www.pwc.co.uk

Lehman Brothers Limited – In Administration

Joint Administrators' progress report for the period 15 September 2010 to 14 March 2011

13 April 2011

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 fifth 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 2010.

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, twelve 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.

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 was 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. Over time, LBL is reducing the level of services provided by either discontinuing specific services or passing service provision to end users.

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:

- Information technology and property;
- Human resources;
- Pensions;
- Corporation Tax and VAT;
- 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 2010 includes:

- Ceasing to manage the building at 25 Bank Street, and accepting a forfeiture of the lease in December 2010;
- The successful implementation of complex IT projects to complete separation from Nomura and significantly reduce the IT infrastructure footprint, leading to an agreement of terms for the surrender of part, and assignment of the remainder of leases for data centre space to LBIE;
- Selection of an outsource provider to support the transition to a fully outsourced delivery model for Information Technology ("IT") Infrastructure, contracted to LBIE;
- Agreement with all stakeholders of a mechanism for securing tax repayments in the Group. LBL has received £143m in tax repayments on behalf of Group Companies;
- The sale of the Lehman art assets, realising £1.6m for creditors; and
- An active recruitment program has been continued to maintain staffing levels at c. 495 employees and contractors, with performance management and incentive arrangements to support retention.

A cost recharge agreement was 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.

Since the move from 25 Bank Street into 25 Canada Square, liability for most building, occupancy and operational costs has been transferred from LBL to LBIE. As a result of LBIE now paying these costs direct, the cost recharge mechanism is only applied to payroll costs.

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.

2.1 Information Technology and Property

Overview

The objectives of the Information Technology ("IT") and Property groups are to minimise the need for LBL to act as a service provider to other Lehman entities; dispose of surplus assets, realising value for creditors; and to ensure an appropriate, cost effective operating platform is in place to respond to the needs and wind down activities of the Administration.

The focus of the Property team has been to:

- Reduce LBL's cost base by surrendering surplus data centre space held with Global Switch;
- Remove LBL's obligations to supply property to other Lehman entities;
- Continue to realise value for creditors from physical assets;
- Stabilise the operation of 25 Canada Square as an office environment; and
- Remove LBL's contractual obligations for other Lehman Administration Companies.

The Property programme has effectively completed its goals for the reporting period, with the acceptance of forfeiture of the lease on 25 Bank Street and the resolution of various issues with the Global Switch data centre. The Property team have also arranged for the disposal of surplus data centre assets, which will realise £500k for LBL creditors, and for the sale of certain assets to LBIE for a further £400k.

The focus of the IT team has been to:

- Achieve separation and independence from Nomura and Barclays Capital while simplifying and reducing the IT footprint;
- Develop and maintain business applications to support the core objectives of the LBIE and other Administrations;
- Decommission assets no longer required;
- Provide long term data protection, and ongoing management of data; and
- Select an outsource provider for IT Infrastructure.

In the reporting period, the IT team has become fully independent of the service provision from Barclays Capital and Nomura, and all open commercial items with Barclays Capital have been closed out. To facilitate the realisation of data centre assets mentioned above, the IT assets have been decommissioned and forensically cleansed. Additionally, the IT Infrastructure team has begun to transfer to a service based cost model in preparation for the move to outsourced infrastructure services.

Progress

Specific progress in this period includes:

Property

- Building management of 25 Bank street ceased from 30 September 2010;
- Forfeiture of lease of 25 Bank Street accepted on 10 December 2010;
- Agreement signed to surrender surplus data centre space at Global Switch;
- Agreement signed to assign lease of required long term data centre space to LBIE;
- A revised fixed asset register has been built for all retained assets, after regaining control of data centre space from Nomura and vacation of surplus data centre space;
- Sale of Lehman art assets completed, realising £1.6m for creditors;
- Substantially completed the transfer of ownership of IT contracts from LBL to LBIE; and
- Completed the Environment Agency Carbon Reduction Commitment Application process for relevant properties.

IT Infrastructure

- Successfully migrated all business critical applications into the new data centre environment;
- Selected an outsource provider for Infrastructure services. Contract award and transition of services to commence in the next period;
- Continued delivery of contractual and legal commitments to other parties for supply of data;
- Established a post Transitional Service Agreement working relationship with Nomura in relation to ongoing shared data; and
- Commenced the transformation of fixed IT costs into variable service based costs through the outsourcing of Infrastructure services.

Issues and challenges

The main challenge encountered by the IT and Property teams has been in achieving independence from Nomura, Barclays Capital and historic real estate positions, at an accelerated pace while still maintaining business as usual.

Over the next six months the IT and Property team will focus on the following areas:

- Preserving and protecting the Administration's critical data;
- Completing the final novation of contracts to LBIE ; and
- Transitioning to a fully outsourced delivery model for IT Infrastructure.

2.2 Human Resources

Overview

Human Resources ("HR") is responsible for all matters relating to the provision of ongoing business as usual HR support to c. 495 employees and contractors.

The majority of employees and contractors are engaged through LBL with the appropriate recharge of payroll costs to relevant entities.

HR activity encompasses resource planning, retention strategies, hiring, performance management, leadership & development, management of costs and mitigating employee risk issues together with all required reporting of employee earnings, benefits and tax payments to Her Majesty's Revenue and Customs ("HMRC").

The on-going retention and management of employees and contractors is critical to achieving the objectives of the Lehman entities in Administration in a cost efficient and effective manner. It is expected that a significant proportion of the Lehman employees will be retained for an on-going period.

Progress

The employee workforce has remained stable (45 joiners versus 40 leavers). Key employees have been retained and where required, additional or replacement resources have been successfully recruited to ensure productivity has not been negatively impacted by any change in personnel.

Notable areas of progress:

- Retained a stable and flexible workforce to meet resourcing needs. 44% of employees are pre-Administration hires with an average length of service of 8 years;
- Recruitment of 45 hires in this period. 64% "low fee" hiring, securing c. £300k saving;
- Undertook a resource needs analysis and identified 58 open positions for recruitment over the coming months;
- Completed formal year end performance management process with 100% compliance;
- Aligned the determination of individual 2010 performance awards with individual, team and Administration performance;
- Completed formal advancement process;
- Launched the 2011 Leadership and Development training programme to support individual development whilst enhancing individual performance and contribution to the overall goals of the Administration;
- Completed 2011 objective setting process for all employees. All objectives have been reviewed to ensure individual objectives support team objectives which in turn reflect overall Administration objectives;
- Continued progress with HMRC to resolve pre- and post-Administration PAYE reconciliations;
- Completed 2011 Target Total Compensation communication process including grant of 2011 Retention Award Units; and
- Progressed collection of loan amounts due to LBL from former employees.

Issues and challenges

The overall challenge remains the retention of a stable level of capability, with employees who are focused, motivated to deliver excellence in performance, and rewarded competitively to reflect individual and collective performance.

This will be met over the coming months by providing challenging work in a stimulating environment, supporting individual growth and CV enhancement, offering a competitive reward package, providing certainty of tenure and building contemporary skills and industry knowledge.

Additional challenges for 2011:

- Workforce planning for 2012 and beyond, balancing the capability to deliver for the team and deliver across the whole Administration;
- Retention of key employees and minimising unwanted turnover;
- Hiring quality candidates; and
- Maintaining employee focus.

2.3 Pensions

Overview

LBL operated one main pension scheme, namely the Lehman Brothers Pension Scheme (the "Scheme") for its employees. LBL is the principal employer of the Scheme, the defined benefit section of the Scheme being the only section, in practice, which is relevant to the Administration.

The Scheme is currently in an assessment period with the Pension Protection Fund.

Progress

The Administrators have not yet received the final statement of claim from the Scheme trustees, and continue to liaise with the trustees on this issue.

The Administrators are fully aware of the High Court judgment issued in December 2010 in connection with four other Lehman Administration Companies, relating to the status of liability under a Financial Support Direction ("FSD"), and that the decision is being appealed. The hearing in the Court of Appeal will take place in July 2011. The Administrators continue to monitor the implications of the FSD process for LBL.

2.4 Corporation Tax and VAT

Overview

The Lehman UK Group has a complex tax structure and the issues for LBL are closely connected with those of the Group. LBL is the Group Paying Agent for the Group.

The key focus of the Tax team is to secure tax repayments for the Group of up to £462m, whilst protecting tax losses for the future, as tax arising post-Administration is payable as an expense of the Administration.

The focus of the Tax team has been to:

- Bring the corporation tax affairs of the Group up to date, facilitate the recovery of tax paid in prior years, and minimise post-Administration tax liabilities;
- Maintain the tax Group to maximise Group tax planning opportunities in the post-Administration periods;
- Manage tax liabilities to maximise returns to the estate;
- Manage tax risks to avoid tax leakage through LBL and the other Group companies; and
- Ensure VAT returns for the Group, for which LBL remains the Representative Member, are submitted in a timely manner and are accurate.

Progress

Specific progress in the period includes:

Corporation Tax

- In October all Group stakeholders agreed a mechanism whereby tax and tax losses may be allocated across the Group for the years 2004-2007. This enabled the Group tax position for those years to be finalised and submitted to HMRC. HMRC have since agreed the Group position. This will increase the amount of tax repayments due.

  To date tax repayments of £143m (including interest) have been made to the Group. £81m of this amount was received in the six months ending 14 March 2011.

  Timing of further tax repayments is still uncertain, although HMRC have suggested that further repayments will be made in the next six months;
- Tax function costs incurred by LBL on behalf of the Group in respect of the tax repayment project have been recharged to those Group companies that have received a tax repayment to date; and
- Only four Group tax returns for 2008 and 2009 remain outstanding. Financial statements are being completed, from which tax returns may be prepared.

VAT

- The February 2011 VAT return was submitted to HMRC shortly after the period end;
- To date, HMRC have paid VAT refunds due to the Group for the February 2009 to February 2010 quarterly VAT returns, resulting in a net Group repayment of £25.8m; and
- The Group’s VAT position is complex and VAT returns and internal accounting systems have been reconciled, and discrepancies notified to HMRC through separate voluntary disclosures.

PAYE

- HMRC has, we understand, accepted the pre-appointment PAYE position (relating to August 2008 payroll) as submitted, showing an unsecured claim of c. £15m. The Administrators are awaiting written confirmation;
- The Administrators have been in negotiation with HMRC regarding a potential exposure on dual contracts entered into prior to the Administrators' appointment. HMRC have indicated that they will agree further tax payable of c. £0.9m;
- The above discussions with HMRC highlighted a pre-Administration overpayment of £0.9m

relating to tax on expatriates. This has still to be agreed; and

- The Administrators anticipate that HMRC will seek to set off any tax payable against repayments of PAYE or other taxes, in accordance with legislation.

Issues and challenges

- **Tax repayments** – the repayment of tax for the 2006-2007 years has been delayed by HMRC, pending direction from the HMRC Enforcement Office on set-off. This issue has been outstanding since November 2008.

  At a recent meeting with HMRC the Tax team were advised that the Enforcement Office has recently concluded its review and the 2006-2007 tax repayments should be made shortly.

- **Electronic filing of 2010 tax returns** – recently enacted UK tax legislation requires 2010 and subsequent tax returns to be filed electronically with HMRC. This legislation applies to all Group companies except those in administration or liquidation. The Tax team is working closely with HMRC to meet this filing requirement whilst ensuring that the costs of adherence can be minimised.

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

- Methodology for allocating 2008 Group losses;
- Monitoring tax repayments to ensure HMRC continue to refund monies on a timely basis;
- Tracking tax repayments and distribution to Group companies on a quarterly basis;
- Submission of remaining 2008 and 2009 tax returns and commencing the process for the production of 2010 tax returns; and
- Concluding open PAYE pre-appointment issues and ensuring compliance with proposed changes effective from October 2011.

2.5 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 289 debtor and creditor balances between LBL and the rest of the Group representing, at book value, £1.2bn of receivables and £0.7bn of payables as at 15 September 2008. LBL has a high concentration of its overall Affiliate debtor balances (c. £1.1bn) in just 5 relationships. Progress on recoveries from these relationships is discussed more fully below.

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 LBL is in the process of preparing its claim to be submitted against LBIE.

Progress

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

- LBL has actively engaged in discussions regarding the Lehman Brothers Holdings Inc ("LBHI") Plan of Re-organisation, which will deal with the direct and guarantee claims of LBL against LBHI and the other Chapter 11 Affiliates. The timetable for the finalisation of the LBHI Plan remains uncertain, as does the final form of the Plan and its impact on LBL's claims against LBHI.
- LBL has a claim against Lehman Brothers Luxembourg Investments SARL ("LBLIS"), which has assets that could potentially generate c. £40m in cash. Whilst LBL's claim has not yet been agreed by the directors of LBLIS, forensic evidencing has enabled strong factual proof to be presented and there is a continuing dialogue with the directors of LBLIS.
- There is ongoing discussion with the Liquidators of LB ODC 3 Ltd regarding LBL's claim for c. £19m.
- Dialogue continues with LB Services India Private Company ("LBS India"), a solvent entity, regarding LBL's claim for c. £6m. LBL has provided significant hard copy evidence in support of its claim.
- LBL's largest claim, for c. £1.2bn, is against Lehman Brothers Holdings Plc ("LBH Plc"), which is in Administration. LBH Plc has cash assets of £45m, and a possibility of some significant additional recoveries. LBL's overall recovery from LBH Plc remains difficult to assess at this stage.

The Intercompany team has implemented a process to automate reminders to request status updates on c. 250 smaller LBL Affiliate debtor balances and is actively following up with approximately 50 Affiliates requesting status updates.

Issues and challenges

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. LBL has also provided services to Affiliates in circumstances where a formal agreement had not been entered into, this lack of formality creating additional requirements for clarification when seeking to recover monies due.

The recovery of LBL intercompany debts is contingent on the recovery of assets in LBL's Affiliate debtors and whilst LBL's primary focus has shifted towards the progression of the balances with Affiliates, this inter-relationship has restricted recoveries in the period to £57k.

2011 will see continuing focus on agreeing claims already made and progressing receivables from Group companies not in an insolvency process.

2.6 Affiliate company relationships

Overview

As the UK service company, LBL employs most of the Lehman staff in the UK and maintains the property and IT infrastructure. Certain non-UK Affiliates, including LBHI, continue to look to LBL for support with their own Administrations, particularly in the field of data provision.

Broadly speaking LBL is prepared to cooperate, providing proper risk management procedures are in place and its costs of so doing are met, together with a further contribution to the estate to justify the use of LBL's resources.

The mechanism for meeting these criteria is through a series of bilateral agreements. In most cases these are one-way agreements, because the UK Lehman estates have no service requirements from the Affiliate concerned. In the case of LBHI however, there is a limited service requirement, so the relationship is governed by a two-way agreement.

Progress

The Transitional Service Agreement ("TSA"), between LBHI and LBL terminated on 17 December 2010, following a one month extension, and a new Services Agreement ("SA") came into force on that date.

No other new bilateral agreements have been agreed in the period and the agreement between LBL and LB Hong Kong terminated on 26 February 2011.

The Affiliate data request team services the large number of data requests from various Affiliates. This continues to be a technical challenge in many cases as the IT environment is now much changed, as the Lehman Administration Companies have successfully migrated onto a smaller and more efficient platform better suited to its current needs. Nevertheless very large quantities of data have been provided, including in some cases from applications no longer supported by LBL.

LBHI

Considerable support has been provided to LBHI under the TSA (and now the SA) since the TSA was signed in November 2008. The amount invoiced to the LBHI Estate (including Neuberger Berman), to 14 March 2011, totalled £62.6m of which £1.1m relates to the last six months. By comparison, for the same period, LBHI has invoiced to LBL a total of £13.8m, predominantly for staff recharges, none of which relates to this last six months.

This includes previous salary re-charges and significant continuing monthly charges for IT access and data provision. The level of IT access for LBHI has reduced significantly under the new SA when compared to the TSA, reflecting LBHI's reducing needs, and the sharing of staff has now ended. The reduction in activity and costs reflects the extent to which the Lehman Administration Companies are now almost entirely self-sufficient, and LBHI is much more so than previously. This trend is likely to continue until such time as only ad- hoc requests remain.

Other Affiliates

LBL continues to support other (non-LBHI) Affiliates with data provision under the terms of the bilateral agreements entered into.

No new agreements have been signed in the period, however LBL continues to provide substantial assistance to LB Bankhaus and Lehman Brothers Inc in particular. It is not expected that any further data agreements will be concluded, as the deadline for these has now passed. However, requests under the existing agreements are ongoing and are likely to take several months further to process.

The amount invoiced to non LBHI Affiliates up to 14 March 2011 totals £3.5m, which is predominantly time-costs, but also includes a £1m contribution to application costs. £2.2m of the total invoiced relates to the last six months.

Issues and challenges

Extracting Affiliate data from a changing IT network has proved to be a challenge, particularly from those applications no longer supported for the UK business. The separation of co-mingled data and other risk management issues need to be carefully controlled, and it remains fundamentally important to balance the needs of the Affiliate, whilst not incurring undue risk.

2.7 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 directly 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.

Since moving from 25 Bank Street into 25 Canada Square, in March 2010, liability for most building, occupancy and operational costs, which account for all non-payroll costs, has largely been transferred from LBL to LBIE. Contracts are being transferred to LBIE and LBIE has agreed to meet all contractual costs directly. As a result, the cost recharge mechanism is now only applied to payroll costs.

Progress

During the period LBL achieved settlements in relation to non-payroll costs with a number of Group companies and third parties, leading to significant receipts into LBL.

An exercise was also undertaken to analyse VAT receipts and payments so that the appropriate level of irrecoverable VAT could be attributed to the cost recharge mechanism.

As a result, we can confirm that LBL has a small cash surplus from the cost recharge mechanism, and once remaining liabilities are extinguished will be in a broadly neutral position.

Whilst the cost recharge mechanism continues to be applied for payroll costs, these are now pre-funded so that LBL is not exposed to any credit risk.

In the six months to 14 March 2011 total receipts from the Lehman Group companies under the cost recharge agreement amounted to £67m. Total receipts under the cost recharge agreement, including an element of third party receipts, now stands at £572m.

Issues and challenges

The recharge mechanism remains complex, although significantly simpler now than at the start of the Administration. We continue to exercise vigilant control over amounts owed to LBL and have implemented new procedures to reduce our exposure, such as requiring payroll recharges to be paid before the payroll date. We will continue to monitor these positions closely.

Having completed a reconciliation of all recharges and costs incurred during the course of the Administration and determined that the final position of the cost recharge mechanism will be broadly neutral, we are now able to agree a closure statement for the cost recharge mechanism to date.

Future payroll related costs will continue to fall within the cost recharge mechanism.

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 2010 to 14 March 2011, the Committee has approved remuneration of £2,813,707, which comprises 11,753 hours at an average hourly rate of £239.40.

Remuneration approved by the Committee includes £1,672,341 for work performed for and recoverable from Affiliate companies.

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

Global Grade	Total hours	Total (£)
Partner	81	75,287
Director	259	217,177
Senior Manager	1,530	630,571
Manager	938	313,697
Senior Associate	5,221	1,035,884
Associate	3,724	541,091
Total	**11,753**	**2,813,707**
Less work recoverable from Affiliate companies		(1,672,341)
Net charge to LBL		**1,141,366**

The Committee has also resolved that the Administrators may draw 75% of their time costs on account to assist with the smoothing of working capital. All such costs are subject to detailed reporting to the Committee and are ultimately subject to their approval. In the six-month period from 15 September 2010 to 14 March 2011 we drew remuneration of £3,827,291, which includes amounts recoverable from Affiliate companies, and represents the balance of undrawn costs for the period 15 May 2010 to 31 October 2010, as approved by the Committee, and 75% of our time costs on account for the period 1 November 2010 to 31 January 2011.

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 2011

Amount in millions	GBP	EUR	USD	CHF	As at 14 March 2011 Total in GBP	As at 14 Sept 2010 Total in GBP	Movement
Receipts							
Contribution from third parties *	132.9	0.6	12.2	-	140.9	125.1	15.8
Building recharge receipts	129.0	-	-	-	129.0	121.0	8.0
Payroll recharge receipts	326.5	0.1	48.7	-	356.8	311.5	45.3
Other (including realisations)	41.4	2.2	4.6	0.2	46.3	27.5	18.8
HMRC Receipts	177.6	-	-	-	177.6	80.6	97.0
VAT received on invoices **	9.4	-	-	-	9.4	7.9	1.5
Total receipts for period	**816.8**	**2.9**	**65.5**	**0.2**	**860.0**	**673.6**	**186.4**
Payments							
Building and occupancy cost	(172.8)	(0.3)	(62.8)	-	(212.1)	(192.5)	(19.6)
Payroll and employee costs	(342.2)	(2.8)	(37.9)	-	(368.1)	(320.7)	(47.4)
Other cost	(2.7)	(0.2)	(0.1)	-	(3.0)	(2.6)	(0.4)
Other advisors' costs	(1.3)	-	-	-	(1.3)	(1.3)	-
Legal fees	(8.4)	-	-	-	(8.4)	(7.2)	(1.2)
Administrators' fees	(9.5)	-	-	-	(9.4)	(5.6)	(3.8)
Return of Corporation Tax - Group of Companies	(133.1)	-	-	-	(133.1)	-	(133.1)
VAT paid as group representative	(21.3)	-	-	-	(21.4)	(13.1)	(8.3)
VAT paid on invoices	(6.7)	-	(1.4)	-	(7.5)	(14.3)	6.8
Intercompany transfer	(1.5)	-	-	-	(1.5)	(1.5)	-
Total payments for period	**(699.5)**	**(3.3)**	**(102.2)**	**-**	**(765.8)**	**(558.8)**	**(207.0)**
Inter-currency transfers							
Receipts from inter-currency transfers	6.2	2.7	57.8	-	44.5	46.0	(1.5)
Payments from inter-currency transfers	(31.1)	-	(20.4)	-	(43.7)	(44.3)	0.6
Net inter-currency transfers	**(24.9)**	**2.7**	**37.4**	**-**	**0.8**	**1.7**	**(0.9)**
Net cash position	**92.4**	**2.3**	**0.7**	**0.2**	**95.0**	**116.5**	**(21.5)**
Bank balances							
Bank of England	1.0	0.2	0.1	-	1.2	1.2	-
HSBC	29.8	-	0.6	0.2	30.3	5.3	25.0
Money Market Funds	61.6	2.1	-	-	63.5	110.0	(46.5)
Net bank balance	**92.4**	**2.3**	**0.7**	**0.2**	**95.0**	**116.5**	**(21.5)**

* Includes elements of building & occupancy and payroll related recharges.
** Includes Corporation Tax and VAT.
GBP £ equivalent is for information purposes only.
Rates used for conversion are Financial Times rates for 14 March 2011 and 14 September 2010 respectively:

1 USD $ = 0.6207 GBP £
1 EUR € = 0.8671 GBP £
1 USD $ = 0.6492 GBP £
1 EUR € = 0.8333 GBP £

pwc