
***Lehman Brothers
Lease & Finance No. 1
Limited –
In Administration***

Joint Administrators' progress
report for the period 24 April to
23 October 2012

6 November 2012

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the eighth progress report by the Joint Administrators (the "Administrators") of Lehman Brothers Lease & Finance No.1 Limited (the "Company" or "LB L&F").

This report provides an update on the work the Administrators have undertaken and the progress made since our appointment, with particular focus on the progress made in the six months to 23 October 2012.

Objectives of the Administration

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

The specific aims of the Administration are to:

- protect and control the Company's assets;
- maximise trading income from utilisation of the assets; and
- maximise value for the Company at the time of sale or transfer of the assets.

Outcome for creditors

The Administrators expect a distribution to be made to unsecured creditors in due course, however the quantum and timing of this distribution remains uncertain, principally due to uncertainty around a potential pension liability.

As noted in previous reports, the Pensions Regulator ("the Regulator") listed LB L&F as one of the Lehman companies from which it was seeking a Financial Support Direction ("FSD") in relation to the Lehman Brothers Pension Scheme.

In September 2010 the Pensions Regulator's Determinations Panel (the "Panel") decided that an FSD should be issued against six Lehman group entities. LB L&F was among 38 companies that the Panel decided should not be issued with an FSD.

The Panel's decision has been referred to the Upper Tribunal, with the Scheme Trustees asking the Upper Tribunal to overturn the Panel's decision and rule that the 38 companies (including LB L&F)

should also be subject to an FSD. This means that LB L&F is still at risk from this potential liability.

LB L&F (together with 36 other affected entities) applied to the Upper Tribunal, seeking an order that the Trustees' referral to the Upper Tribunal relating to a FSD should be struck out on the grounds that it is now no longer possible for the Regulator to impose a FSD against the Company. The Trustees and the Regulator opposed the strike-out application, and the hearing took place from 12 to 15 March 2012. Judgment was handed down on 14 June 2012 with the Upper Tribunal declining to strike out the Trustees' referral, meaning that LB L&F is still at risk of a FSD. The Upper Tribunal's decision has been appealed to the Court of Appeal, and the hearing in the Court of Appeal has now been listed to begin on 29 April 2013.

The Administrators continue to keep the pensions issues under close review and are working to find an interim resolution that may allow dividends to be paid soon. Once an interim resolution has been agreed, the Administrators propose to apply to Court to request an Order to convert the administration of LB L&F into a distributing administration in order to allow them to pay a dividend to unsecured creditors.

Exit route from administration

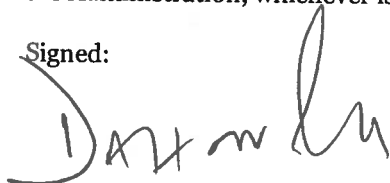
On the application of the Administrators, the High Court made an Order to further extend the period of the Administration to 30 November 2012.

In light of the outstanding pension issue, the Administrators intend to apply to Court for a further extension to the Administration in November.

Future reports

The Administrators will next report to creditors in approximately six months, or at the conclusion of the Administration, whichever is sooner.

Signed:



DA Howell
Joint Administrator
Lehman Brothers Lease & Finance No.1 Limited

AV Lomas, SA Pearson, DY Schwarzmann, MJA Jervis and DA Howell were appointed as Joint Administrators of Lehman Brothers Lease & Finance No 1 Limited to manage its affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, DY Schwarzmann, MJA Jervis and DA Howell are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

The Joint Administrators are Data Controllers of personal data as defined by the Data Protection Act 1998. PricewaterhouseCoopers LLP will act as Data Processor on their instructions. Personal data will be kept secure and processed only for matters relating to the Administration.

Section 2 Joint Administrators' actions to date

Overview

LB L&F was established to purchase and subsequently lease infrastructure assets to Lehman Brothers Limited ("LBL"), via a series of formal lease and hire purchase agreements.

reach a settlement with HMRC in the near future and are addressing the requirement for tax planning to shelter the interest income arising as result of the claim.

As reported previously, on 31 March 2010, LB L&F sold all of its infrastructure assets to LBL. The Administrators realised £19.1m in respect of the sale, which is well in excess of the statement of affairs value and also exceeds the value that would have been realised by selling the assets on a piecemeal basis to third parties.

Administrators' actions to date

On 11 October 2011, the Administrators entered into a settlement agreement with Lehman Brothers Holdings Inc ("LBHI") and certain other affiliates previously subject to Chapter 11 proceedings in the USA in conjunction with other UK affiliates. The Plans of Reorganisation became effective on 6 March 2012 following approval from court. Pursuant to this agreement the Administrators agreed in principle the claim of LBHI against LB L&F at \$192.4m.

Outstanding matters

LB L&F ceased to trade on 16 March 2011 following the vacation of the premises at 25 Bank Street, Canary Wharf. Tax computations have been submitted for all periods to cessation of trade, with a substantial loss on cessation, and all tax recoveries have been received for the period 2004 to 2008. Further recoveries may still arise from the sale of group relief, but these are unlikely to be significant given the overall loss profile of the group.

LB L&F may require losses for post cessation periods as losses to cessation of trade will not be available to shelter future non trading income (either interest or capital gains). There may be a requirement to acquire losses for post cessation periods to shelter any income, specifically the interest that may arise on the VAT recovery.

The dispute with HM Revenue & Customs ("HMRC") regarding a pre-appointment VAT claim of £8.8m continues. As stated in our previous report, HMRC has accepted that LB L&F has a valid claim in principle, but has not accepted the amount. The Administrators are expecting to

Section 3 Statutory and other Information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 9434 of 2008
<i>Full name:</i>	Lehman Brothers Lease & Finance No.1 Limited
<i>Trading name:</i>	Lehman Brothers Lease & Finance No.1 Limited
<i>Registered number:</i>	04387086
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<i>Company directors:</i>	IM Jameson (resigned 17/07/09), SJ Williams (resigned 20/07/09)
<i>Company secretary:</i>	M Smith (resigned 25/01/10), P Dave (resigned 25/01/10), ESE Upton (resigned 25/01/10)
<i>Shareholdings held by the directors and secretary:</i>	None of the directors own shares in the Company
<i>Date of the Administration appointment:</i>	24 October 2008
<i>Administrators' names and addresses:</i>	DA Howell, DY Schwarzmnn, SA Pearson, MJA Jervis and AV Lomas of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT.
<i>Appointer's name and address:</i>	The directors of the Company, 25 Bank Street, London E14 5LE
<i>Objective being pursued by the Administrators:</i>	Achieving a better result for creditors as a whole than would be likely if the Company was wound up (without first being in Administration).
<i>Division of the Administrators' responsibilities:</i>	The current Joint Administrators are DA Howell, AV Lomas, MJA Jervis, SA Pearson and DY Schwarzmnn of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT. In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Joint Administrators, may be done by any or one or more of the persons for the time being holding that office.
<i>Details of any extensions of the initial period of appointment:</i>	The Court has granted a third extension of the Administration to 30 November 2012.
<i>Proposed end of the Administration:</i>	The Administrators wish to retain various exit options available to them however the most likely exit route from the Administration is to seek permission to distribute from the administration and proceed to dissolve the Company.
<i>Estimated dividend for unsecured creditors:</i>	It is too early to estimate the likely dividend for unsecured creditors.
<i>Estimated values of the prescribed part and LB L&F's net property:</i>	There is no prescribed part as there is no qualifying floating charge.
<i>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</i>	Not applicable as there is no prescribed part.
<i>The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):</i>	The European Regulation on Insolvency Proceedings does apply to this Administration and these are the main proceedings.

Section 4 Financial Information

Administrators' remuneration

At the initial meeting of creditors which was held by correspondence on 8 June 2009, creditors resolved that the Administrators' remuneration be fixed by reference to the time properly given by them and the various grades of their staff. The Administrators were also authorised to draw their remuneration from time to time.

Attached at Section 6 is a summary of the Administrators' time costs for the period 1 March to 30 September 2012, presented in accordance with Statement of Insolvency Practice 9, together with a narrative of the work performed.

Time costs for the period 1 March to 30 September 2012 are £194,185, which represents 372.5 hours at an average hourly rate of £521.29.

Time cost analyses covering the period 24 October 2008 to 29 February 2012 have been provided previously.

To date, remuneration of £713k plus VAT has been drawn in respect of time costs incurred from 24 October 2008 to 30 June 2012.

Receipts and payments account

An account of the receipts and payments in the Administration showing movements for the six months to 23 October 2012 is set out overleaf.

Net receipts to 23 October 2012 amount to £27.4m, including £690k earned in interest.

Section 5 Receipts and Payments Account

	As at 23 October 2012 GBP (£)	As at 23 April 2012 GBP (£)	Movements GBP (£)
Receipts			
Realisations from sale of tax losses	1,118,533	1,118,533	-
Corporation Tax refund	5,916,233	5,916,233	-
Realisation from infrastructure assets and Level 7 lease	19,710,218	19,710,218	-
Interest received gross	689,860	647,412	42,448
Total Receipts	27,434,844	27,392,396	42,448
Payments			
Insurance	463,336	463,336	-
Legal Fees	26,310	26,310	-
Purchase of Tax Losses	1,180,578	1,180,578	-
Joint Administrators' remuneration	712,531	593,865	118,666
Joint Administrators' Category 1 disbursements	3,566	-	3,566
Statutory costs	1,244	1,243	1
Employee costs	1,763	1,493	270
Tax function costs	268,797	269,604	(807)
VAT Paid	123,014	98,568	24,446
Total Payments	2,781,139	2,634,996	146,142
Net Position	24,653,705	24,757,400	(103,695)
Cash Balances			
HSBC (non-interest bearing)	201,635	5,733,731	(5,532,096)
Short term deposits	24,452,070	19,023,669	5,428,401
Total Cash	24,653,705	24,757,400	(103,695)

Section 6 Joint Administrators' time costs for the period 1 March to 30 September 2012

Classification of work	Partner/Director	Senior Manager/Manager	Senior Associate	Associate/Support Staff	Total hours
	Hours	Hours	Hours	Hours	Hours
Accounting and Treasury	-	18.70	30.00	14.00	62.70
Administration and Planning	5.70	25.90	0.90	8.70	41.20
Realisation of assets	-	3.80	13.20	-	17.00
Creditors	-	1.00	-	-	1.00
Statutory and Compliance	-	4.30	-	12.10	16.40
Tax and VAT	34.00	160.10	20.90	5.00	229.00
LBL Recharges	0.08	1.95	2.12	1.06	5.21
Grand Total	39.78	224.75	67.12	40.86	372.51
					194,185

Current charge out rates	Business Recovery Services	Specialist
Grade	Max £/hr	Max £/hr
Partner	838	1,027
Director	639	932
Senior manager	492	869
Manager	414	634
Senior Associate	346	389
Associate/Support Staff	220	204

The Administrators' remuneration has been fixed by reference to the time properly given by the joint administrators and their staff in attending to matters arising in the administration. The maximum unit for time charged by the Joint Administrators and their staff is 0.1 of an hour.

* Specialist departments within PricewaterhouseCoopers LLP, such as Tax, VAT and Pensions, do sometimes charge a small number of hours, should we require their expert advice. Their rates do vary, however, the figures shown give an indication of the maximum rate per hour. In common with all professional firms, the scale rates used by the Joint Administrators from PricewaterhouseCoopers LLP may, periodically, rise (for example to cover annual inflation cost increase) over the period of the Administration. Any material amendments to these rates will be advised to the creditors in the next statutory report.

Summary of the Joint Administrators' time costs for the period 1 March to 30 September 2012

Accounting and Treasury - £18,877

- Reconciliation of bank accounts;
- Arranging receipts and payments of funds and coding of movements;
- Monitoring flow of funds into bank accounts;
- Managing funds in various institutions in order to mitigate risk; and
- Dealing funds on the money markets and inputting deals.

Asset Realisations - £6,154

- Review debtor positions.

Creditors - £414

- Updating list of creditor claims.

Statutory and Reporting - £4,442

- Managing LB L&F Administration database;
- Preparation of Administrators' seventh progress report;
- Circulate progress report to creditors;
- Statutory filings at Companies House and Court;
- Prepare receipts and payments account;
- Prepare detailed remuneration summary;
- Undertaking six monthly review of administration; and
- Review of time costs in preparation for billing.

Strategy and Planning - £17,712

- Reviewing financial information;
- Updating strategy documents;
- Preparations for and attending the Upper Tribunal pensions hearing; and
- Participating in discussions to try and resolve the pension issue.

Tax and VAT - £144,926

- Discussions and strategy planning regarding pre-appointment VAT claim;
- Meetings internally and with HMRC regarding the VAT claim;
- Correspondence with HMRC;
- Preparation of post appointment tax computations; and
- Preparation and submission of VAT returns.

LBL recharges - £1,660

- This is an apportionment of the costs incurred by Lehman Brothers Limited in the administration companies.