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Lehman Brothers Limited – In Administration

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

12 October 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 sixth 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 March 2011.

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, thirteen meetings of the Committee have taken place.

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

Outcome for unsecured creditors

The Administrators 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.

Extension of the Administration

On the application of the Administrators, the High Court made an Order to further extend the period of the Administration to 30 November 2011. The Administrators have recently applied to Court requesting a further 24 month extension to the Administration.

Future reports

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

Signed:

MJA 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 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 the cost of providing such services. 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. During the report period the teams were formed around the following activities:

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

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

Key progress since 15 March 2011 includes:

- The successful surrender of part and reassignment of the remainder of leases for data centre space from LBL to LBIE;
- The removal of LBL's remaining property responsibilities, as a result of 25 Canada Square Properties Ltd (a subsidiary of LBIE) signing the lease for 25 Canada Square;
- Transfer of responsibility for information technology ("IT") to LBIE;
- Continued maintenance of a stable workforce and progress in the collection of outstanding loan and tax amounts, with £0.7m being collected in the period;
- Sale of remaining IT hardware and office furniture and fittings variously to LBIE and third parties, and novation or termination of the majority of supplier contracts;
- Continued recovery of corporation tax and VAT repayments on behalf of the Group companies. LBL has to date received corporation tax and VAT repayments of £143m and £37.5m respectively on behalf of itself and other Group companies;
- LBL has reached a pragmatic solution with Her Majesty's Revenue and Customs ("HMRC") for the electronic filing of 2010 Group tax returns, the agreed solution generating savings of c. £0.1m per annum; and
- A £3.7m receivable balance from Capstone Ltd was settled and paid in the period as part of the ongoing work of the Intercompany workstream.

As a result of LBIE now paying its own building, occupancy and operational costs directly and taking responsibility for its IT services, the cost recharge mechanism, 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, is only now applied to payroll costs.

LBL has its own assets, which comprised 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 and Property group ("IT&P") has been to dispose of surplus assets, ensure a cost effective operating platform is in place for the wind down activities of the Administration and to respond to the needs of the Administration. Where these needs extend to other Lehman entities in Administration, the role of the IT&P group is to ensure the interests of the creditors of LBL are protected and that costs are recovered.

The focus of the Property team has been to:

- Finalise the surrender of leases in relation to surplus data centre space held with Global Switch 2, for level 7 and 8;
- Complete the assignment of the lease on level 9 of Global Switch 2 to LBIE;
- Work with LBIE to formalise their contractual responsibility for the lease of the premises at 25 Canada Square;
- Continue to operate and ensure stability of the operation of premises at 25 Canada Square as an office environment; and
- Remove LBL's contractual obligations on behalf of other Lehman Administration Companies, by termination or novation.

Within the reporting period, the focus of the IT team has been to:

- Provide for long term management and protection of business applications and application data;
- Decommission business applications and infrastructure components no longer required;
- Develop new applications or maintain existing applications in support of LBIE and other Administrations;
- Complete the transfer of IT equipment and fixtures and fittings to LBIE; and
- Outsource the operation of IT Infrastructure in the name of LBIE rather than LBL.

Progress

Specific progress in this period includes:

Property

- Completion of the surrender of leases on levels 7 and 8 at Global Switch 2, removing two thirds of the data centre real estate costs managed (and passed through) by LBL;
- Completion of the assignment of the lease on level 9 of Global Switch 2 to LBIE, removing the final third of data centre costs from LBL;
- Worked with Canada Square Properties Limited (subsidiary of LBIE) to sign the lease on 25 Canada Square, thereby removing LBL from responsibility for the property (and closing out all property responsibilities);
- Continued to discuss and comply with the Environment Agency's Carbon Reduction Commitment submission obligations for LBL; and
- Increased the percentage of contractual obligations novated from LBL to LBIE to in excess of 90%.

IT

- Successfully transitioned to an outsource provider for IT Infrastructure services, contracted in the name of LBIE, removing LBL from the provision of IT Infrastructure services to other Lehman entities;
- Negotiated the sale of IT equipment and other chattel assets to LBIE, and the sale to third parties of all surplus IT hardware; and
- Transferred responsibility for the remaining IT activities to LBIE.

Issues and challenges

Over the next six months the Information Technology team will focus on completing the final novation of contracts to LBIE.

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. 520 employees and contractors.

The majority of employees are engaged through LBL with the appropriate recharge of costs to relevant entities. Contracts for contractor services are being transferred to LBIE.

HR activity encompasses resource planning, retention strategies, hiring, performance management, leadership and development, management of cost and mitigating employee risk issues, handling all employee claims and collection of employee debts to LBL together with all required reporting of employee earnings, benefits and tax payments to 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.

Progress

The employee workforce has remained stable. 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:

- Recruited 65 new hires in this period. 71% "low fee" hiring, securing c. £0.4m saving;
- Continued pro-active monitoring of resource needs with a further 23 open positions for recruitment over the coming months and a forward pipeline of 11 accepted offers and 6 candidates identified;
- Completed formal mid-year performance management process. Individual performance assessed and quarter 3/quarter 4 2011 objectives aligned to key objectives of the Administration;
- Completed 2012 workforce planning initiative;
- Grant of 2012 Retention Unit Awards to on-going contract employees meeting expected performance levels;
- Completed review of Fixed Term Contract employees. Appropriate extensions to contracts offered;
- Extension of private medical coverage to all employees. Renewal of life assurance and permanent health insurance policies with costs recharged to appropriate entities;
- On-going employee development with 21 employees transferring to new roles in this period and 35% of employees attending formal Leadership and Development opportunities;
- Continued progress with HMRC to resolve pre- and post-Administration PAYE/NIC reconciliations; and
- Progress in the collection of outstanding loan and tax amounts, £0.7m being collected in the period.

Issues and challenges

The HR issues and challenges will continue to be focussed on the retention, motivation, development and reward of the employee workforce. Key employees will need to be retained to ensure that the momentum of the Administration of all group entities is not negatively impacted by employee turnover.

HR will continue to support meeting these challenges by ensuring; all employees have clearly defined objectives, any new recruits are the best available in the market for the roles identified, all employees continue to be offered the opportunity to grow and develop their skills, employees are rewarded for their contribution, and by providing open communication regarding expected tenure.

Additional challenges for the next six months:

- Workforce planning for 2013 and beyond;
- Retention of key employees in 2012;
- Hiring quality candidates;
- Maintaining employee focus; and
- Progressing employment tax issues with HMRC.

2.3 Pensions

Overview

As noted in the previous report, LBL operated one main pension scheme, namely the Lehman Brothers Pension Scheme (the "Scheme"). The Scheme is currently in an assessment period with the Pension Protection Fund.

Progress

After the end of the report period, the Administrators received a certificate signed by the Scheme Actuary, under Section 75 of the Pensions Act 1995, specifying the amount payable by LBL to be £119m. The Administrators will review the certificate and consider what further enquiries should be made to validate the amount claimed.

The Administrators are aware that the Court of Appeal hearing in connection with four other Lehman Administration Companies, relating to the ranking in an Administration of a liability under a Financial Support Direction ("FSD"), took place at the end of 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 operated a complex tax structure and the tax issues arising for LBL are closely aligned with those of the Group. LBL was the Group Paying Agent for the Group which adds further complexity to tax issues for LBL.

The key objectives for the Tax team are to ensure corporation tax repayments for the Group of up to £462m are received, 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:

- Ensure the corporation tax affairs of the Group are up to date, to facilitate the recovery of tax paid in prior years, and minimise post-Administration tax liabilities;
- Continue to ensure the tax Group is maintained to enable Group tax planning opportunities to be maximised in the post-Administration periods;
- Manage tax liabilities to maximise returns to the estate;
- Avoid tax leakage from the Group by managing tax risk in 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

- Agreement with stakeholders of a methodology for allocating Group losses. This agreed methodology was used for the submission of the 2008 Group loss position to HMRC in July and will be applied consistently for subsequent years. Efficient utilisation of Group losses minimises tax leakage in the Group on a year by year basis;
  - Corporation tax repayments of £146m (including interest) have to date been received by LBL on behalf of the Group as a whole. Of this amount, £5m was received in the six months ended 14 September 2011. Regular dialogue has been held with HMRC to encourage further repayments of tax on a timely basis and a further £96.6m was received on behalf of the Group after the end of the report period;
  - All of the 2008 Group tax returns have now been submitted to HMRC. For 2009 only two Group tax returns remain outstanding and it is expected these will be submitted to HMRC in the next report period; and
  - A pragmatic solution has been reached with HMRC for the electronic filing of 2010 Group tax returns. To date five 2010 tax returns have been filed electronically and HMRC have confirmed the submissions meet their requirements. The agreed solution has saved incremental costs of £0.1m per annum.

VAT

- The May 2011 VAT return has been submitted to HMRC and is awaiting their review. Preparation work was commenced on the August 2011 VAT return which was submitted to HMRC after the end of the report period; and
- HMRC have paid VAT refunds due to the Group for the November 2010 and February 2011 quarterly VAT returns. Total VAT repayments received to date on behalf of the Group since the start of the administration amount to £37.5m (and a further £11.2m was received shortly after the end of the report period).

PAYE

- Pre-appointment unsecured claims for PAYE and other employment taxes remain to be agreed with HMRC. The Tax and HR teams are liaising closely with HMRC to reconcile the position for the 6 years prior to insolvency. Given the complexity of employment arrangements entered into by LBL and other Group companies prior to the Administration this is not straightforward, but all requested information has been provided to HMRC, and it is anticipated that the position may be agreed in the next 6 months. The quantum of the claim is uncertain at this stage;

- A recent meeting was held with HMRC regarding employees who had dual contracts prior to the Administrators' appointment. HMRC are seeking to close any outstanding enquiries and agree their position in writing; and
- The Administrators continue to anticipate that HMRC will seek to set-off any tax payable against repayments of VAT and/or other taxes, in accordance with legislation.

Issues and challenges

Tax repayments

- Although HMRC indicated in March that they were in a position to repay the 2006-2007 corporation tax, to date the repayments for these years have been minimal (although a significant first payment was received shortly after the end of the report period);
- VAT refunds arising from voluntary disclosures have yet to be received; and
- Timing of the corporation tax and VAT repayments are within the control of HMRC. The Tax team continue to have regular dialogue with HMRC to ensure all issues are addressed and to encourage the release of tax refunds.

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

- Preparation and submission to HMRC of the 2009 Group loss position;
- Preparation and submission to HMRC of the remaining 2009 tax computations along with the 2010 Group tax returns;
- Continued regular correspondence with HMRC to ensure refunds of corporation tax and VAT are paid on a regular basis; and
- Working with HMRC to finalise the reconciliation of the pre-appointment unsecured claim for employment tax liabilities, and progressing with HMRC other employment tax related issues.

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

Progress

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

- LBL continues to actively engage in discussions regarding the Lehman Brothers Holdings Inc ("LBHI") Plan of Re-organisation, which is expected to deal with the direct and guarantee claims of LBL against LBHI and the other Affiliates in US chapter 11 proceedings. 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. A proposal which includes the admission of LBL's claim into LBLIS for $225m is currently being discussed as part of the LBHI Plan of Reorganisation.
- There is ongoing discussion with the Liquidators of LB ODC 3 Ltd and LBL has submitted a revised claim for £20.6m. The dividend ultimately payable by LB ODC 3 Ltd will largely depend on realisations in that company from other group companies in Administration.
- Dialogue continues with LB Services India Private Company ("LBS India"), a solvent entity, regarding LBL's claim. Agreement has been reached in principle and a settlement agreement has been drafted and sent to LBS India for comment, with final discussions ongoing.
- 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 c. £45m, and a possibility of some significant additional recoveries. LBL's overall recovery from LBH Plc remains difficult to assess at this stage.
- Settlement of LBL's receivable balance from Capstone Limited has been accelerated and the balance has now been paid in full. £3.7m was received in the period.

The Intercompany team continues to proactively progress some 131 smaller LBL Affiliate balances (out of c. 250 identified at the commencement of the Administration) where there remains a reasonable prospect of future realisations.

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. LBL's primary focus is now the progression of the balances with Affiliates and a number of settlements of smaller balances has resulted in c. £0.1m being received in the period.

The remainder of 2011 and beyond 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

During the period, overseas Lehman Affiliates have continued to request data held by LBL on behalf of the UK Affiliates to assist in the unwinding of their own estates.

LBL has consistently maintained its approach of being prepared to cooperate, providing appropriate commercial agreements are in place not only to cover its costs but also to make a further contribution to justify the use of LBL's resources for another estate. Importantly these agreements also allow LBL to incorporate proper risk management procedures and to ensure that it only supplies data appropriate to that Affiliate.

The main agreements currently in place are the two-way Services Agreement with LBHI and a one-way Scoping and Provision of Data Agreement with LB Bankhaus ("LBB").

Progress

Specific progress in the period includes:

- Termination of the Scoping and Provision of Data Agreements ("SPDA") with Lehman Brothers Finance A.G. and Lehman Brothers Inc, and extension of the SPDA with LBB from 16 June 2011 to 31 December 2011;
- Contained within the Services Agreement (the "SA") with LBHI, which extends to 16 December 2012, is the right to restrict remote access to certain named IT applications. This particular service, due to terminate on 16 June 2011, has for the most part, been extended to 31 December 2011;
- The Affiliate Data Request team continues to service the various data requests made, dealing with the technical challenges that the recovery of long archived data presents; and
- Most structured requests (i.e. data from specific IT applications) have been fulfilled, but unstructured requests (i.e. by email) continue to arise.

LBHI

- LBHI has made several data requests to support litigation against third parties, both contemplated and actual;
- One of the larger requests, in connection with litigation in the US, resulted in four UK Court Orders being served on LBIE to deliver up data. These Court Orders were procedural rather than hostile in that the data specified was agreed beforehand by the parties. All four Court Orders have now been fulfilled within the deadlines set;
- Unstructured data requests in particular have generated discussion as to what LBHI is entitled to and what restrictions LBL can properly impose as part of its risk management procedures. Accordingly, a nonbinding agreement was concluded in April 2011 to address the rules that apply to unstructured data requests under the SA; and
- During the period a further £2.7m was invoiced to LBHI for services performed under the SA, of which £2.1m has been paid.

Other Affiliates

- The provision of data to Lehman Brothers Inc. concluded during the period and the SPDA expired on 11 August 2011;
- The provision of data to LBB continues unabated, particularly with regard to email archives for those LBB staff formerly based in London; and
- During the period a further £0.5m was invoiced for these services, of which £0.3m has already been paid.

Issues and challenges

Considerable progress can be demonstrated in the provision of data to other Lehman Affiliates. Most of the structured data requested has now been supplied, and there is a controlled flow of unstructured data which has been subjected to appropriate risk management procedures. The challenge of properly separating co-mingled data remains, as does the need to properly balance the needs of the overseas Affiliate with the risks to the UK estate of improper disclosure.

2.7 Recharges

Overview

LBL is primarily 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 has largely 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 many aspects of the cost recharge mechanism have been finalised, and the accounts for this are effectively being closed as at 14 September 2011. The small surplus held in relation to the cost recharge mechanism will continue to be held by LBL to cover remaining costs and the Administrators continue to expect the final position to be broadly neutral.

An accounting framework has been established to record payroll costs and associated recharges going forward, but as these are now pre-funded in order that LBL is not exposed to any credit risk, this will be a relatively simple process.

In the six months to 14 September 2011 total receipts under the cost recharge agreement amounted to £38m. Total receipts under the cost recharge agreement, including an element of third party receipts, now stands at £610m.

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, 7 More London Riverside, SE1 2RT
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 the Administrators have held with your Committee.

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

Resolution of the Creditors' Committee

To pay costs on a "time properly given" basis

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

Hourly rates

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

Cost approvals to date

For the period 15 March 2011 to 14 September 2011, the Committee has approved remuneration of £3,055,389 which comprises 11,592 hours at an average hourly rate of £263.58.

Remuneration approved by the Committee includes £1,676,133 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	75	72,508
Director	255	225,175
Senior Manager	1,508	701,677
Manager	1,041	416,060
Senior Associate	4,656	1,017,277
Associate	4,057	622,692
Total	**11,592**	**3,055,389**
Less work recoverable from Affiliate companies		(1,676,133)
Net charge to LBL		**1,379,256**

Part of the net charge to LBL relates to work on corporation tax and VAT issues on behalf of the Group and is also partially recovered.

The Committee has also resolved that the Administrators may draw 75% of their time costs on account to assist with the smoothing of working capital. All such costs are subject to detailed reporting to the Committee and are ultimately subject to their approval. In the six-month period from 15 March 2011 to 14 September 2011 the Administrators drew remuneration of £2,222,954, which includes amounts recoverable from Affiliate companies, and represents the balance of undrawn costs for the period 1 November 2010 to 31 May 2011, as approved by the Committee, and 75% of our time costs on account for the period 1 June 2011 to 30 June 2011.

It is likely that current levels of activity will be sustained for some time and the Administrators 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 2011

Amount in millions	GBP	EUR	USD	CHF	As at 14 September 2011 Total in GBP	As at 14 March 2011 Total in GBP	Movement
Receipts							
Contribution from third parties *	138.4	0.6	11.3	-	146.1	140.9	5.2
Building recharge receipts	129.0	-	-	-	129.0	129.0	-
Payroll recharge receipts	355.5	0.1	57.1	-	391.7	356.8	34.9
Other (including realisations)	83.9	2.3	5.6	0.2	89.6	46.3	43.3
HMRC Receipts **	192.0	-	-	-	192.0	177.6	14.4
VAT received on invoices	7.0	-	-	-	7.0	9.4	(2.4)
Total receipts for period	**905.8**	**3.0**	**74.0**	**0.2**	**955.4**	**860.0**	**95.4**
Payments							
Building and occupancy cost	(178.1)	(0.3)	(62.8)	-	(218.2)	(212.1)	(6.1)
Payroll and employee costs	(371.6)	(2.8)	(45.2)	-	(402.6)	(368.1)	(34.5)
Other cost	(38.3)	(0.2)	(1.2)	-	(39.3)	(3.0)	(36.3)
Other advisors' costs	(1.3)	-	-	-	(1.3)	(1.3)	-
Legal fees	(9.4)	-	-	-	(9.4)	(8.4)	(1.0)
Administrators' fees	(11.7)	-	-	-	(11.7)	(9.4)	(2.3)
Return of Corporation Tax - Group of Companies	(144.8)	-	-	-	(144.8)	(133.1)	(11.7)
VAT paid as group representative	(21.5)	-	-	-	(21.5)	(21.4)	(0.1)
VAT paid on invoices	(7.5)	-	(1.4)	-	(8.3)	(7.5)	(0.8)
Intercompany transfer	(1.5)	-	-	-	(1.5)	(1.5)	-
Total payments for period	**(785.7)**	**(3.3)**	**(110.6)**	**-**	**(858.6)**	**(765.8)**	**(92.8)**
Inter-currency transfers							
Receipts from inter-currency transfers	8.9	2.7	57.8	-	47.8	44.5	3.3
Payments from inter-currency transfers	(31.1)	(2.4)	(21.2)	(0.2)	(46.7)	(43.7)	(3.0)
Net inter-currency transfers	**(22.2)**	**0.3**	**36.6**	**(0.2)**	**1.1**	**0.8**	**0.3**
Net cash position	**97.9**	**-**	**-**	**-**	**97.9**	**95.0**	**2.9**
Bank balances							
Bank of England	-	-	-	-	-	1.2	(1.2)
HSBC	4.1	-	-	-	4.1	30.3	(26.2)
Money Market Funds	93.8	-	-	-	93.8	63.5	30.3
Net bank balance	**97.9**	**-**	**-**	**-**	**97.9**	**95.0**	**2.9**

* 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 on 14 September 2011 and 14 March 2011 respectively:

1 USD = 0.6333 GBP
1 EUR = 0.8686 GBP
1 CHF = 0.7215 GBP

1 USD = 0.6207 GBP
1 EUR = 0.8671 GBP
1 CHF = 0.6690 GBP

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