Lehman Brothers Limited
In Administration

Joint Administrators' progress report for the period
15 March 2009 to 14 September 2009

13 October 2009

Contents

Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the second progress report by the Joint Administrators (the "Administrators") of Lehman Brothers Limited ("LBL" or the "Company").

Creditors will have received the Administrators' proposals dated 5 November 2008 which were approved at the meeting of creditors held on 21 November 2008. Creditors will also have received the Administrators' first progress report dated 14 April 2009.

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 progress made in the six months since 14 March 2009.

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

Your Creditors' Committee (the "Committee") was elected at the meeting of creditors and its members are:

1. Lehman Brothers Holdings Inc;
2. The Trustees of the Lehman Brothers Pension Scheme;
3. Heron Quays (HQ2) T1 Limited; and
4. Origin HR Consulting Limited.

The Administrators meet with the Committee regularly. To date, six meetings of the Committee have taken place.

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

Outcome for unsecured creditors

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

However, creditors should be aware that LBL is a shareholder of Lehman Brothers International (Europe) – in Administration, an unlimited company. LBL is therefore potentially liable for any shortfall to creditors of that estate. Clearly, this could have a significant impact on funds available to other creditors of LBL.

Extension of the Administration

Further to an application made by the Administrators, the High Court issued an Order extending the period of the Administration to 30 November 2011.

Future reports

The next progress report to creditors will be in six months time.

Signed:

MJ Jervis

MJA Jervis
Joint Administrator
Lehman Brothers Limited

Section 2 Joint Administrators' actions to date

LBL was pivotal to the operations of the Lehman Brothers Group of companies (the "Group"), as it held most of the UK Groups' service contracts including employee contracts. LBL also maintained IT and general infrastructure to support the needs of the Group. It is also the head lessee of the headquarters of Lehman Brothers' European operations, at 25 Bank Street, Canary Wharf.

In Administration, LBL has continued to provide services to other Lehman Administration Companies, and to receive cash from other Group entities to cover these costs. LBL has been able to reduce the number, and therefore the value, of creditor claims it will receive.

Since their appointment, the Administrators have used specialist teams from within PricewaterhouseCoopers LLP, working with retained LBL employees, to ensure that the operations of LBL are properly coordinated and the objective of the Administration is met. The teams are formed around the following activities:

- Infrastructure and property;
- Information technology;
- Human resources;
- Pensions;
- Tax;
- Intercompany balances;
- Affiliate company relationships; and
- Recharges.

We comment in more detail on the activities of the teams in the following pages of this report.

The teams are coordinated and managed by a central Project Management Office ("PMO"), which is responsible for agreeing the overall team structures and objectives, monitoring their progress, and ensuring that they have appropriate resources.

Key actions to date includes:

- The sale of the Investment Banking, Global Finance and Equity divisions of LBL, Lehman Brothers International (Europe) ("LBIE") and other Lehman Administration Companies to Nomura Holdings Inc ("Nomura");
- The resolution of the legal and practical issues of separating and transferring approximately 2,400 employees in relation to the Nomura transfer;
- The support of the transfer of employees subject to management buyouts in accordance with the Transfer of Undertakings (Protection of Employment) Regulations ("TUPE");
- The relocation of people within the building (Nomura took a sublease of part of 25 Bank St) and the identification and recharging of costs;
- The reduction of costs by switching electricity provider and minimising space occupation, whilst generating additional revenue through the commercialisation of the auditorium and meeting room space on the first floor at 25 Bank Street; and
- The changing of the existing support models to deliver a simpler IT infrastructure, whist maintaining a stable IT environment.

A cost recharge agreement has been implemented to enable LBL to recover costs from other Lehman Administration Companies to the extent they are not recovered from other entities, or attributable to LBL's activities on its own behalf.

In addition to ensuring delivery of services to other Lehman Administration Companies, and to recharging and recovering costs incurred, LBL has its own assets, comprising primarily fixtures, fittings, IT assets and tax refunds, as well as inter-company receivables. The teams' responsibilities include the management and realisation of those assets, for the benefit of the creditors of LBL, and the minimisation of obligations to creditors.

Section 2.1 Infrastructure and Property

Background

LBL holds the service (infrastructure and property) and staff contracts, together with the leases on occupational properties and data centres which are integral to support the UK-based Lehman Brothers Companies that are still trading in Administration. Costs are recovered by LBL from the various Lehman Brothers entities (mostly LBIE) and subtenants.

The focus of the Infrastructure and Property ("I&P") team has been to:

- Ensure the continuation of infrastructure and property services;
- Process supplier transactions on behalf of the Lehman Administration Companies;
- Minimise the costs of infrastructure and property as far as practicable; and
- Co-ordinate the recovery of incurred costs from the various UK Lehman Brothers entities in Administration and subtenants.

The focus is to reduce the LBL property costs and to simplify the IT infrastructure whilst providing an appropriate level of service to other Lehman Companies.

Progress to date

Since our first progress report, the I&P team have:

- Defined the long term real estate and data centre strategies and solutions;
- Defined an asset usage charge for all IT assets;
- Completed the disposal of residential and office properties that are not required;
- Identified and consolidated un-utilised and/or under-utilised floors in 25 Bank Street in order to lock down those floors, to maximise business rates relief and reduce utility costs;
- Generated additional revenue through the commercialisation of the auditorium and meeting room space on the first floor at 25 Bank Street. Repeat business has been won and some additional revenue will continue to be received from these recurring events;
- Implemented an appropriate service charge methodology for all sub-tenants;
- Recovered valuable assets from vacant space for re-deployment or sale;
- Substantially completed the recording, categorisation and archiving of documentation left by staff who are no longer part of the business;
- Progressed the implementation of a document management and retrieval system to enable efficient retrieval of required documents from archives;
- Progressed the implementation of a contract management database to enable effective management of contracts with upcoming termination and/or renewal dates;
- Clarified the ownership of the assets (furniture, fixtures and fittings) remaining in 25 Bank Street to enable an appropriate asset realisation strategy to be put in place; and
- Co-ordinated the timely recovery of incurred costs on an appropriate basis from the participating entities and sub-tenants.

Issues and challenges

Over the next 6 months, the LBL I&P team's main priorities will include:

- Progressively reducing the LBL cost base, in terms of real estate and IT infrastructure costs;
- Delivering a new independent IT infrastructure;
- Completing the disposal or transfer of the remaining European offices;
- Finalising the best management structure to support the running of 25 Bank Street; and
- Renegotiating service contracts coming up for renewal to reduce services provided (where possible) and thereby further reducing costs.

Section 2.2 Information Technology

Background

The role of the Information Technology ("IT") team is to provide the Lehman Administration Companies with a secure, stable, cost effective and appropriate technology platform to facilitate the activities and financial objectives of the Administration.

The vast majority of the service is the delivery of business applications and infrastructure to support the LBIE Administration, which is recharged accordingly. However, desktop, network and communications infrastructure is for the benefit of all Lehman Administration Companies located at Bank Street.

Within this over-riding objective there are distinct short- and long-term objectives around which the IT tasks are organised.

The key tasks required to deliver the short-term objective of maintaining the operational technology platform include:

- Support of applications required by the business, including tools developed specifically to support the Administration;
- Delivering robust IT security;
- Managing the service delivery from Nomura and Barclays Capital ("BarCap");
- Managing contracts with key external parties; and
- Supporting forensic investigations.

The long term objective, which is to rationalise the technology footprint and reduce costs, will be achieved during 2010 through the delivery of a cost reduction programme. The cost reduction programme is organised around three interdependent initiatives:

- Forensic data capture;
- Application rationalisation; and
- IT infrastructure rationalisation.

The delivery of the change programme is scheduled to coincide with the expiry of the Transitional Services Agreement ("TSA") with Nomura in October 2010, through which Nomura provides the Administration with technology services.

The Administration also requires provision of technology service from BarCap through its US platform. Services provided through the TSA with BarCap are charged to the Administration at a rate of cost plus 15%, therefore applications hosted by BarCap have been prioritised within the change programme.

The investment required for the change programme is $52m for the application and infrastructure rationalisation and $20m for forensic data capture, over 3 years delivering expected cost reduction benefits of $95m per annum from 2011 onwards.

Progress to date

The TSA with BarCap was signed in June 2009 after extensive negotiation to ensure that standard and certainty of technology services delivered under the contract would be adequate for the needs of the Administration. Concluding the TSA negotiations has enabled:

- Additional access to applications hosted by BarCap, improving the rate of processing by the Activities and Workstreams;
- Knowledge transfer of applications to facilitate the application rationalisation and forensic data capture work; and
- Delivery of Lehman Administration Companies data held on BarCap systems for forensic data capture.

Other key highlights include:

- Applications used for Administration activities reduced by 43, from 154 to 111;
- Initiation of the IT change programme;
- Further enhancements to the Asset Realisation Tool ("ART") that was developed to support the core Administration processes;
- Cash Pricing Tool developed to allow for the regular re-pricing of all cash securities;
- Deployment of a single repository of client communications and details;
- Forensic historic data capture from 30 of the targeted 110 applications completed. The target for completion is early 2010;
- Solutions defined for future state application landscape;
- 2 of the 12 application rationalisation projects have been successfully delivered. The target for completion of all 12 projects is mid 2010; and
- The high level design for the rationalised data centre is complete. The target for go-live is late 2009.

Forensic data capture

- Identified 110 key applications to be preserved to support investigations and regulatory and compliance reviews from a total of over 2700 global applications;
- Completed the data capture of 28% and the knowledge transfer for 21% of the applications based in the UK and US; and
- Developed the mechanism for identifying historical data from pre- and post-Administration backup tapes (c. 50,000 tapes) in order to support investigations and data requests from Affiliates.

Administration tools

- Client contact history database delivered and rollout across the Administration has commenced;
- Reference database of historic cash security prices completed, with automated daily updates of new prices;
- ART tool now enhanced to handle all termination notices, counterparty agreements and counterparty rollups; and
- The pricing of all cash securities has been automated via Security Pricing Tool ("SPT"), so that cash securities held in the estate can be regularly priced.

Application rationalisation

- The application rationalisation programme has been initiated to achieve delivery of the target state architecture by mid 2010; and
- The programme is now well established and integrated with a business change team to ensure projects are rolled out with minimal or managed impact to the business.

IT infrastructure rationalisation

- Completion of a strategy for the design, development and operation of the rationalised data centre;
- Mobilisation of the team to govern and support the delivery of the project; and
- Design complete for the rationalised data centre required to maintain operational continuity.

Issues and challenges

- As highlighted in the April 2009 progress report, the acceleration of the change programme, while continuing to deliver a secure and stable operational environment, has required additional resources and investment to the IT function. Although early delivery of the programme would result in cost reduction benefits ahead of schedule, the additional investment and disruption to the business in accelerating the programme would be counter-productive to achieving the Administration's primary objectives;
- In order to deliver the programme it will be necessary to retain key staff to operate the existing environment and contribute to the programme delivery;
- Maintaining service levels delivered under the TSA has required significant attention from IT management. It is expected that a combined focus on separation, which will benefit both parties, will improve delivery performance; and
- The co-mingled nature of the data residing on the European systems continues to impact the speed with which data can be delivered to Affiliates without breaching data and banking regulations. A team has now been established to separate out the client confidential data required by Affiliates.

Over the next six months, the IT function will be focused on:

- Ongoing support of the IT architecture;
- Continued refinement of tools to support the Administration;
- Management of TSA services;
- Continued reduction of applications;
- Significant move towards independent IT infrastructure operations;
- Delivery of a solution to host read only data from multiple applications in a data store;
- Data capture and knowledge transfer of all remaining targeted applications based in the US and the UK;
- Replace core IT infrastructure dependence on Nomura with Lehman Administration Companies staff; and
- Commission rationalised data centre strategy and execute separation of the existing infrastructure.

Section 2.3 Human Resources

Background

Approximately 5,500 personnel were deployed in the operations of the Lehman Administration Companies worldwide at 15 September 2008, and LBL continues to employ approximately 500 people.

The majority of employees working for the Lehman Administration Companies had employment contracts with LBL, the central employing company, and their payroll costs were recharged to the relevant company.

The focus of the human resources ("HR") team has been to:

- Run an efficient HR function to effectively deliver statutory employee requirements and mitigate employee risk and claims;
- Maintain tight control around the management of the remaining workforce;
- Drive the Performance Management Process including the completion of all mid-year reviews;
- Support the TUPE transfer of employees within parts of the business subject to management buyouts;
- Complete all employee related tax reporting for the 2008/2009 fiscal year;
- Provide ongoing HR support to employees; and
- Implement resource planning and employee retention strategies.

Progress

The overall employee population has been relatively stable in the period, with an acceptable level of turnover and replacement hiring. Notable areas of progress are:

- Preparation and filing with Her Majesty's Revenue & Customs ("HMRC"), the P11d and annual settlement form, detailing the payments, expenses and benefits made to employees for both the pre- and post-Administration periods;
- Over 100 replacement and additional hires have been made since the Administration began. A rigorous process is in place to assess the business justification for the hire and to ensure that the most appropriate and cost effective resource is utilised;
- Rigorous mid-year performance management;
- Continued provision of HR support to employees;
- Completion of the TUPE consultation and transfer process in relation to certain management buyout deals – c. 96 employees were transferred to new employment;
- Management of employee litigation cases to minimise claims against the Administration;
- Active pursuit and collection of outstanding amounts owed to the Company from ex-employees in connection with outstanding tax, forgivable and season ticket loans; and
- Regular communication to employees around issues that impact them personally and reinforcing their role within the Administration.

Issues and challenges

The employee dynamic is evolving as the Administration develops. There are a number of challenges that are being addressed to ensure that the appropriate resources are in place to support the achievement of the overall objectives of the Administration.

- An operating model was developed and implemented to restructure the workforce into workstreams to better support the Administration. This model continues to evolve and it is imperative that employees receive regular communication of these changes and how their role forms part of the overall model;
- Understanding and matching human resources to the changing needs of the Administrations to ensure that business deliverables are not compromised; and
- Retaining, assessing, rewarding, and motivating key employees to support the success of the wind down.

Over the next 6 months, the HR Team will focus on the following areas:

- Understanding the resource requirements for 2010 and beyond, and developing the operating model to meet these requirements;
- Operating a robust year end performance management process to ensure employees are rewarded based on their performance against objectives;
- Determining the performance bonus awards for 2009 and developing the performance award approach for 2010;
- Ensuring that 2010 objectives for employees are submitted and that these are closely aligned to the objectives of the Administration;
- Implementing a new HR database to store data required for current and past employees;
- On-going management of HR issues, mitigating employee relation risks and supporting employee transfers to new companies;
- Reviewing employee benefits and training needs to support ongoing performance and retention; and
- Soft skills training to improve the quality of people management.

Section 2.4 Pensions

Background

LBL operated one main pension scheme for its employees, namely the Lehman Brothers Pension Scheme (the "Scheme"). LBL is the principal employer of the Scheme, which included both defined benefit and defined contribution sections.

Progress to date

The Scheme continues to be administered by its Trustees. The Administrators are aware that the Trustees are progressing with actions which are appropriate for the Scheme following the Administration.

The Administrators have received an initial proof of debt from the Scheme trustees and the Pension Protection Fund for £148m. The Administrators have not yet received a final proof of debt, in which the debt claimed is confirmed in a certificate signed by the Scheme actuary, but they expect to receive this in due course.

The Administrators have continued to respond to requests and formal notices from the Pensions Regulator, requiring disclosure of information concerning the Lehman Brothers Group in the UK. The Administrators have also continued dialogue with the Regulator as appropriate.

A claim was submitted by the Administrators to the Redundancy Payments Service for £51,082.46 in relation to outstanding contributions due to the defined contribution section of the Scheme as at the Administration date. This amount has now been paid to the Scheme.

Issues and challenges

In addition to the Scheme, LBL had also established a number of small defined contribution pension schemes. LBL itself acted as the Trustee of a number of those Schemes.

An exercise to wind up the pension schemes, of which LBL acted as Trustee, is ongoing and is expected to be completed by the end of 2009.

Section 2.5 Corporation Tax and VAT

Background

The tax structure is complex and the issues for LBL are closely connected with those of the Group. Securing tax repayments for the Group of up to £400m is key, but protecting tax losses for the future is also essential, as tax arising post-Administration is an expense of the Administration.

The key objectives for the Tax team are as follows:

- **Corporation tax repayments –** to bring the tax affairs of the Group up to date and facilitate the recovery of tax paid in prior years. The work has developed into careful planning of loss utilisation to minimise post-Administration tax exposure;
- **Tax strategy –** liaison with HMRC to confirm that the tax group has been maintained, which will allow for Group tax planning for the post-Administration periods;
- **Transaction tax planning –** management of tax liabilities arising from transactions, to maximise the return to the estate; and
- **Tax risk management –** to develop procedures to ensure that tax risk are managed within LBL and the Group, to avoid tax leakage.

Progress to date

- All accounts and tax computations are required for companies within the Group Payment Arrangement ("GPA") – LBL being the representative member co-ordinating the Group tax relationship with HMRC;
- Significant progress has been made to bring outstanding accounts and tax computations, for the year ended 2005 and successive years, up to date. Approximately 30 computations remain outstanding for the 2007 year end, and computations for the key entities, for the 2008 year end, will be prepared;
- The timing of the tax recovery is uncertain, given the current economic climate;
- The quantum of the repayment and allocations to specific Group companies, including LBL, is complex given the nature of the GPA, and the variety of stakeholders included;
- Another complexity to the repayment of corporation tax is the application of set off within the GPA companies. HMRC/Enforcement Office have still to opine on this matter, which has been outstanding since November 2008; and
- Our strategy has been to minimise and finalise the likely pre-appointment Crown creditors which will be subject to set off. The key liability is PAYE and NI of approximately £15m for the August 2008 payroll.

VAT

- The first post-appointment VAT return for the LBL VAT group (of which LBL is the representative member) has been submitted, for the period to February 2009, resulting in an expected Group net repayment of c. £8.9 million. Individually however, LBL is in a net payment position within the consolidated return;
- A meeting was held with the HMRC on 29th September 2009 to discuss the submitted pre- and post-appointment VAT returns. Documentation in support of both returns has been requested. The post-appointment information has been compiled and is soon to be submitted, whilst the information available in support of the pre-appointment return is currently being reviewed; and
- The second post-appointment VAT return for the period March to May 2009 is currently being collated for submission to HMRC.

Issues and challenges

- **Accounting –** the preparation and submission of tax computations depends upon draft accounts being prepared for open years (since 2005 in some cases). Given the complex accounting and specialist resources required, preparing the appropriate accounts is not straightforward. The target completion for the submission of all 2007 and key 2008 tax computations is 31 December 2009;
- **Tax repayment –** A meeting has been arranged with HMRC for October 2009 to discuss the likely hurdles to securing a tax repayment, and to discuss a likely repayment date. Clearly, there are a number of factors that will influence the timing;
- **Group relief –** the tax repayment is reliant on efficient utilisation of tax losses within the Group – but there may be a requirement to retain losses in certain companies to shelter future post-Administration taxable income. This will be reliant on the decision by the HMRC as to the validity of the tax group, post-Administration. HMRC have still to conclude on this; and
- **Group relief "strawman" –** given the GPA and the requirement for group relief to secure tax repayments prior to appointment, an equitable mechanism for the payment for group relief and repayment of tax has been prepared and will be discussed with stakeholders over the next few months.

Section 2.6 Intercompany

Background

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 include approximately 270 debtor and creditor balances between LBL and the rest of the Group representing, at book value, $1.9bn of receivables and $1.2bn of payables as at 15 September 2008.

Progress to date

The primary focus at the outset of the Administration was to ensure that the interests of the Lehman Administration Companies were preserved with the Lehman Group Companies – in particular meeting the claims filing bar dates set by Lehman Brothers entities in Japan and Switzerland. This remains a key focus and in the last 6 months there have been claims filed with Group Companies in Australia and Cayman, but most notably in the US in respect of Lehman Brothers Holdings Inc. ("LBHI") (the ultimate parent company) and 19 other entities in Chapter 11. LBL's claims amounted to $7m and were filed by the due bar dates.

The intercompany team has continued to make significant progress, including:

- Preparation of 'guarantee claims' (due in mid October) against LBHI for the guarantees it provided in respect of some 20 other Lehman entities;
- Active dialogue with the office holders in the US, Asia and Europe, including UK, Netherlands and Germany;
- Defining the evidencing standards for both trading and non trading balances;
- Creating and utilising a standard evidencing pack for general intercompany balances; and
- Establishing a secure central repository for storing supporting documentation and evidence for claims.

Significant progress has been made as a result of the intercompany team adopting the following approach:

- A team has been set up to prepare evidence for intercompany claims;
- Another team has been set up to interact with all relevant overseas Insolvency Practitioners to progress claims post filing;
- Two specialist teams have been set up to focus on non-trading and exceptional items, supported by an experienced, cross disciplined, advisory group;
- Use of standardised documentation; and
- Leveraging the LBIE intercompany teams, which are predominantly staffed with former employees of the Lehman Administration Companies, to assist in the trading elements of the intercompany validation and claims filing.

Issues and challenges

The intercompany relationships are complex given the multiplicity of locations and arrangements between Affiliates. LBL provided multiple services to Affiliates under various legal agreements including staff, premises and other expense recharges.

The recovery of LBL intercompany debts is contingent on the recovery of assets in LBL's Affiliate debtors.

The challenges inherent in filing trading claims across the world are many and include:

- A significant volume of securities and non-securities trading transactions; and
- Uncertainty over the precise scope and impact of various intercompany guarantees and trading agreements.

Work is ongoing to address these issues.

Section 2.7 Affiliate company relationships

Background

LBL will continue to provide appropriate levels of professional cooperation with Affiliate company Office Holders, dealing with these relationships on individual bases, governed through appropriate bilateral agreements between the parties. Such agreements will ensure that LBL's costs of supporting such Affiliates are appropriately recovered.

Since the publication of our first report, 30 legal entities across the Americas, Europe and Asia have signed up to the multi-lateral 'Global Protocol' which requires the entities to provide access and information to each other. LBL's position with respect to the Global Protocol continues to be that it is not in the best interests of LBL and its creditors to be bound to such a broad arrangement which could potentially place a very significant burden on LBL, to the detriment of its general body of creditors.

Progress to date

Due to the nature of LBL as a service company, employing the majority of Lehman staff in the UK, as well as maintaining the IT infrastructure and property arrangements, LBL's support to other Lehman entities has been an ongoing requirement. LBL has sought to ensure that the support required by various Affiliates has been managed in a manner that demonstrates clear benefits to LBL's creditors in its provision. Bilateral discussions were commenced with various Affiliates in late September 2008 with a view to collaborating in areas which would mutually benefit the various estates.

There is open dialogue with a number of Affiliates and a scoping process has been developed by the LBL Data Governance team, in close conjunction with the Affiliate Company Relationships Team, in order to facilitate these conversations. This has improved the efficiency of the dealings with Affiliate companies and has helped inform them of the 'art of the possible'.

As a result of discussions with Affiliate companies, to date, three bilateral agreements have been signed:

1. The Transitional Services Agreement ("TSA") negotiated by LBL and agreed with LBHI and certain of its Affiliates during November 2008;

2. An assignment of the TSA with LBHI was taken by Neuberger Berman Europe following its purchase of Lehman Brothers Asset Management (Europe) on 7 May 2009; and

3. An agreement with Lehman Brothers Treasury Co. BV, the Dutch entity, to provide a specified data set.

US Affiliates

Since the TSA was signed in November 2008, considerable support has been provided to LBHI. The payment for this support continues to be recharged according to the terms of the TSA and, significantly, from 15 May 2009 this has allowed for the recharge of 'fully loaded' costs, as well as a prescribed uplift for the benefit of the service provider.

In order to account for the application of the fully loaded cost recharge methodology, LBL has implemented an online time recording system covering all LBL employees performing work for the benefit of LBHI, which went live on 15 May 2009. Separate reporting codes have also been set up for PwC employees performing work for the benefit of LBHI. These two systems allow LBL to accurately capture and recharge any time costs incurred as a result of the relationship with LBHI. Similar mechanisms are being implemented for other Affiliate relationships as required.

As a result, from the inception of the TSA to 14 September 2009, the amount invoiced to the LBHI Estate, including Neuberger Berman, totalled £48.2m, including a direct benefit to LBL of £7.5m. In comparison, in the same period, LBHI had invoiced LBL a total of £11.4m with an associated benefit of £1.5m.

A fundamental goal of the team, and the TSA, is the reduction in the level of interdependence between LBL and LBHI. In accordance with this, both parties have made good progress in reducing their mutual dependencies through various business separations and staff transfers. The agreed shared resources in September 2009 consisted of only 17 employees compared with 69 employees in March 2009. This clearly outlines the reduction in interdependence, which should continue as LBHI plan their exit from 25 Bank Street, scheduled for mid-October 2009.

To date, LBL has assisted a number of entities to move out of 25 Bank Street under the provisions of the TSA. The exit of Real Estate Private Equity, scheduled in mid-October will represent the complete separation of the Investment Management Division from the LBL Estate, subject to some continuing, but finite IT support. This separation has consisted of the exit of Private Equity Merchant Banking (Trilantic Capital Partners) in May, Private Equity Euro-Mezzanine Fund in June and Neuberger Berman in August 2009.

European Affiliates

The UK Administrators have offered considerable support to various European Affiliates. These efforts have included:

- Active dialogue from the inception of the case, including meetings in the UK and elsewhere;
- The formation of a dedicated team to manage dealings with Affiliates;
- The formation of a dedicated data separation team to deal with the data requests of non-UK office holders;
- The introduction of a formalised data request system, facilitating the proper management and prioritisation of Affiliate requests; and
- Regular update meetings to monitor and prioritise progress over data extraction requests and share updates with Affiliates.

The provision of services to the Affiliates is provided on a cost indemnity basis and can only be provided where there is sufficient, available appropriate human resource and information systems capacity.

As the business models of the individual Affiliate companies vary widely the service needs are different. As outlined in the section on progress to date, tailored bilateral agreements, on commercial terms, are being negotiated with affected Affiliates.

Issues and challenges

The issue of information sharing is at the centre of the relationship with LBHI and indeed all Affiliates. LBL and LBHI are working closely to find solutions to the complex environment in which they find themselves. Both parties have agreed to set up a working party to define the issues with respect of co-mingled data and explore the potential resolution of these issues.

Risk management remains a vital aspect of Affiliate company relations, not just in terms of data provision and the risks surrounding co-mingled data, but in terms of investing in relationships. LBL remains vulnerable to time invested in scoping, servicing or data separation activities for Affiliates, prior to signature of services agreements. However, LBL remains committed to managing this exposure through the scoping process implemented, which ensures that agreements are only entered into when commercially viable terms can be reached; alternatively, negotiations are terminated if it becomes apparent that this is not the case. As such, an important challenge is to progress the relations with Affiliate companies, identifying where productive relationships exist and executing appropriate bilateral agreements.

Another key challenge facing LBL is the recovery of costs in relation to key areas such as IT and the provision of facilities to both LBHI and Neuberger Berman. With respect to IT support, this is close to an equitable resolution. The payment for provision of facilities remains a bigger issue and there are some fundamental discrepancies in the interpretation of fully loaded costs by the parties involved. Discussions are, however, ongoing with respect to this issue.

Section 2.8 Recharges

Background

LBL exists as a service company, holding contracts and making payments to employees and suppliers for services that enable the other Lehman Administration Companies to perform their functions, but which do not necessarily benefit LBL on a standalone basis.

The priority upon Administration was to establish and implement a Cost Recharge Agreement to provide LBL with a contractual entitlement to recover its outgoings from other Group companies.

Under the Cost Recharge Agreement, LBL is reimbursed for payroll costs relating to any employee paid by LBL, who has worked for a group company. The identity of the group company concerned is determined by reference to the objectives that have been agreed with each employee and which refer to the various work-stream activities being undertaken.

To recover building, occupancy and operational costs, which account for all non-payroll costs incurred by LBL, we apportion the total budgeted costs across the Group companies, based on the proportion of Lehman Group staff working in 25 Bank Street on behalf of each company. This method was decided upon as it gives an indication of the level of activity being carried out in each company and the costs incurred in support of that activity

Progress to date

Further to staff moves which have occurred since the last update, LBIE now accounts for approximately 97% of Lehman Group staff working at 25 Bank Street and as a result LBIE is responsible for that percentage of building, occupancy and operational costs. In recognition of this, we hold regular meetings with LBIE to discuss the costs incurred. The fact that costs for vacant space need to be recharged makes occupation of 25 Bank Street more expensive than market rates, but, as a service company, LBL is committed to recharging all of its costs.

As at 31 August 2009 we had issued invoices to Lehman Group companies under the Cost Recharge Agreement totalling over £245 million.

Section 2.9 Extension of the Administration

Extension of the Administration

On 28 July 2009 the Administrators made an application to Court to extend the period of the Administration. The Court made an Order extending the Administration until 30 November 2011.

The application was made for the following reasons:

- There are various matters in the estate that, in the Administrators' view, would be better dealt with in Administration;
- Entering into an insolvency process other than Administration has the effect of breaking the Group of Companies for tax purposes. The Administrators are aware that there are potential tax losses within the Group of Companies which may have value to this estate, and which would be lost if LBL entered into another insolvency process; and
- The Administrators have not yet determined the most appropriate exit route from Administration.

Section 3 Statutory and other Information

Court details for the Administration:	High Court of Justice, Chancery Division, Companies Court - case 7945 of 2008
Full name:	Lehman Brothers Limited
Trading name:	Lehman Brothers Limited
Registered number:	846922
Registered address:	25 Bank Street, London E14 5LE
Company directors:	D Gibb, CL Heiss, IM Jameson, AJ Rush, PR Sherratt
Company secretary:	M Smith, P Dave, ESE Upton
Shareholdings held by the directors and secretary:	None of the directors own shares in LBL
Date of the Administration appointment:	15 September 2008
Administrators' names and addresses:	AV Lomas, SA Pearson, DY Schwarzmann & MJA Jervis, of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT
Appointer's name and address:	High Court of Justice, Chancery Division, Companies Court
Objective being pursued by the Administrators:	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).
Division of the Administrators' responsibilities:	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.
Details of any extensions of the initial period of appointment:	The Court has granted an extension of the Administration to 30 November 2011.
Proposed end of the Administration:	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.
Estimated dividend for unsecured creditors:	It is too early to estimate the likely dividend for unsecured creditors.
Estimated values of the prescribed part and LBL's net property:	There is no qualifying floating charge holder, so there will be no prescribed part.
Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:	Not applicable as there is no prescribed part.
The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):	The European Regulation on Insolvency Proceedings applies to this Administration and the proceedings are the main proceedings.

Section 3.1 Statement of Affairs

As mentioned in the previous report, the Administrators granted the directors of LBL an extension of time in which to prepare a Statement of Affairs (the "Statement") due to the complexity of the task.

The directors have recently finalised the Statement which will be filed at Companies House and made available on the PwC website.

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

In accordance with SIP9 the Committee has been provided with details of the charge-out rates of all grades of staff which are involved on the case.

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 suggest 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 we have held with your Committee.

Members of the Committee are bound by a confidentiality undertaking as some of the matters we 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 with the Committee resolved to use the "time properly given" basis – i.e. an hourly billing basis.

Fee rates

Details of the hourly fee rates have been provided to the Committee.

Cost approvals to date

For the period 15 March 2009 to 14 September 2009, the Committee has approved remuneration of £1,428,153 which comprises 3,890 hours at an average hourly rate of £367.13.

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

Global Grade	Total Hours	Total £
Partner	154	128,938
Director	238	189,291
Senior Manager	685	317,391
Manager	1,052	435,281
Senior Associate	814	197,869
Associate	947	159,383
Grand Total	**3,890**	**1,428,153**

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 ultimately subject to their approval. In the six-month period from 15 March to 14 September 2009 we drew remuneration of £1,055,374, which represents 100% of the time costs from 1 February to 12 June 2009, plus 75% of our time costs from 13 June to 31 August 2009, less £171,752 previously billed on account.

It is likely that current levels of activity will be sustained for some time and we therefore expect that these costs will continue to accrue at a similar rate over the coming months.

Section 5 Receipts and Payments to 14 September 2009

	GBP (millions)	EUR (millions)	USD (millions)	Total as at 14 Sep 09 (USD millions equivalent)	Total as at 14 Mar 09 (USD millions equivalent)	Movement (USD millions equivalent)
Receipts						
Payroll recharge receipts	190.0	0.6	53.2	369.8	230.0	139.8
Building recharge receipts	67.1	–	–	111.5	69.0	42.5
Loan from LBIE	(0.4)	2.7	34.3	37.5	42.4	(4.9)
Contribution from third parties	40.7	–	–	67.6	34.6	33.0
Other	23.4	0.3	4.2	43.5	11.5	32.0
VAT received	2.1	–	0.0	3.5	1.2	2.3
Total receipts for period	**322.9**	**3.6**	**91.7**	**633.4**	**388.7**	**244.7**
Payments						
Payroll and employee costs	(220.6)	(2.8)	(25.1)	(395.6)	(233.5)	(162.1)
Building and occupancy cost	(81.8)	(0.2)	(35.6)	(171.8)	(57.3)	(114.5)
Payments to LBIE in respect of loan and other items	–	–	(19.8)	(19.8)	(67.3)	47.5
Legal fees	(4.0)	–	–	(6.7)	(3.1)	(3.6)
Intercompany transfer	(1.4)	–	–	(2.3)	(2.3)	(0.0)
Administrators' remuneration	(2.4)	–	–	(4.0)	(1.9)	(2.1)
Other advisors' costs	(0.6)	–	–	(1.1)	(0.6)	(0.5)
Other cost	(2.9)	(0.2)	(0.1)	(5.2)	(3.6)	(1.6)
VAT paid	(7.0)	–	(0.8)	(12.4)	(5.1)	(7.3)
Total payments for period	**(320.7)**	**(3.2)**	**(81.4)**	**(618.9)**	**(374.7)**	**(244.2)**
Inter-currency transfers	6.3	–	(10.0)	0.5	–	0.5
Net position	**8.5**	**0.4**	**0.3**	**15.0**	**14.0**	**1.0**
Bank balances						
Bank of England	1.0	0.1	0.1	1.8	5.1	(3.3)
HSBC	7.5	0.3	0.2	13.2	8.8	4.4
Barclays	0.0	–	–	0.0	0.1	(0.1)
Balance	**8.5**	**0.4**	**0.3**	**15.0**	**14.0**	**1.0**

USD $ equivalent is for information purposes only.

Rates used for conversion are Financial Times rates on 14 Feb 2009:
1 GBP £ = 1.6614 USD $
1 Euro € = 1.4631 USD $