Lehman Brothers Limited
In Administration

Joint Administrators' progress report for the period
15 September 2009 to 14 March 2010

13 April 2010

Contents

Section 1 Purpose of the Joint Administrators' progress report

Introduction

This 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 third such 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 September 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

The Administrators regularly meet with the Creditors' Committee (the "Committee") and, to date, eight 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 ("LBIE"), 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.

Additional Joint Administrator Appointed

On 23 November 2009 DA Howell, was appointed as an additional Joint Administrator by order of the Court. DA Howell is licensed in the United Kingdom to act as an insolvency practitioner by the Institute of Chartered Accountants in England and Wales.

AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis continue to act as Joint Administrators of the Company.

Change of Address

The Company has relocated from 25 Bank Street and all future correspondence should be addressed to Level 23, 25 Canada Square, London, E14 5LQ, United Kingdom.

Future reports

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

Signed:

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 and employee contracts. LBL also maintained IT and general infrastructure to support the needs of the Group. It is also the head lessee of the former European headquarters at 25 Bank Street, Canary Wharf.

In Administration, LBL has continued to provide services to other UK-based Lehman Brothers Companies in Administration (the "Lehman Administration Companies") and to receive cash from other Group entities to cover these costs. LBL has been able to reduce the number, and value, of creditor claims it will receive.

Since their appointment, the Administrators have used specialist teams from within PricewaterhouseCoopers LLP ("PwC"), 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;
- 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 progress since 15 September 2009 includes:

- The relocation of the Lehman Administration Companies to 25 Canada Square;
- Implementation of performance management, incentive and other arrangements to support the retention of employees, and completion of 72 new hires in the period covered by this Report;
- The continued implementation of the Information Technology change program to rationalise the technology footprint and reduce costs;
- Obtaining agreement from Her Majesty's Revenue and Customs ("HMRC") that the Lehman Administration Companies and subsidiaries can be treated as a Group for tax purposes, thereby enabling the efficient utilisation of tax losses within the Group; and
- The establishment of a mechanism for securing tax repayments in the Group going forward (LBL received on behalf of the Group Companies £52m after the end of the period covered by this Report).

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 these assets for the benefit of the creditors of LBL, and minimising of obligations to creditors.

Section 2.1 Infrastructure and Property

Overview

Infrastructure and Property ("I&P") is a function provided by LBL primarily for the management of the 25 Bank Street premises, and other leased properties and related assets. The continuing provision of the premises at 25 Bank Street was essential to support the Lehman Administration Companies. Costs are recovered by LBL from the various Lehman Brothers entities (mostly LBIE) and subtenants.

The focus of the I&P team has been to:

- Reduce LBL's cost base through relocating the Lehman Administration Companies to premises leased by another Group entity at 25 Canada Square, Canary Wharf;
- Continue essential IT and property services;
- Coordinate the recovery of costs incurred from the various Lehman Administration Companies and subtenants; and
- Realise value for creditors from physical assets.

Progress

The key highlights for the period were:

- The relocation of the Lehman Administration Companies to 25 Canada Square;
- The generation of additional revenue by hosting a number of external events at Bank Street;
- Negotiation of IT contracts for software and applications on commercial terms with existing and new vendors;
- Delivery of a new, independent, IT infrastructure; and
- Receipt of funds for asset sales and usage.

The I&P team continued to successfully manage essential services for the ongoing operation of the Lehman Administration Companies in addition to:

- Completing the disposal or transfer of the remaining European offices to Nomura Holdings Inc ("Nomura"); and
- Renegotiating contracts for ongoing operations in Bank Street.

Issues and challenges

The main challenge encountered by the I&P team has been in managing the vacation of 25 Bank Street, including negotiations with third party sub-lessees and arrangements for the provision of continuing building management services for third party sub-lessees.

The second significant challenge has been the negotiation of IT software and application licences. This has been resolved through the relationships established with Linklaters and vendors during the Administration.

The I&P team's main focus going forward will include:

- Managing ongoing issues in relation to 25 Bank Street;
- Managing the ongoing operations in 25 Canada Square; and
- Negotiating required IT software and application licences.

Section 2.2 Information Technology

Overview

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

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

- Supporting the 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 investigations and ad-hoc data needs.

The long-term objective to rationalise the technology footprint and reduce cost will be achieved during 2010 through the delivery of a change programme. The change programme is organised around the following core interdependent initiatives:

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

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

Technology services are also provided by BarCap through its US platform.

Progress

Specific progress in the period includes:

- The dependency on BarCap for applications has been reduced from over 130 to 11;
- The forensics programme is now complete with data from all core applications secured in the UK;
- An independent data centre has been established and the migration of systems is underway. The first application in the new data centre went live in January 2010;
- All staff have been moved to the new Canada Square office with full continuity of critical IT services;
- A team has been established to service the data needs of Affiliates. This team is operational and has commenced data deliveries; and
- Applications to capture and publish data from multiple retired applications were developed and put into production.

Forensic data capture

- The forensic capture of data for all 54 in scope UK based applications has been completed;
- The forensic capture of data for 67 of 68 in scope US based applications is now complete. The one remaining application is provided by a third party and the data capture is scheduled.
- Agreements are in place with two Affiliates for the provision of data. Further agreements are pending; and
- Agreements and procedures are in place to permit Nomura to remove their data from legacy, shared data centres.

IT infrastructure rationalisation

- The dependency for IT services provided from the data centre located in 25 Bank Street has been removed;
- Independent desktop support, telephones and data backup are in place; and
- Application data storage is being transferred to a new standalone storage platform.

Issues and challenges

- Support from Nomura in operations and separation activities, as covered by the TSA, continues to be a significant matter requiring ongoing management attention (and a Settlement Agreement to resolve a number of issues with Nomura was completed after the end of the period covered by this progress report);
- The cost of BarCap support remains unpredictable and high. Cost containment and minimisation strategies remain a priority; and
- Significant change in the IT environment is planned over the next six months and IT will be required to maintain a reliable environment throughout this period.

Over the next six months, the IT function will focus on:

- Completing the migration of all systems, data and IT infrastructure to the new data centre;
- Providing technology solutions to support administration activities, with a specific focus on the return of LBIE Trust assets and systems to support the LBIE unsecured creditors claims process;
- Completing all remaining tasks required to achieve independence from Nomura;
- Outsourcing data centre operations to reduce dependency on in-house resources;
- Completing the build of a single document management system to store reports and legal documentation;
- Decommissioning all surplus IT equipment and ensuring that data is forensically wiped and disposed of in an environmentally responsible manner;
- Targeting independence from BarCap applications by the end of September 2010; and
- Continuing to rationalise the IT footprint with a focus on cost reduction.

Section 2.3 Human Resources

Overview

Human Resources ("HR") is responsible for all matters relating to the retention, resourcing, reward and restructuring of LBL's employees.

The majority of employees working for the Lehman Administration Companies have employment contracts with LBL, and their payroll costs are recharged by LBL accordingly.

The retention and management of staff is critical to achieving the objectives of the Lehman Administrations in the most efficient and effective manner.

The focus of the HR team has been to:

- Provide day-to-day support for the c.440 employees and fixed term contractors engaged whilst handling all HR issues for the Administration relating to:
  - Pensions;
  - Benefits;
  - Statutory employee requirements;
  - Mitigation of employee risk; and
  - Employee claims.
- Complete all required monthly tax reporting relating to employees;
- Manage day to day employee issues in a "business as usual" environment;
- Drive the Performance Management Process including the completion of all year-end reviews;
- Undertake a robust year-end performance award process;
- Develop and implement a training and development programme for all employees;
- Support the future resource planning, recruitment, leaver and retention strategies; and
- Ensure appropriate cost recharging of employee costs.

The Administrators expect to retain a significant proportion of the Lehman employees for an on-going period.

Progress

HR helped to maintain a stable employee population by focused recruitment and deployment. Notable areas of progress in the period are:

- Targeted recruitment of 72 new people in the period with c.100 further hires anticipated over coming months. In support of the recruitment initiatives the following measures are being taken:
  - Introduction of an Employee Referral Scheme to aid low fee hiring; and
  - Introduction of additional recruitment firms.
- Managed the 2009 year-end performance management and award process (completed with 100% compliance);
- Launched the 2010 Performance Management process which incorporated Key Competencies for all employees and key standard objectives for all Managing Directors and Executive Directors;
- Development of the 2010 Compensation approach to balance reward for individual performance and reward for reaching objectives set for the Administrations;
- Implementation of the 2010 Retention Unit Award Program, to reward employees who remain committed to achieving the overall objectives of the Administrations via an element of deferred compensation;
- Working with HMRC to resolve pre and post-Administration PAYE reconciliation;
- On-going activity regarding employee related debt recovery; and
- Introduction of a Leadership and Development programme.

Issues and challenges

The employee dynamic is evolving as the Administrations progress. A number of challenges are being addressed to ensure appropriate resources are in place to support the achievement of the overall objectives including:

- Appropriately matching employee objectives, skills and numbers to the workstreams defined in the operating model, the structure of which continues to evolve to reflect progress of the various Administrations; and
- Retaining, assessing, rewarding, and motivating key employees to support the Administrations.

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

- Reviewing the 2010 and 2011 resource requirements and implementing appropriate recruitment, retention and cost control processes to meet these requirements;
- Operating a robust mid-year performance management process to ensure employees are rewarded based on their performance against objectives;
- On-going management of HR issues, mitigating employee relation risks and supporting any further employee transfers to new companies;
- Preparation of all employee related year end reporting requirements to HMRC;
- Resolving issues relating to the offshore Employee Benefits Trust; and
- Agreeing employee claims & mitigating where possible.

Section 2.4 Pensions

Overview

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. The Scheme continues to be administered by its Trustees. The Administrators are aware that the Trustees have been able to progress with winding up the defined contribution section of the Scheme.

The main areas of activity have been to liaise with the Scheme (represented by its Trustees and the Pension Protection Fund) in relation to its role as a creditor of LBL in respect of the defined benefit section of the Scheme, which is in an assessment period for the purposes of the Pension Protection Fund ("PPF"), and to respond to requests for information from the Pensions Regulator.

Progress

Shortly after the start of the Administration, the Administrators received an initial statement of claim from the Scheme trustees and the PPF for £148m. The Administrators have not yet received a final statement of claim in relation to the Scheme's unsecured creditor claim, and are aware that some legal issues have caused delay for the Trustees in finalising the claim. The Administrators have recently written to the Trustees requesting a timescale for submission of the final statement of claim.

The Administrators have received a number of additional formal notices from the Pensions Regulator, requiring disclosure of information concerning the Lehman Brothers Group in the UK. The Administrators have responded to these notices as appropriate.

Small defined contribution pension schemes

LBL acted as the Trustee of a number of small defined contribution pension schemes. The exercise to wind up these schemes is almost completed.

Section 2.5 Corporation Tax and VAT

Overview

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 £430m is the key aim, 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 liabilities;
- **Tax strategy –** liaison with HMRC to ensure that the tax group has been maintained, to allow for Group tax planning for the post-Administration periods;
- **Transaction tax planning –** managing tax liabilities arising from transactions, to maximise the return to the estate; and
- **Tax risk management –** developing procedures to ensure that tax risks are managed within LBL and the Group, to avoid tax leakage.

Progress

Specific progress in the period includes:

Corporation Tax

- 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. All computations for 2007 have been submitted and 60% of the computations for the 2008 year end have been submitted;
- The timing of the tax recovery is uncertain, given the current economic climate. To date a £52m tax repayment has been made to the Group; and
- An agreement has been reached with HMRC on the validity of the Group post-Administration, which will allow for efficient utilisation of tax losses within the Group.

VAT

- Dealing with ongoing queries from HMRC relating to the February and May 2009 VAT returns including the provision of backup documentation and further explanation of the VAT return detail;
- HMRC have repaid both the February and May 2009 VAT Group returns, resulting in a net repayment of £14.7m. Individually, however, LBL is in a net payment position; and
- Preparation of the August 2009 VAT return including collating figures and carrying out verification checks.

Issues and challenges

- **Accounting –** the preparation and submission of tax computations depends upon draft accounts being prepared for open years. Given the complex accounting and specialist resources required, preparing the appropriate accounts is not straightforward. The target is for all of the 2008 tax computations to be submitted by the end of August 2010 and the 2009 tax computations to be submitted by the end of November 2010.
- **Tax repayments –** Meetings and correspondence with HMRC have established a mechanism for securing tax repayments in the Group going forward (which has, as noted, resulted in Group tax repayments of £52m to date). Ongoing focus is required to ensure that tax repayments continue to be received on a timely basis.

  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, where repayments due to some GPA companies may be set-off against tax liabilities of other GPA companies. HMRC’s enforcement office have yet to opine on this matter, which has been outstanding since November 2008.

  As part of the agreed repayment strategy HMRC claims for pre-appointment PAYE are being finalised.
- **Group relief mechanism –** given the GPA and the requirement for group relief to secure tax repayments for periods prior to the commencement of the Administrations, an equitable mechanism for payment of group relief between GPA companies and repayment of tax has been prepared and has been discussed with stakeholders. Agreement to the mechanism is sought by the end of April with a view to submitting the final 2004-2007 Group position to HMRC by the end of June 2010.

Section 2.6 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 include 285 debtor and creditor balances between LBL and the rest of the Group representing, at book value, $2.4bn of receivables and $1.0bn of payables as at 15 September 2008. These amounts have changed since the last progress report and are discussed later in this section.

The primary focus at the outset of the Administration was to ensure that the interests of the Lehman Administration Companies were preserved – in particular meeting the claims filing bar dates set by other Lehman Brothers entities. This remains a key focus and, in the last 6 months, claims amounting to $2.0bn were made against Lehman Brothers Holdings Inc ("LBHI") under guarantees it provided in respect of some 20 other Lehman entities. The main guarantee claims were Lehman Brothers Holdings Plc ($1.2bn) and LBIE ($0.8bn).

Progress

The Intercompany team has continued to make significant progress in other areas, including:

- Evidencing packs for agreeing general Affiliate balances have been produced for the largest Affiliates covering:

  - 96% of the value of Debtors; and

  - 99% of the value of Creditors.

  These have been prepared by the centralised independent evidencing team to defined evidencing standards and stored in a secure central repository for supporting documentation and evidence for claims; and

- Active dialogue with the Office Holders in the US, Asia and Europe, including UK, Netherlands, Germany, Luxembourg, Switzerland. Progress is monitored by regular reports showing the status of the largest 107 Affiliate balances.

Teams have been established to support all Lehman Administration Companies except LBIE in:

(i) Preparing documentation for intercompany claims;

(ii) Evidencing;

(iii) Claims progression; and

(iv) To focus on non-trading and exceptional items, supported by an experienced, cross disciplined, advisory group.

These teams all use standardised documentation, and where necessary leverage the LBIE intercompany teams, which are predominantly staffed with former employees of the Lehman Administration Companies.

Issues and challenges

Some of the challenges around progressing the Affiliate balances are specific to LBL. The book value of Affiliate receivables and payables has changed, as better estimates have been made around some elements of staff compensation and invoices paid on behalf of Affiliates. Two material items concerning staff pensions and service invoices remain outstanding, but it is hoped these will be largely concluded ahead of our next progress report.

In addition, Affiliate 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.

Good progress continues to be made in all aspects of the Affiliate recovery process although there are significant hurdles still to be overcome. Overall, the LBL Affiliate claims process is still well advanced when compared to other Office Holders globally.

The remainder of 2010 is likely to see increasing focus on agreeing claims already made and progressing receivables from group companies not in an insolvency process.

On 15 March 2010 LBHI issued its initial Plan of Reorganisation and the Intercompany team are assessing its potential impact on LBL with particular reference to claims by LBL against Affiliates, a number of which are guaranteed by LBHI.

Section 2.7 Affiliate company relationships

Overview

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.

LBL's position with respect to the Global Protocol (the far-reaching multilateral agreement between Lehman Affiliates) 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.

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 external Affiliates has been managed in a manner that demonstrates clear benefits to LBL's creditors in its provision.

Progress

In the six month period to 14 March 2010 a further 3 bilateral agreements, to provide scoping services and data, have been signed as follows:

1. A scoping and provision of service agreement with Lehman Brothers (Luxemburg) SA on 28 November 2009;
2. A scoping and provision of service agreement with Lehman Brothers (Luxemburg) Equity Finance SA on 8 January 2010 (contingent on finance); and
3. A scoping and provision of service agreement with the Lehman Brothers Hong Kong entities on 26 February 2010.

LBL has continued to provide assistance to LBHI and some of its Affiliates' and also to Neuberger Berman Europe under the LBHI Transitional Service Agreement ("LBHI TSA").

In order to service the large number of requests for specific data, LBL has instigated an Affiliate data request team. This team, working closely with Data Governance, IT and the Affiliate team, administer the complex technical requirements in extracting large quantities of data. This process also includes separating the data to ensure LBL is not exposed to undue risk when delivering this data to the requestor. The team operates under the bi-lateral agreements and recovers its costs, together with an uplift, under these same agreements.

US Affiliates

Considerable support has been provided under the TSA with LBHI. The amount invoiced up to the 14 March 2010 to the LBHI Estate, including Neuberger Berman, totalled £56.7m, predominantly in respect of salary re-charges. In comparison, in the same period, LBHI has invoiced LBL a total of £13.3m.

In accordance with the aims of the LBHI TSA, reducing the level of interdependence between LBL and LBHI remains a priority. LBHI exited the Bank Street premise in October 2009, whilst the exit of Real Estate Private Equity in the same month completed the separation of the Investment Management Division. By February 2010 shared personnel resources have been reduced to only 13 people and whilst there remains a continuing level of IT support around 15 applications, LBL's ongoing IT decommissioning process will further reduce the level of interdependence between LBL and LBHI.

Other Affiliates

The Administrators have continued to offer considerable support to various other (non-LBHI) Affiliates. The bi-lateral agreements signed with Lehman Brothers (Luxemburg) SA, Lehman Brothers (Luxemburg) Equity Finance SA and the Lehman Brothers Hong Kong entities, as well as the previous specific data agreement signed with Lehman Brothers Treasury Co. BV in May 2009, have all resulted in active dialogue, including several meetings with these entities. All of their requests have been logged and where the data has not already been supplied, LBL is actively reviewing whether the different requests can be met.

Negotiations with several other Affiliates are ongoing and further data requests are expected to arise from these discussions.

Issues and challenges

The provision of services to the Affiliates can only occur where there is sufficient, available and appropriate, human resource and IT capacity. IT decommissioning may reduce LBL's ability to service Affiliate requests in the future.

LBL also remains vulnerable to time and cost invested in scoping, servicing or data separation activities for Affiliates, prior to the signature of scope and provision of data agreements. There is still some disparity with LBHI over the interpretation of the LBHI TSA's cost mechanism in relation to the provision of facilities up until October 2009; however LBL is committed to continuing active dialogue with a view to amicably resolving this dispute.

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. Each Affiliates' business model varies widely and all agreements are tailored to address the different conflicting requirements.

Section 2.8 Recharges

Overview

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 appointment 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 have apportioned the total budgeted costs across the Group companies, based on the proportion of Lehman Group staff working in 25 Bank Street or 25 Canada Square 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

Despite the move from 25 Bank Street into 25 Canada Square in March 2010, the cost recharge mechanism continues to be used as the mechanism under which LBL pays suppliers and recharges Group entities for costs incurred.

LBIE accounts for approximately 97% of Lehman Group staff working at 25 Canada Square and as a result LBIE is responsible for that percentage of building, occupancy and operational costs, to the extent these are incurred by LBL. In recognition of this, regular meetings are held with LBIE to discuss the costs incurred and the amount to be recharged.

As at 14 March 2010 we had issued invoices totalling over £352 million to the Lehman Group companies under the Cost Recharge Agreement.

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:	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
Company directors:	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)
Company secretary:	M Smith, P Dave, ESE Upton (all resigned 25/01/2010)
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 and DA Howell, 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 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 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, 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

For the period 15 September 2009 to 14 March 2010, the Committee has approved remuneration of £2,063,675 which comprises 8,033 hours at an average hourly rate of £256.90.

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

Global Grade	Total Hours	Total £
Partner	114	105,217
Director	210	177,108
Senior Manager	910	388,802
Manager	914	323,581
Senior Associate	3,351	673,153
Associate	2,534	395,814
Grand Total	**8,033**	**2,063,675**

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 September 2009 to 14 March 2010 we drew remuneration of £1,818,479, which (together with amounts drawn in previous reporting periods) represents 100% of our time costs to 30 November 2009 as approved by the Committee, and 75% on account of our time costs from 1 December 2009 to 28 February 2010.

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 March 2010

	GBP (millions)	EUR (millions)	USD (millions)	Total as at 14 Mar 10 (USD millions equivalent)	Total as at 14 Sep 09 (USD millions equivalent)	Movement (USD millions equivalent)
Receipts						
Contribution from third parties	97.5	0.6	10.4	159.1	67.6	91.5
Building recharge receipts	121.0	-	-	183.4	111.5	71.9
Payroll recharge receipts	250.3	-	45.1	424.5	369.8	54.7
Loan from LBIE	-	-	-	-	37.5	(37.5)
Other (including realisations)	20.7	2.2	5.7	40.0	43.5	(3.5)
VAT received	6.7	-	-	10.2	3.5	6.7
Total receipts for period	**496.2**	**2.8**	**61.2**	**817.2**	**633.4**	**183.8**
Payments						
Building and occupancy cost	(119.7)	(0.3)	(62.4)	(244.3)	(171.8)	(72.5)
Payroll and employee costs	(270.1)	(2.8)	(31.6)	(444.8)	(395.6)	(49.2)
Other cost	(2.7)	(0.2)	(0.2)	(4.5)	(5.2)	0.7
Payments to LBIE in respect of loan and other items	-	-	-	-	(19.8)	19.8
Other advisors' costs	(1.1)	-	-	(1.7)	(1.1)	(0.6)
Legal fees	(6.4)	-	-	(9.7)	(6.7)	(3.0)
Administrators' fees	(4.3)	-	-	(6.6)	(4.0)	(2.6)
VAT paid	(10.2)	-	(1.3)	(16.7)	(12.4)	(4.3)
Intercompany transfer	(1.5)	-	-	(2.2)	(2.3)	0.1
Total payments for period	**(416.0)**	**(3.3)**	**(95.5)**	**(730.5)**	**(618.9)**	**(111.6)**
Inter-currency transfers	(24.4)	2.7	36.6	3.4	0.5	2.9
Net position	**55.8**	**2.2**	**2.3**	**90.1**	**15.0**	**75.1**
Bank balances						
Bank of England	1.0	0.2	0.1	1.8	1.8	-
HSBC	54.8	2.0	2.2	88.3	13.2	75.1
Balance	**55.8**	**2.2**	**2.3**	**90.1**	**15.0**	**75.1**

USD $ equivalent is for information purposes only.

Rates used for conversion are Financial Times rates on 14 March 2010:
1 GBP £ = 1.5157 USD $
1 Euro € = 1.3775 USD $

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