved remuneration of £923,164 which comprises 2,283 hours at an average hourly rate of £404 in respect of the period 1 November 2012 to 30 April 2013.

Remuneration approved by the Committee includes £3,705 for work performed for and recoverable from Affiliate companies.

The table below provides an analysis of the total hours and cost by grade of staff for remuneration approved by the Committee:

Global Grade	Total hours	Total (£)
Partner	141	121,281
Director	131	113,201
Senior Manager	572	285,429
Manager	251	107,778
Senior Associate	1,050	266,904
Associate	138	28,571
<b>Total</b>	<b>2,283</b>	<b>923,164</b>
Less work recoverable from Affiliate companies		(3,705)
<b>Net charge to LBL</b>		<b>919,459</b>

The Committee has also resolved that the Administrators may draw 75% of their time costs on account to assist with the smoothing of working capital. All such costs are subject to detailed reporting to the Committee and are ultimately subject to their approval. In the six-month period from 15 March 2013 to 14 September 2013 the Administrators drew remuneration of £868,047.

Part of the net charge to LBL reported in previous periods relates to work on corporation tax and VAT issues on behalf of the Group and has been partially recovered from other Group companies in this and earlier periods. In addition, the disbursements drawn in the six month period from 15 March 2013 to 14 September 2013 have been fully recovered from Affiliate companies.

# Section 5 Receipts and Payments to 14 September 2013

As at 14 Sept 2013      As at 14 Mar 2013

Amount in millions	GBP	EUR	USD	CHF	Total in GBP	Total in GBP	Movement
<b>Receipts</b>							
Contribution from third parties *	141.9	0.6	11.3	-	149.6	148.9	0.7
Building recharge receipts	129.8	-	-	-	129.8	129.8	-
Payroll recharge receipts	501.9	0.1	57.1	-	538.3	526.9	11.4
Other (including realisations and payments for other companies)	107.3	2.3	105.4	0.2	177.3	133.1	44.2
Tax related receipts	592.4	-	-	-	592.4	579.0	13.4
VAT received on invoices	7.1	-	-	-	7.1	7.1	-
<b>Total receipts for period</b>	<b>1,480.4</b>	<b>3.0</b>	<b>173.8</b>	<b>0.2</b>	<b>1,594.5</b>	<b>1,524.8</b>	<b>69.7</b>
<b>Payments</b>							
Building and occupancy cost	(178.9)	(0.3)	(62.8)	-	(219.1)	(219.1)	-
Payroll and employee costs	(519.3)	(2.8)	(45.2)	-	(550.4)	(538.6)	(11.8) ~
Return of recharge surplus	(1.4)	-	-	-	(1.4)	-	(1.4)
Other costs and payments	(64.9)	(0.2)	(1.2)	-	(65.8)	(65.8)	-
Other advisors' costs	(1.3)	-	-	-	(1.3)	(1.3)	-
Legal fees	(11.2)	-	-	-	(11.2)	(10.2)	(1.0)
Administrators' fees	(17.6)	-	-	-	(17.6)	(16.7)	(0.9)
Estate distributions	(1.3)	-	-	-	(1.3)	-	(1.3)
Return of Corporation Tax to group companies	(445.1)	-	-	-	(445.1)	(445.1)	-
VAT related payments	(101.0)	-	-	-	(101.0)	(87.6)	(13.4)
VAT paid on invoices	(8.6)	-	(1.4)	-	(9.5)	(9.1)	(0.4)
Intercompany transfer	(1.5)	-	-	-	(1.5)	(1.5)	-
<b>Total payments for period</b>	<b>(1,352.1)</b>	<b>(3.3)</b>	<b>(110.6)</b>	<b>-</b>	<b>(1,425.2)</b>	<b>(1,395.0)</b>	<b>(30.2)</b>
<b>Inter-currency transfers</b>							
Receipts from inter-currency transfers	67.7	2.7	57.8	-	106.7	68.7	38.0
Payments from inter-currency transfers	(31.1)	(2.4)	(112.8)	(0.2)	(105.9)	(67.9)	(38.0)
<b>Net inter-currency transfers</b>	<b>36.6</b>	<b>0.3</b>	<b>(55.0)</b>	<b>(0.2)</b>	<b>0.8</b>	<b>0.8</b>	<b>-</b>
<b>Net cash position</b>	<b>164.9</b>	<b>-</b>	<b>8.2</b>	<b>-</b>	<b>170.1</b>	<b>130.6</b>	<b>39.5</b>
<b>Bank balances</b>							
Bank of England	-	-	-	-	-	-	-
HSBC	1.0	-	8.2	-	6.2	2.1	4.1
Money Market Funds	163.9	-	-	-	163.9	128.5	35.4
<b>Net bank balance</b>	<b>164.9</b>	<b>-</b>	<b>8.2</b>	<b>-</b>	<b>170.1</b>	<b>130.6</b>	<b>39.5</b>

\* Includes elements of building & occupancy and payroll related recharges

~ Includes £0.3m of payroll costs attributable to Lehman Brothers Limited

GBP £ equivalent is for information purposes only.

Rates used for conversion prior to this period are Financial Times rates fixed on 14 March 2012.

1 USD = 0.6333 GBP

1 EUR = 0.8686 GBP

1 CHF = 0.7215 GBP

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