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# ***Lehman Brothers UK Holdings Limited – In Administration***

Joint Administrators' progress  
report for the period 29 September  
2014 to 28 March 2015

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23 April 2015

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# Contents

<b>Section 1</b>	<b><i>Purpose of the Joint Administrators' progress report</i></b>	<b>3</b>
<b>Section 2</b>	<b><i>Joint Administrators' actions to date</i></b>	<b>4</b>
<b>Section 3</b>	<b><i>Statutory and Other Information</i></b>	<b>5</b>
<b>Section 4</b>	<b><i>Financial Information</i></b>	<b>6</b>
<b>Section 5</b>	<b><i>Receipts and Payments Account</i></b>	<b>7</b>
<b>Section 6</b>	<b><i>Joint Administrators' time costs for the period 1 October 2014 to 28 February 2015</i></b>	<b>8</b>

# **Section 1 Purpose of the Joint Administrators' progress report**

## **Introduction**

This is the 13th progress report by the Joint Administrators (the "Administrators") of Lehman Brothers UK Holdings Limited ("LBUKH" or the "Company").

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 28 March 2015.

## **Objective of the Administration**

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

The specific aim of this Administration is to protect and control any return on the Company's investments in subsidiaries and intercompany book debts, for the benefit of LBUKH's ordinary unsecured creditors.

## **Outcome for creditors**

On 2 May 2014, the Court granted the Administrators permission to agree the claims of ordinary unsecured creditors and pay a dividend thereon.

On 4 September 2014, the Administrators declared and paid a dividend of 100 pence in the £ to the Company's ordinary unsecured creditors whose claims had been admitted.

In the reporting period, a further ordinary unsecured claim has been settled in full and a first, interim distribution has been paid to the Company's sole unsecured, subordinated creditor.

## **Extension to the Administration**

The Administration is currently due to expire on 30 November 2015. The Administrators intend to make an application to Court to request a further extension within the next seven months in order to continue to pursue the objective of the Administration.

Signed:



GE Bruce  
Joint Administrator  
Lehman Brothers UK Holdings Limited

*AV Lomas, SA Pearson, DA Howell, GE Bruce and JG Parr were appointed as Joint Administrators of Lehman Brothers UK Holdings Limited to manage its affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, DA Howell, 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***

### ***Background***

LBUKH is the holding company for Lehman Brothers Holdings plc ("LBH") and Lehman Brothers (PTG) Limited, both of which are in Administration. The Company principally acted to manage the flow of investment funds between these subsidiaries.

The book value of debtors at the date of Administration was c.\$45m.

### ***Administrators' actions to date***

As previously reported, in October 2011 the Administrators entered into a settlement agreement with Lehman Brothers Holdings Inc ("LBHI"), in conjunction with other UK affiliates and certain other affiliates previously subject to Chapter 11 proceedings in the USA. Pursuant to this agreement, LBUKH had its guarantee claim against LBHI agreed at \$608.9m and its direct claim agreed at \$10.6k

On 2 October 2014, LBUKH received a sixth dividend of \$22.6m from LBHI. As at 28 March 2015, LBUKH has received dividends totalling \$150m.

These funds were converted into GBP to minimise the foreign exchange risk.

On 2 April 2015, LBUKH received a seventh distribution of \$15.4m. These funds were received shortly after the period covered by this report and are therefore excluded from the attached receipts and payments account. Further dividends from LBHI are expected to be received on a six monthly basis.

During the period, LBUKH also received a first interim dividend of £91k from Lehman Brothers Limited in respect of its claim of £ 5.5m.

### ***Outcome for creditors***

On 2 May 2014, the Court gave LBUKH permission to agree and pay a dividend in respect of the claims of its ordinary unsecured creditors.

The Administrators declared and paid a dividend of 100p in the £ to the Company's ordinary unsecured creditors on 4 September 2014.

On 16 February 2015, a first interim dividend of £50,000 was paid to the Company's subordinated creditor, Lehman Brothers Luxembourg Investments S.a.r.l.

In the reporting period, a further ordinary unsecured creditor who submitted a late claim has been settled in full in the sum of £70k. Since the liability in respect of this claim is shared with LBH, the Administrators are in the process of submitting a claim against LBH for £35k, being half of the settlement amount.

### ***Creditors' rights to surplus funds***

The Administrators of LBUKH have now paid all its ordinary unsecured creditors in full. Accordingly, a substantial surplus is available to pay statutory interest and/or distributions to the subordinated creditor.

In March 2013, the Joint Administrators of Lehman Brothers International (Europe) ("LBIE") issued a joint application with the Joint Administrators of both Lehman Brothers Limited ("LBL") and LB Holdings Intermediate 2 Limited – the "Waterfall Application". One of the issues dealt with by the Waterfall Application is ascertaining the relative ranking of interest accruing on the claims of ordinary creditors (in accordance with the provisions of rule 2.88 of the Insolvency Rules) and the subordinated debt claims, once all provable creditor claims have been paid in full. The first instance judgement was appealed in a hearing that concluded in March 2015. It is anticipated that judgement will be handed down in early May 2015.

Full details of the Waterfall Application are available at [www.pwc.co.uk/Lehman](http://www.pwc.co.uk/Lehman).

### ***Outstanding matters***

The Administrators will continue their work to realise the intercompany investments and debtors of LBUKH.

The Administrators may seek to agree a consensual settlement of the issues raised in the Waterfall Application, between the parties involved, in order to expedite progress.

## Section 3 Statutory and other Information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 8445 of 2008
<i>Full name:</i>	Lehman Brothers UK Holdings Limited
<i>Trading name:</i>	Lehman Brothers UK Holdings Limited
<i>Registered number:</i>	02074637
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<i>Company directors:</i>	D Gibb (resigned 17/07/09), IM Jameson (resigned 17/07/09) and AJ Rush (resigned 28/10/08).
<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 LBUKH
<i>Date of the Administration appointment:</i>	29 September 2008
<i>Current Administrators' names and addresses:</i>	AV Lomas, SA Pearson, DA Howell, GE Bruce and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT.
<i>Appointer's name and address:</i>	The original appointment of Administrators was made by the directors of the Company, 25 Bank Street, London E14 5LE
<i>Objective being pursued by the Administrators:</i>	Achieving a better result for LBUKH's creditors as a whole than would be likely if LBUKH were 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 any or all of the Joint Administrators may be done by any 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 High Court of Justice has granted four successive extensions to the Administration period to: 30 November 2010, 30 November 2011, 30 November 2013 and most recently 30 November 2015.
<i>Proposed end of the Administration:</i>	The Administrators wish to retain various exit options available to them. However it is most likely that the Administrators will continue to distribute from the Administration (the Administrators having obtained permission from the Court to do so on 2 May 2014). If this route is pursued, once the final distribution has been made they will apply for the dissolution of the Company.
<i>Estimated dividend for unsecured creditors:</i>	The Administrators declared and paid a dividend of 100p in the £ to ordinary unsecured creditors on 3 September 2014. On 16 February 2015, a first, interim dividend of 0.0047 p in the £ was declared paid to all known subordinated creditors.
<i>Estimated values of the prescribed part and LBUKH'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.

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## ***Section 4 Financial Information***

### ***Administrators' remuneration***

In August 2011, the Administrators requested and received consent from the creditors of the Company for the Administrators' time costs to be fixed by reference to the time properly given by them and the various grades of their staff.

In June 2013, subsequent approval was sought and received from LBUKH'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 creditors also resolved that the Administrators may draw their time costs on account from time to time.

To date, the Administrators have drawn remuneration of £571,510 plus VAT in respect of total time costs incurred from the date of their appointment to 30 November 2014.

Attached at Section 6 is a summary of the Administrators' time costs for the period 1 October 2014 to 28 February 2015, presented in accordance with Statement of Insolvency Practice 9, together with a narrative of the work performed. Time costs for this period total £120,984 plus VAT, comprising 348.46 hours at an average hourly rate of £347.

During the reporting period, remuneration of £119,531 plus VAT has been paid in relation to time costs incurred between 1 July 2014 and 30 November 2014.

### ***Receipts and payments account***

An account of the receipts and payments for the six months to 28 March 2015, together with a cumulative total since commencement of the Administration, is set out in Section 5.

Net receipts as at 28 March 2015 total approximately £88.1m.



## Section 5 Receipts and Payments Account

	Notes	28-Mar-15	GBP Movements in Period	28-Sep-14	28-Mar-15	USD Movements in Period	28-Sep-14
<b>Receipts</b>							
Dividend from LBHI		-	-	-	149,959,551	22,632,855	127,326,696
Dividend from LBH Plc		796,120	-	796,120	-	-	-
Other intercompany debtors		107,908	91,078	16,830	-	-	-
Book debts		10,753	-	10,753	-	-	-
Recharge of tax function costs		32,886	-	32,886	-	-	-
Corporation Tax refunds		6,405	-	6,405	-	-	-
Net VAT refund	(1)	-	(17,189)	17,189	-	-	-
Interest		480,089	127,380	352,709	-	-	-
<b>Total Receipts</b>		<b>1,434,161</b>	<b>201,269</b>	<b>1,232,892</b>	<b>149,959,551</b>	<b>22,632,855</b>	<b>127,326,696</b>
<b>Payments</b>							
Legal fees		49,491	24,560	24,931	-	-	-
Payment for tax losses		9,944	6,409	3,535	-	-	-
Employee costs		1,781	-	1,781	-	-	-
Bank charges		8	-	8	202	75	127
IT costs		5,741	-	5,741	-	-	-
Statutory advertising		19,314	9,156	10,158	-	-	-
Pension costs		392,140	-	392,140	-	-	-
Settlement of late claiming creditor		70,000	70,000	-	-	-	-
Joint Administrators' remuneration		571,508	120,659	450,849	-	-	-
Joint Administrators' category 1 disbursements		1,618	-	1,618	-	-	-
Irrecoverable VAT	(1)	112,263	25,803	86,460	-	-	-
<b>Total Payments</b>		<b>1,233,808</b>	<b>256,587</b>	<b>977,221</b>	<b>202</b>	<b>75</b>	<b>127</b>
<b>Intracompany Transfers</b>					<b>349</b>		
Payment		-	-	-	(149,958,349)	(22,632,864)	(127,325,487)
Receipt		93,404,249	13,964,007	79,440,242	-	-	-
<b>Total receipts less total payments</b>		<b>93,604,602</b>	<b>13,908,689</b>	<b>79,695,913</b>	<b>1,000</b>	<b>84</b>	<b>1,082</b>
<b>Distributions</b>							
First distribution to ordinary unsecured creditors on 4 September 2014		5,500,000	-	5,500,000	-	-	-
First distribution to subordinated creditors on 16 February 2015		50,000	50,000	-	-	-	-
<b>Total</b>		<b>88,054,602</b>	<b>13,858,689</b>	<b>74,195,913</b>	<b>1,000</b>	<b>84</b>	<b>1,082</b>
<b>Cash Balances</b>							
HSBC		681,546	180,314	501,232	1,000	-	1,082
Money market deposits	(2)	87,373,956	13,678,375	73,694,681	-	-	-
<b>Total Cash/Movements</b>	(3)	<b>88,054,602</b>	<b>13,858,689</b>	<b>74,195,913</b>	<b>1,000</b>	<b>-</b>	<b>1,082</b>

### Notes

- (1) Due to the nature of the Company's former business, it is not entitled to recover VAT on its costs. A VAT return submitted during the period made an adjustment in favour of HMRC for VAT refunds of £18,382.77 received in error.
- (2) Funds are invested on the money markets in order to accrue interest and to manage risk.
- (3) Total Cash as at 28 March 2015 based on exchange rates on 30 March 2015 was £88,055,277.

# Section 6 Joint Administrators' time costs for the period 1 October 2014 to 28 February 2015

Classification of work	Partner/Director	Senior Manager/Manager	Senior Associate	Associate/Support Staff	Total hours
	Hours	Hours	Hours	Hours	Hours
Accounting and Treasury	0.23	21.65	58.15	51.60	131.63
Strategy and Planning	24.55	12.85	10.75	12.65	60.80
Creditors	-	8.80	42.35	0.60	51.75
Statutory and Compliance	5.15	11.15	21.10	31.70	69.10
Tax and VAT	0.50	2.30	13.85	8.45	25.10
LEI Recharges	0.30	2.00	0.78	1.97	5.05
<b>Grand Total</b>	<b>30.73</b>	<b>58.75</b>	<b>146.98</b>	<b>106.97</b>	<b>343.43</b>
<b>Average Hourly Rate</b>	<b>716</b>	<b>437</b>	<b>320</b>	<b>226</b>	<b>346</b>

Current charge out rates	Business Recovery Services		Specialist	
	Max £/hr		Max £/hr	
	To 30 June 2014	From 1 July 2014	To 30 June 2014	From 1 July 2014
Grade				
Partner	873	873	1,167	1,225
Director	665	665	1,076	1,076
Senior manager	512	512	905	905
Manager	431	431	660	660
Senior Associate	360	360	490	490
Associate/Support Staff	229	229	228	229

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.



## ***Tax function costs***

Certain group tax matters are managed through Lehman Brothers Limited (“LBL”) as Group Paying Agent. When recoveries of Corporation Tax paid pre-appointment are paid to relevant estates, the associated PwC costs incurred by the relevant estates are re-apportioned by reference to quantum of refunds to each estate.

The final refund of pre-appointment Corporation Tax has now been received by LBL and redistributed to certain group companies, and the final re-apportionment of costs is now known. LBUKH has not benefited from any tax refund so will not contribute to the costs. Time costs in relation to tax function costs of £33,072 previously reported in the Administration have now been recovered from other estates, as LBUKH received no benefit attributable to such costs. These costs had not actually been paid by LBUKH so a refund is not due to it. Accordingly, an adjustment of previously reported time costs is detailed below.

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Tax function costs previously reported in Administration	15.00	13,439	27.00	11,326	33.00	7,999	2.00	308	77.00	33,072
Tax function costs recovered	(15.00)	(13,439)	(27.00)	(11,326)	(33.00)	(7,999)	(2.00)	(308)	(77.00)	(33,072)
<b>Total tax function costs attributable</b>	-	-	-	-	-	-	-	-	-	-

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## ***Narrative of the Joint Administrators' time costs for the period 1 October 2014 to 28 February 2015***

### ***Accounting and Treasury - £36,690***

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

### ***Strategy and Planning - £29,514***

- Meetings with stakeholders;
- Due consideration of best strategy for dealing with the subdebt;
- Reviewing financial information including updating the Estimated Outcome Statement;
- Discussions regarding strategy for the Administration; and
- Updating strategy documents.

### ***Creditors - £19,176***

- Maintaining record of creditor claims;
- Liaising with various creditors in respect of their claims;
- Reviewing and adjudicating creditor claims submitted, including finalising all outstanding claims; and
- Arranging payment of a first interim distribution to the subdebt holder.

### ***Statutory and Compliance – £23,595***

- Preparation of the Administrators' 12th progress report;
- Circulating progress report to creditors;
- Statutory filings at Companies House and Court;
- Preparation of receipts and payments account for reports to creditors;
- Preparing detailed remuneration summary;
- Preparation of the Administrators' six monthly review summary;
- Maintaining LBUKH's records;
- Liaising with Administrators on statutory issues; and
- Maintaining case files and the LBUKH database.

### ***Pensions - £2,155***

- This is an apportionment of the costs incurred by LB UK Financing Limited associated with the finalisation of the pensions issue.

### ***Tax and VAT - £8,427***

- Preparation of post-appointment tax computations;
- Meetings and discussions with the tax team;
- Review of documents and discussions regarding tax provision; and
- Preparation of VAT returns.

### ***LBIE Recharges - £1,427***

- This is an apportionment of the costs incurred by Lehman Brothers International Europe associated with the administration companies.