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

Joint Administrators' progress
report for the period 24 April 2013 to
23 October 2013

21 November 2013

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the tenth 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 their appointment, with particular focus on the progress made in the six months to 23 October 2013.

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 were 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

On 24 June 2013 the Court gave the Administrators of LB L&F permission to agree and pay a dividend in respect of the claims of its unsecured creditors.

The Administrators declared and paid a first interim dividend of 8 pence in the £ to the Company's unsecured non-preferential creditors on 22 October 2013.

The quantum and timing of any further dividend remains uncertain at this stage.

Pension liability

We explained in our most recent report that the Upper Tribunal's decision not to grant the strike-out application that was brought by LB L&F and 36 other entities was being appealed. The Court of Appeal issued its judgment on 21 June 2013, dismissing the appeal. Accordingly, the risk that we have explained previously of a Financial

Support Direction ("FSD") being imposed on LB L&F remains in place.

The Supreme Court issued its judgment on 24 July 2013 in a case brought by certain other Lehman entities, whereby it held that liability derived from a FSD would constitute a provable debt in an administration. This has enabled the Administrators to change the basis of reserving for any possible FSD liability, to allow for a potential additional unsecured debt rather than an administration expense.

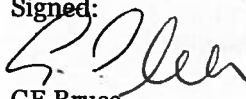
During the period covered by this report LB L&F joined with the other 36 entities to establish a collective reserve for possible FSD liability. However, it was not possible to reach agreement with the pension scheme trustees on the operation of this reserve, and it was therefore not brought into full effect. Following this, LB L&F is participating in a court process which may assist in determining whether the entities could make a collective reserve or whether they will need to reserve separately.

The Administrators continue to monitor the pension issues closely.

Future reports

The Administrators will next report to creditors in approximately six months or when the Administration comes to an end, whichever is sooner.

Signed:



GE Bruce

Joint Administrator

Lehman Brothers Lease & Finance No.1 Limited

AV Lomas, SA Pearson, GE Bruce and JG Parr have been 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, GE Bruce and JG Parr 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.

As previously reported, LB L&F sold all of its infrastructure assets to LBL on 31 March 2010. The Administrators realised £19.7m 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

As previously reported, 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 adjudicated and admitted the claim of LBHI against LB L&F at £121.5m (\$192.4m).

On 31 July 2013 the Administrators issued a notice of intended dividend to the unsecured creditors of LB L&F. The final date for creditors to prove their claims was 30 August 2013.

The Administrators have adjudicated upon all claims received and on 22 October 2013 declared a first interim dividend of 8 pence in the £ to creditors whose claims had been admitted.

Outstanding matters

As previously reported, further recoveries may still arise from the sale of group relief, but these are unlikely to be significant given the tax profile of LB L&F and the overall loss profile of the Lehman tax group ("the Group").

LB L&F ceased to trade for tax purposes on 16 March 2011. This means that losses to cessation of trade may not be available to shelter income arising in LB L&F post 16 March 2011. There may be a requirement to acquire losses from the Group for post cessation periods to shelter any income, specifically the interest that may arise on the anticipated VAT recovery as detailed in the next paragraph.

The Administrators are confident that a settlement of LB L&F's claim of £8.8m in respect of pre-appointment VAT due to it will shortly be reached with HM Revenue & Customs. Planning is in hand for a tax shelter arrangement for the interest which will be received as part of the settlement.

Asset realisations are substantially complete, the only remaining assets being the Company's debtors (c\$34m) which were estimated to realise c\$3.4m in the directors' statement of affairs.

LB L&F's largest debtor by far is Lehman Brothers Limited ("LBL"), which is also in Administration. According to the Company's records, the balance due to LB L&F from LBL is in the region of \$29 million.

The Administrators are in the process of submitting a claim on behalf of LB L&F in the LBL estate; however the timing and quantum of a dividend being paid to the non-preferential unsecured creditors of LBL are uncertain at present.

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>	GE Bruce, SA Pearson, AV Lomas and JG Parr 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>	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 Joint Administrators.
<i>Details of any extensions of the initial period of appointment:</i>	The High Court of Justice has granted three successive extensions to the Administration period to: 30 November 2011; 30 November 2013 and more recently to 30 November 2014.
<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 continue to distribute from the Administration (the Administrators having obtained permission from the Court to do so in June 2013) and then to apply for the dissolution of the Company.
<i>Estimated dividend for unsecured creditors:</i>	The Administrators declared a first interim dividend of 8p in the £ to unsecured non-preferential creditors on 22 October 2013. The quantum and timing of any further dividends remains uncertain at present.
<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

In June 2009, the Administrators requested and received consent from LB L&F's creditors for the Administrators' remuneration to 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 April 2013 to 30 September 2013, presented in accordance with Statement of Insolvency Practice 9, together with a narrative of the work performed. Time costs for this period total £85,469 plus VAT, which represents 179.21 hours at an average hourly rate of £476.92.

To date, remuneration of £1,057,451 plus VAT has been drawn in respect of time costs incurred to 31 August 2013.

Receipts and payments account

An account of the receipts and payments in the Administration showing movements for the six months to 23 October 2013 is set out overleaf.

Cash held as at 23 October 2013 totals approximately £13.9m.

Section 5 Receipts and Payments Account

	Estimated to realise per Directors' Statement of Affairs	As at 23-Oct-13 GBP (£)	As at 23-Apr-13 GBP (£)	Movements GBP (£)
Receipts				
Realisation from infrastructure assets and Level 7 lease	1,868,681	19,710,218	19,710,218	-
Debtors	3,398,336	-	-	-
Realisations from sale of tax losses	-	1,118,533	1,118,533	-
Corporation Tax refund	-	5,931,656	5,916,233	15,423
Interest received gross	-	762,235	723,684	38,551
Total	5,267,017	27,522,642	27,468,668	53,974
Payments				
Insurance		463,336	463,336	-
Legal Fees		45,439	31,509	13,930
Purchase of Tax Losses		1,180,578	1,180,578	-
Joint Administrators' remuneration		1,057,451	971,825	85,626
Joint Administrators' Category 1 disbursements		3,566	3,566	-
Statutory costs		10,693	1,244	9,449
Corporation Tax		715,000	-	715,000
Employee costs		1,763	1,763	-
Tax function costs		230,159	230,159	-
IT costs		5,741	5,741	-
Net VAT Paid		180,759	161,087	19,672
Total		3,894,485	3,050,808	843,677
Total receipts less total payments		23,628,157	24,417,860	(789,703)
Distributions				
1st dividend to unsecured creditors of 9p in the £, declared in October 2013		9,738,980	-	9,738,980
Total		9,738,980	-	9,738,980
Cash in hand/ (movement in year)		13,889,177	24,417,860	(10,528,683)
Cash in hand is represented by				
HSBC (non-interest bearing)		1,061,164	103,056	958,109
Money Market		12,828,013	24,314,804	(11,486,792)
Total Cash		13,889,177	24,417,860	(10,528,683)

Section 6 Joint Administrators' time costs for the period 1 April 2013 to 30 September 2013

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and treasury	-	-	16.35	6,837	23.15	6,660	19.75	4,424	59.25	17,921
Administration and planning	8.15	5,308	13.50	5,693	5.75	1,507	0.75	167	28.15	12,675
Realisation of assets	0.50	419	2.80	1,207	-	-	-	-	3.30	1,626
Creditors	-	-	1.90	819	-	-	2.90	664	4.80	1,483
Statutory and other compliance	4.80	3,226	2.70	1,174	16.60	4,254	5.10	1,144	29.20	9,798
Tax and VAT	11.40	10,408	37.95	30,282	0.20	72	1.75	259	51.30	41,021
LBL recharges	0.13	84	0.70	300	0.82	230	1.56	331	3.21	945
Grand Total	24.98	19,445	75.90	46,312	46.52	12,723	31.81	6,989	179.21	85,469
Average Hourly Rate		778		610		273		220		477

Current charge out rates	Business Recovery Services		Specialist	
Grade	Max £/hr		Max £/hr	
Partner	838		1,069	
Director	665		970	
Senior manager	512		905	
Manager	431		571	
Senior Associate	360		278	
Associate/Support Staff	229		212	

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 0.05 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 given 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.

Narrative of the Joint Administrators' time costs for the period 1 April 2013 to 30 September 2013

Accounting and treasury - £17,921

- Correspondence with bank in respect of the transfer of Administrators;
- 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.

Administration and planning - £12,675

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

Realisation of assets - £1,626

- Review debtor positions.

Creditors - £1,483

- Updating list of creditor claims; and
- Reviewing creditor claim submissions.

Statutory and other compliance - £9,798

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

Tax and VAT - £41,021

- 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 - £945

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

