Applicants
S A Pearson
First Statement
"SAP1"
6 October 2008

IN THE HIGH COURT OF JUSTICE **Claim No. 7942 of 2008**

CHANCERY DIVISION

COMPANIES COURT

IN THE MATTER OF LEHMAN BROTHERS INTERNATIONAL (EUROPE) (in administration)

AND IN THE MATTER OF THE INSOLVENCY ACT 1986

EXHIBIT SAP1

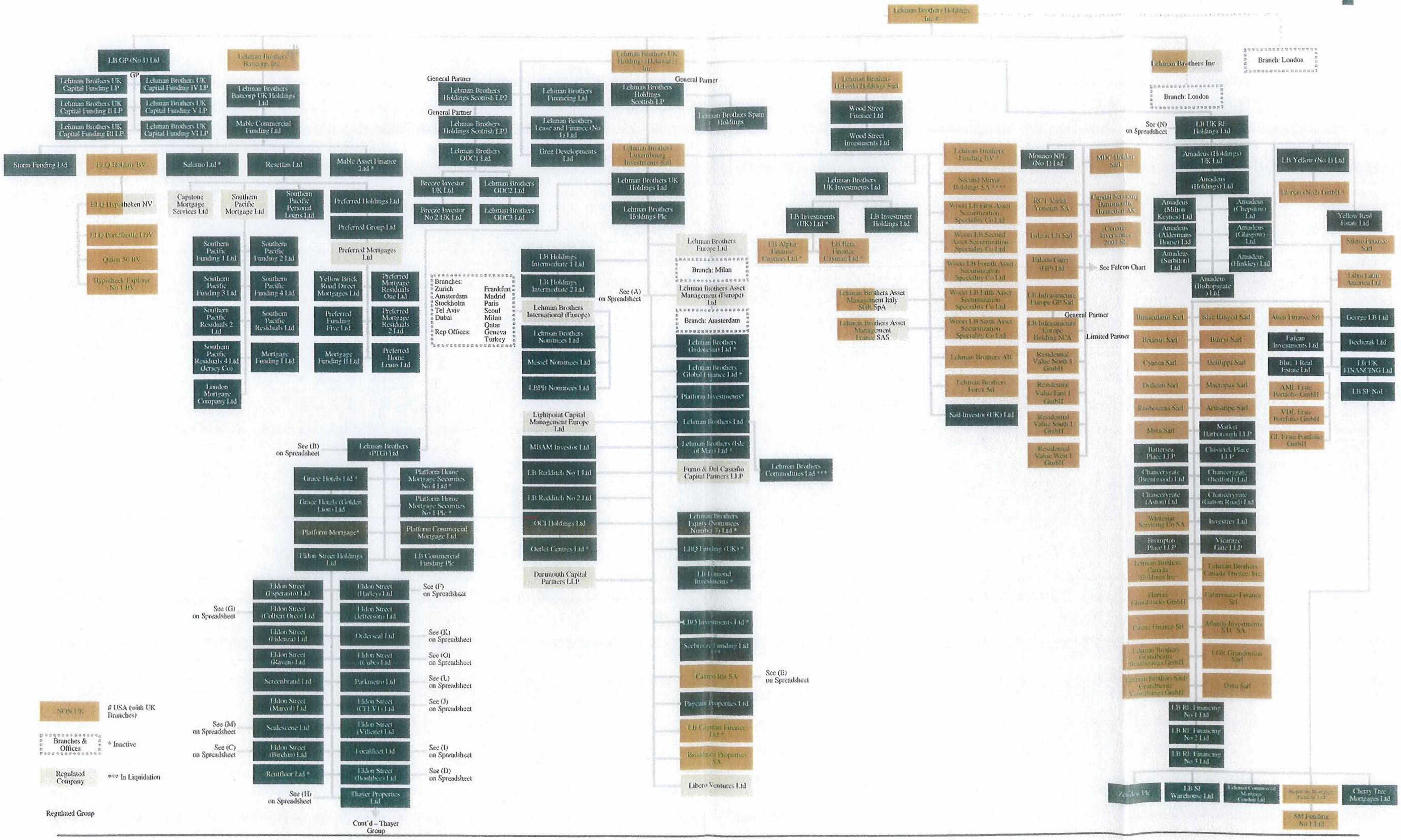
This is the paginated bundle of copy documents marked "SAP1" referred to in the witness statement of STEVEN ANTHONY PEARSON dated the 6th day of OCTOBER 2008.

Signed: ....

STEVEN ANTHONY PEARSON

6 OCTOBER 2008

Corporate Structure Chart – Lehman Brothers London



LEHMAN BROTHERS

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Lehman Brothers International (Europe)

Report and Financial Statements

30 November 2007

Registered No. 2538254

Registered No. 2538254

Directors

J M Isaacs
M Jackson
I M Jameson
R F Magnoni
J Phizackerley
A J Rush
T Sciard
P R Sherratt
W Tudor John
A Wright

Secretaries

M E Smith
P Dave
E S E Upton

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Registered Office

25 Bank Street
London E14 5LE

Directors' report

The directors present their report and financial statements for the year ended 30 November 2007.

Results and dividends

The profit for the year, after taxation, amounted to $942,090,000 (2006: $92,605,000) and has been transferred to reserves. No dividend has been paid during the year and none is proposed.

During the year, the Company has adopted Financial Reporting Standard (FRS) 25 'Financial Instruments: Disclosure and Presentation' and Financial Reporting Standard (FRS) 26 'Financial Instruments: Recognition and Measurement'. Comparatives, where applicable have been restated to comply with the standard.

Principal activities

The Company is authorised and regulated by the Financial Services Authority. It provides a wide range of financial services to customers located in many countries. Its activities include trading and broking fixed income and equity financial instruments, participation in the syndication and underwriting of new security issues and stockbroking in relation to securities issued in many major and emerging markets around the world. The Company is a member of the London Stock Exchange and many other international stock and derivative exchanges.

Review of business and future developments

The Company's key financial and other performance indicators during the year were as follows:

	2007	*2006*	*Change*
	$000	*$000*	*%*
Operating income	1,975,330	1,787,695	+10%
Profit on ordinary activities before taxation	1,434,221	172,878	+730%
Profit after tax	942,090	92,605	+917%
Shareholders' funds	6,014,827	4,022,737	+50%
Average number of employees	1,442	1,203	+20%

Operating income has increased by 10% due primarily to an increase in the volume of business.

Shareholders' funds have increased by 50% over the year. During the year the authorised share capital was increased by $1,000,000,000 by the creation of 1,000,000,000 ordinary shares of $1 each. 1,050,000,000 ordinary shares of $1 each were issued to support the increase in balance sheet usage by the business.

Average number of employees has increased by 20% due to increased business growth.

The profit and loss account for the year is set out on page 8. Both the level of business during the year and the financial position of the Company at the end of the year were satisfactory.

The Company's reported results for the year include its branches, which are situated in Amsterdam, Dubai, Frankfurt, Madrid, Milan, Paris, Seoul, Stockholm, Tel Aviv, Qatar, Geneva and Zurich.

During the year 5,100,000 Class B, 5% non-cumulative preference shares of $1,000 each, redeemable in May 2012, were authorised and issued. These are included in 'Creditors: amounts falling due over one year'.

Directors' report

Principal risks and uncertainties

The ultimate parent company of Lehman Brothers International Europe is Lehman Brothers Holdings Inc. The principal risks of Lehman Brothers Holdings Inc. and subsidiaries (the 'Group') are market, credit, liquidity, legal, reputational, regulatory and operational risks. Risk management policies and procedures for the Group (including all international locations) are developed on a global basis.

As a leading global investment bank, risk is an inherent part of our businesses. Global markets, by their nature, are prone to uncertainty and subject participants to a variety of risks. Risk management is considered to be of paramount importance in our day-to-day operations. Consequently, we devote significant resources (including investments in employees and technology) to the measurement, analysis and management of risk.

The Group also seeks to reduce risk through the diversification of our businesses, counterparties and activities across geographic regions. The Group accomplishes this objective by allocating the usage of capital to each of our businesses, establishing trading limits and setting credit limits for individual counterparties. The effectiveness of our approach to managing risks can never be completely assured. For example, unexpected large or rapid movements or disruptions in one or more markets or other unforeseen developments could have an adverse effect on the results of our operations and on our financial condition.

Our overall risk limits and risk management policies are established by management's Executive Committee. On a weekly basis, our Risk Committee, which consists of the Executive Committee, the Chief Risk Officer and the Chief Financial Officer, reviews all risk exposures, position concentrations and risk-taking activities. The Global Risk Management Division (the 'Division') is independent of the trading areas. The Division includes credit risk management, market risk management, quantitative risk management, sovereign risk management and operational risk management. Combining these disciplines facilitates a fully integrated approach to risk management. The Division maintains staff in each of our regional trading centres as well as in key sales offices. Risk management personnel have multiple levels of daily contact with trading staff and senior management at all levels within the Group. These interactions include reviews of trading positions and risk exposures.

Changes in fixed assets

The changes in fixed assets during the year are set out in note 9 to the accounts.

Directors

The directors during the year and at the date of this report were:

R J A Amat (Resigned 18 January 2008)
J M Isaacs
M Jackson
J M Jameson
I T Lowitt (Resigned 17 April 2007)
R F Magnoni
R B Nagioff (Resigned 22 February 2008)
A J Rush
T Sciard
P R Sherratt
W Tudor John
J Phizackerley (Appointed 11 May 2007)
A Wright (Appointed 18 January 2008)

Directors' report

Employees

It is the Company's policy to keep employees informed on matters of concern to them either by information bulletins, notices or letters.

It is the Company's policy to consult employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests.

Employees participate in the performance of the operating activities of the Company by way of discretionary bonus schemes that are recharged to the Company by a group service company.

The Company's policy is to give full and fair consideration to applications for employment of disabled workers for those vacancies that they are able to fill. Once employed, disabled persons are given suitable opportunities to develop their career. Arrangements are made, wherever possible, for any employees who become disabled to perform work identified as appropriate to their aptitudes and abilities.

Directors' qualifying third party indemnity provisions

The Company provides indemnity provisions to its directors against liability in respect of proceedings brought by third parties as outlined in its articles of association, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provisions remain in force at the date of approving the director's report.

Charitable contributions

During the year, the Company made various charitable contributions totalling $186,734 (2006: $85,222). Charitable contributions made by Lehman Brothers Limited are disclosed in that Company's financial statements totalling $1,766,328 (2006: $1,295,115). Charitable contributions made by The Lehman Brothers Foundation Europe are disclosed in the Foundation's financial statements totalling $2,965,801 (2006: $1,466,113).

Creditor payment policy and practice

Payments are made to suppliers through a group company which provides administrative services. It is the policy of that company to make payments to suppliers in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

On behalf of the Board

Director

Director

28 FEB 2008

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Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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ERNST & YOUNG

Independent auditors' report

to the members of Lehman Brothers International (Europe)

We have audited the Company's financial statements for the year ended 30 November 2007 which comprise Profit and Loss Account, Balance Sheet and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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Ernst & Young

Independent auditors' report

to the members of Lehman Brothers International (Europe) Limited *(continued)*

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 November 2007 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP.

Ernst & Young LLP

Registered Auditor

London

28.2.08

Profit and loss account

for the year ended 30 November 2007

	Notes	2007 $000	2006 $000
Operating income	2	1,975,330	1,787,695
Administrative expenses	3	(1,498,441)	(1,982,458)
Operating profit/(loss)		476,889	(194,763)
Interest receivable and similar income	4	4,971,521	4,038,787
Interest payable and similar charges	5	(4,014,189)	(3,671,146)
Profit on ordinary activities before taxation	6	1,434,221	172,878
Tax on profit on ordinary activities	8	(492,131)	(80,273)
Profit for the financial year	17	942,090	92,605

	2007 $000	2006 $000
Statement of accumulated profit/(loss)		
Accumulated loss at the beginning of the year	(450,377)	(542,982)
Profit for the year	942,090	92,605
Retained profit/(loss) at the end of the year	491,713	(450,377)

There are no recognised gains or losses other than the profit attributable to shareholders of the Company of $942,090,000 for the year ended 30 November 2007, and a profit of $92,605,000 for the year ended 30 November 2006.

The results of the Company are derived from continuing operations.

Balance sheet

at 30 November 2007

	Notes	2007 $000	2006 $000
Tangible fixed assets	9	21,717	10,366
Available for sale – fixed asset investments	10	9,563	6,354
		31,280	16,720
Current assets			
Inventory held for trading		37,243,768	36,378,763
Debtors	12	409,109,344	281,990,140
Cash at bank and in hand	13	5,570,019	2,775,729
		451,923,131	321,144,632
Creditors: amounts falling due within one year	14	(438,839,584)	(315,138,615)
Net current assets		13,083,547	6,006,017
Creditors: amounts falling due over one year	15	(7,100,000)	(2,000,000)
Total assets less current liabilities		6,014,827	4,022,737
Capital and reserves			
Called up share capital	16	5,523,114	4,473,114
Profit and loss account		491,713	(450,377)
Total shareholders' funds	17	6,014,827	4,022,737

28 FEB 2008

Director

Notes to the financial statements

at 30 November 2007

1. Accounting policies

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Group financial statements have not been prepared as the Company is a subsidiary of Lehman Brothers Holdings Scottish Limited Partnership, a company registered in Scotland, which prepares Group financial statements.

Changes in accounting policy

The Company has adopted the disclosure requirements of Financial Reporting Standard (FRS) 25 'Financial Instruments: Disclosure and Presentation' and Financial Reporting Standard (FRS) 26 'Financial Instruments: Recognition and Measurement' with effect from 1 December 2006. The directors have taken advantage of the exemption in paragraph 3(c) of FRS 25, from the requirement to comply with the disclosure requirements of FRS 25 as the Company is a wholly owned subsidiary, and the disclosure is included in the consolidated financial statements of Lehman Brothers Limited, which comply with the FRS 25 requirements. The adoption of FRS 25 and FRS 26 has not resulted in a change to the comparative amounts.

Functional currency

The Company's functional currency is US dollars as the directors consider this to be the most appropriate currency for the Company's business.

Income from trading activities

The Company adopts the trade date method of accounting for transactions.

Foreign currency translation

Foreign currency monetary assets and liabilities are translated into US dollars at rates of exchange ruling at the balance sheet date. Transactions during the year expressed in foreign currencies are translated into US dollars at the rate of exchange ruling at the end of the month in which they occur. All differences arising from translation are dealt with in the profit and loss account. Non monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using exchange rates as of the date of the initial transactions.

Pension costs

The Company's pension obligations are financed by payments to Group funded defined benefit and defined contribution schemes operated by Lehman Brothers Limited. The annual cost of pension arrangements is recharged to the Company in arriving at its operating profit or loss for the year.

Statement of cash flows

The directors have taken advantage of the exemption in paragraph 5(a) of Financial Reporting Standard (FRS) 1 (revised) 'Presentation of financial statements' from producing a statement of cash flows.

Notes to the financial statements

at 30 November 2007

1. Accounting policies (continued)

Tangible fixed assets

The cost of tangible fixed assets includes any incidental expenses of acquisition. Depreciation is calculated to write off the cost of tangible fixed assets on a straight line basis over their expected useful lives. The principal annual rates used for this purpose are:

Furniture, fittings and equipment	20%
EDP and telecommunications equipment	20% to 33%

Depreciation is charged on a monthly basis and a full month's charge is made in the month following acquisition. For leaseholds, depreciation is charged from the date on which the relevant property is occupied for business purposes and is calculated to write off the assets over the life of the lease. Improvements to existing leaseholds are also depreciated on this basis.

The carrying value of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Deferred taxation

Deferred tax is recognised in respect of all timing differences, at the rates of taxation anticipated to apply when these differences crystallise, arising from the inclusion of items of income and expenditure in taxation computations in periods different from those for which they are included in the financial statements.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Financial instruments

Financial instruments within the scope of FRS 26 are classified either as financial assets or liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available for sale investments or financial liabilities at amortised cost, as appropriate. After initial recognition, all financial liabilities are measured at amortised cost using the effective interest rate method except for financial liabilities at fair value through profit or loss.

The Company determines the classification of its financial assets on initial recognition depending upon the purpose for which the financial instruments were acquired and their characteristics. Where allowed and appropriate, the Company re-evaluates this designation at each financial year end. It considers whether a contract contains an embedded derivative when the entity first becomes party to it, and determines the appropriate classification at this time.

(i) Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss includes financial instruments held for trading and financial instruments designated upon initial recognition as at fair value through profit and loss.

Notes to the financial statements

at 30 November 2007

1. Accounting policies (continued)

Held for trading - Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives, including separated embedded derivatives, are also classified as held for trading.

Designated fair value through profit or loss - Any financial asset or financial liability within the scope of FRS 26 may be designated when initially recognised as a financial asset or financial liability at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

The Company designates certain groups of financial instruments as fair value through profit and loss where doing so results in more relevant information. Instruments so designated are hybrid products whose risks are managed on a fair value basis using a mixture of derivative or non-derivative products.

When a fair value financial asset or liability is recognised initially, the Company measures it at its fair value and transaction costs are taken directly to the profit and loss account. If a reliable measure becomes available for a financial asset or liability for which such a measure was not previously available, and the asset is required to be measured at fair value if a reliable measure is available, the asset or liability shall be measured at fair value and the difference between its carrying amount and fair value recognised in profit and loss. All reliably measurable fair value financial assets and liabilities are subsequently held at fair value until derecognition.

Gains or losses on financial instruments at fair value through profit and loss, including gains and losses due to changes in fair value, are recognised in profit and loss within dealing profit. Interest and dividend income or expense is recorded in Interest receivable and similar income according to the terms of the contract, or when the right to the payment has been established.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised on settlement date at fair value, including any direct and incremental transaction costs. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iii) Available for sale investments

Available for sale investments are those non-derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories. Available for sale investments are initially recognised at fair value, with any transaction costs taken directly to the profit and loss account, and are subsequently held at fair value with unrealised gains or losses being recognised in the statement of total recognised gains and losses.

Available for sale investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost.

When the investment is disposed of, the cumulative gain or loss previously recognised in the statement of total recognised gains and losses is recognised in profit and loss under other operating income or other operating expenses. Where the Company holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Losses arising from the impairment of such investments are recognised within other operating income or expense, having been removed from the cumulative gain or loss previously recognised in the statement of total recognised gains and losses. Any

Notes to the financial statements

at 30 November 2007

1. Accounting policies (continued)

foreign exchange gains or losses arising on available for sale financial investments are recognised in profit and loss.

Interest earned whilst holding available for sale investments is reported in interest receivable and similar income using the effective interest rate. Dividends earned whilst holding available for sale investments are also recognised in the profit and loss account under interest receivable and similar income.

(iv) Financial liabilities at amortised cost

Issued financial instruments are classified as financial liabilities where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Financial liabilities which are not carried at fair value through profit or loss are disclosed under the appropriate liability classification.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Derivatives

Derivative instruments are used for trading and risk management purposes. In accordance with FRS 26, all derivatives are recognised initially and subsequently carried at fair value, with derivatives with positive fair values carried as assets and derivatives with negative fair values carried as liabilities in the balance sheet.

In the ordinary course of business the resultant profits and losses from trading and risk management are included in dealing profits. There may be circumstances, determined by specific transactions, where profits or losses on derivative contracts used for hedging may not be recognised in current trading profits but are deferred within other assets or liabilities and recognised when the cash flows that the hedges relate to occur. The Company currently has no derivatives on which hedge accounting is applied.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value, the embedded derivative is bifurcated and reported at fair value with gains and losses being recognised in the profit and loss account.

Fair values

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of a financial instrument on initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received). The fair value of derivatives is determined using independent price sources and industry standard modelling techniques, as appropriate.

The fair values of quoted investments are determined by reference to quoted market prices or dealer price quotations (bid price for long positions and offer price for short positions) at the close of business on the balance sheet date, without any deduction for transaction costs. However, if part of the consideration given or received is for something other than the financial instrument or where there is no active market, the fair value of the financial instrument is estimated, using a valuation technique.

Notes to the financial statements

at 30 November 2007

1. Accounting policies (continued)

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Company immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the profit and loss account. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the profit and loss account when the inputs become observable, or when the instrument is derecognised.

Impairment

The Company assesses at the balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date, and that loss event has had an impact on the estimated future cash flows of the financial asset that can be reliably estimated. The calculation of the present value of the expected future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure cost for obtaining and selling the collateral whether or not foreclosure is possible.

(i) Financial assets at amortised cost

For loans and receivables and held to maturity investments, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is included in the profit and loss account. If in a subsequent period the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed in the profit and loss account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by the delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Available for sale investments

For available for sale investments the Company assesses at each balance sheet date whether there is objective evidence that an investment or group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit and loss account, is removed from equity and recognised in the profit and loss account. Impairment losses on equity instruments are not reversed through the profit and loss account; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of interest receivable and similar income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

Notes to the financial statements

at 30 November 2007

1. Accounting policies (continued)

Derecognition

Financial assets and liabilities are recognised and derecognised according to the substance of the transaction. A financial asset is derecognised where no significant benefits or risks are retained. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Collateral and netting

The Company enters into master agreements with counterparties whenever possible and, when appropriate, obtains collateral.

Amounts due to/owed from other companies are only netted if there is a legal right to offset and the entity intends to settle on a net basis, or to realise an asset and settle the liability simultaneously.

Securities sold or borrowed under repurchase agreements

The Company enters into agreements with counterparties for them to sell to the Company certain securities and then repurchase them at a later date. These securities are excluded from the Company's balance sheet and the amount paid by the Company is shown in debtors as collateral paid for securities purchased under agreements to resell.

The Company also enters into agreements to sell certain securities to counterparties and then repurchase them at a later date. These securities are retained on the Company's balance sheet and shown within trading inventory. The amount received by the Company is shown within creditors as collateral received for securities sold under agreements to repurchase.

The difference between sale and repurchase price is accrued over the life of the agreements using the effective interest rate method.

Securities loaned or borrowed

The Company enters into agreements with counterparties for them to lend to the Company certain securities which are then returned to the lender at a later date. These securities are excluded from the Company's balance sheet and the amount paid by the Company is shown in debtors as collateral paid for securities borrowed.

The Company also enters into agreements to lend certain securities to counterparties, to be returned at a later date. These securities are retained on the Company's balance sheet and shown within trading inventory. The amount received by the Company is shown within creditors as collateral received for securities loaned. The transfer of the securities to counterparties is only reflected on the balance sheet if the risks and rewards of ownership are also transferred.

Operating income

Operating income comprises broking, management and underwriting commission from the primary market, broking commission and dealing profit from the secondary market. Costs directly attributable to trading are treated as a deduction from dealing profit to more fairly represent dealing profit and commission sharing agreements.

Income arising from gains and losses on financial instruments designated as fair value through profit and loss is included in dealing profit.

Dealing profit arises on a strategy basis across a range of instruments. It is presented on a net basis, even though the corresponding financial assets and liabilities may not have been offset on the balance sheet in accordance with the presentation requirements of FRS 25.

Notes to the financial statements

at 30 November 2007

1. Accounting policies (continued)

Interest receivable and similar income/interest payable and similar charges

Interest receivable and payable includes dividends and interest paid and earned on securities positions, securities bought and sold under repurchase agreements and amounts receivable and payable on bank deposits and bank borrowings.

Interest receivable and payable is recognised in the profit and loss account using the effective interest rate method for all interest bearing financial assets and liabilities.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability (or a group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

Share capital

Share capital meeting the definition of an equity instrument under FRS 25 is disclosed within shareholders' funds. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Preference shares, that provide for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or give the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, are financial liabilities. Convertible preference share capital is a compound financial liability. As required by FRS 25, the components of compound financial instruments, that contain both liability and equity elements, are accounted for separately, with the equity component being assigned the residual amount after deducting from the instruments as a whole the amount separately determined as the fair value of the liability component on the date of issue.

At the balance sheet date, the Company had no issued redeemable convertible participating preference share capital.

Investment in subsidiaries

Investments in subsidiary undertakings are stated at underlying net asset value. Any permanent diminution in the net asset value of an investment as compared to historical cost is charged to the profit and loss account. In all other cases the difference between net asset value and historical cost is charged or credited to a revaluation reserve.

For investments in subsidiary undertakings denominated in currencies other than the functional currency of the Company, historical cost and net asset value are determined with reference to the historical exchange rate at acquisition and the prevailing year-end exchange rate respectively.

2. Operating income

The Company's operating income, which excludes value added tax, has been disclosed instead of turnover as this reflects more accurately the results and nature of the Company's activities. The disclosure of income by different geographical regions has been omitted as the directors consider that it would be seriously prejudicial to disclose this information. All the Company's operating income arises from continuing activities.

Notes to the financial statements

at 30 November 2007

2. Operating income (continued)

Operating income comprises:

	2007	2006
	$000	$000
Profit from dealing and broking	1,372,488	1,431,265
Investment banking and corporate finance fees	199,894	69,624
Net sales credits and commissions for the distribution of securities	402,948	286,806
	1,975,330	1,787,695

3. Administrative expenses

Administrative expenses comprise direct costs and expenditure recharged by the Group service company, Lehman Brothers Limited. The recharged expenditure represents allocated costs borne by Lehman Brothers Limited on behalf of the Company.

Included in administrative expenses are costs associated with share based payments, which are disclosed in the financial statements of Lehman Brothers Limited.

4. Interest receivable and similar income

	2007	2006
	$000	$000
Group undertakings	667,671	493,534
Other	4,303,850	3,545,253
	4,971,521	4,038,787

5. Interest payable and similar charges

	2007	2006
	$000	$000
Group undertakings	563,191	771,280
Other	3,450,998	2,899,866
	4,014,189	3,671,146

6. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

		2007	2006
		$000	$000
Auditors' remuneration	- audit services	892	1,146
	- non-audit services	491	501
Depreciation on tangible fixed assets		6,009	5,833

Notes to the financial statements

at 30 November 2007

7. Information regarding directors and employees

The average number of employees providing services to the Company (including directors) during the year was 1,442 (2006: 1,203).

Employment costs recharged to the Company by Lehman Brothers Limited and included in administrative expenses comprise:

	2007	*2006*
	$000	*$000*
Wages and salaries	755,013	614,860
Social security	89,718	74,600
Other pension costs	39,356	12,671
	884,087	702,131

Directors' emoluments for management services to the Company were $22,552,000 (2006: $18,775,736).

There are 5 (2006: 6) directors in the Company's defined benefit scheme and 9 (2006: 10) directors in the defined contribution scheme.

The amounts in respect of the highest paid director are as follows:

	2007	*2006*
	$000	*$000*
Emoluments	8,536	10,533

The accrued pension in the defined benefit scheme for the highest paid director at the end of the year was $10,527 (2006: $9,076).

The disclosures required under Financial Reporting Standard (FRS) 17 'Retirement Benefits', in respect of the Group's defined benefit scheme are included in the financial statements of Lehman Brothers Limited. The assets of the scheme are held separately from those of the Company in independently administered funds. It is not practicable to identify the Company's share of the underlying assets and liabilities of the defined benefit scheme. The surplus on the scheme is £57,789,000.

Included in directors emoluments is $10,276,651 in respect of share based payments, which are disclosed in the financial statements of Lehman Brothers Limited.

Notes to the financial statements

at 30 November 2007

8. Tax on profit on ordinary activities

	2007 $000	2006 $000
Based on the profit for the year:		
Overseas taxation	82,046	79,904
Withholding taxes suffered	663	369
UK corporation tax	409,422	-
	492,131	80,273

	2007 $000	2006 $000
Factors affecting the tax charge:		
Profit on ordinary activities before tax	1,434,221	172,878
UK corporation tax at standard rate of 30% (2006: 30%)	430,266	51,863
Effects of:		
Timing differences (including amounts relating to trading reserves)	2,681	(167,738)
Permanent differences (including amounts relating to branch tax write-off)	(3,874)	(21,914)
Group relief surrendered for nil consideration	(36,651)	137,789
Settlement of prior year taxes	91,000	-
Withholding tax suffered	663	369
Overseas tax on branches	82,046	79,904
Credit on taxes suffered in the Company's overseas branches	(74,000)	-
	492,131	80,273

A deferred tax asset of $6,615,923 (2006: $8,407,484) relating to losses available for taxation purposes and in respect of timing differences carried forward has not been recognised.

During 2007, the Chancellor of the Exchequer announced that the UK rate of corporation tax would be reduced to 28% from 30% from April 2008. Accordingly, the potential deferred tax asset has been stated at the new rate.

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Notes to the financial statements

at 30 November 2007

9. Tangible fixed assets

	Leasehold improvements *$000*	*Furniture, fittings and equipment* *$000*	*Other* *$000*	*Total* *$000*
Cost:				
At 30 November 2006	13,234	3,312	13,961	30,507
Additions	7,995	2,277	7,088	17,360
Disposals	-	(359)	(8)	(367)
At 30 November 2007	21,229	5,230	21,041	47,500
Depreciation:				
At 30 November 2006	(7,700)	(2,882)	(9,559)	(20,141)
Charged during year	(2,893)	(1,078)	(2,038)	(6,009)
Disposals	-	359	8	367
At 30 November 2007	(10,593)	(3,601)	(11,589)	(25,783)
Net book value:				
At 30 November 2007	10,636	1,629	9,452	21,717
At 30 November 2006	5,534	430	4,402	10,366

10. Available for sale assets

	2007 *$000*	*2006* *$000*
Reconciliation of movement in carrying value:		
Net asset value at beginning of year	6,354	5,453
Additions	3,570	2,894
Disposals	(361)	(1,993)
Balance at the end of the year	9,563	6,354

	2007 *$000*	*2006* *$000*
Investments at cost	9,563	6,354

Available for sale assets comprise unlisted equity instruments whose fair value cannot be determined and are thus stated at historical cost.

Notes to the financial statements

at 30 November 2007

11. Investment in subsidiaries

	2007	2006
At cost	*$*	*$*
LBPB Nominees Limited	2	2
Lehman Brothers Nominees Limited	200	200
Messel Nominees Limited	200	200

The following information as at 30 November 2007 relates to the principal subsidiaries of Lehman Brothers International (Europe), all of which are registered in England and Wales and held by the company unless indicated.

Name of company	*Description of shares held by company*	*Proportion of nominal value and voting rights of shares held*	*Principal business*
LBPB Nominees Limited	Ordinary	100%	Nominees
Lehman Brothers Nominees Limited	Ordinary	100%	Nominees
Messel Nominees Limited	Ordinary	100%	Nominees

12. Debtors

	2007	2006
	$000	*$000*
Trade debtors	46,774,292	26,786,007
Derivatives held for trading purposes	30,857,300	18,543,978
Stock borrowing agreements	15,958,187	8,420,621
Securities purchased under agreements to resell	65,214,826	53,596,841
Amounts owed by Group undertakings		
- secured by financial instruments	244,984,532	170,717,403
- unsecured	1,743,398	1,948,718
- related derivatives held for trading purposes	1,494,712	712,058
Accrued coupons and dividends receivable	315,842	288,572
Corporation tax	-	62,661
Other debtors	1,766,255	913,281
	409,109,344	281,990,140

13. Segregated funds

Under the Financial Services and Markets Act 2000, the Company is required to segregate all balances due to qualifying customers or carrying brokers, as appropriate. As of 30 November 2007 there were segregated funds of $3,142,970,764 (2006: $1,917,071,334).

Notes to the financial statements

at 30 November 2007

14. Creditors: amounts falling due within one year

	2007 $000	2006 $000
Trade creditors	65,305,705	47,011,408
Derivatives held for trading purposes	29,575,586	17,153,937
Stock loan agreements	6,333,996	7,079,214
Securities sold under agreements to repurchase	104,269,577	75,107,367
Securities sold not yet purchased	28,379,234	21,519,412
Amounts owed to Group undertakings		
- secured by financial instruments	190,013,205	130,222,662
- unsecured	12,828,636	14,330,054
- related derivatives held for trading purposes	451,299	1,579,152
Other creditors	907,739	504,534
Accrued coupons and dividends payable	395,140	286,053
Corporation tax	249,172	64,907
Bank loans and overdrafts	130,295	279,915
	438,839,584	315,138,615

Included in amounts owed to Group undertakings is $4,775,000,000 (2006: $4,700,000,000) under subordinated loan agreements with Lehman Brothers Holdings Intermediate 2 Ltd. This amount is repayable at any time at the Company's option, with notice given to the Financial Services Authority. The subordinated loans are non-interest bearing.

15. Creditors: amounts falling due over one year

	2007 $000	2006 $000
Amounts owed to Group undertakings		
- preference shares outstanding at 1 December 2006	2,000,000	2,000,000
- preference shares issued during the year (note 16)	5,100,000	-
	7,100,000	2,000,000

Notes to the financial statements

at 30 November 2007

16. Share capital

	2007 $000	2006 $000
Authorised:		
5,850,000,000 ordinary shares of $1 each	5,850,000	4,850,000
15,000,000,000 preference shares of $0.01 each	150,000	150,000
2,000,000 5% redeemable preference shares of $1,000 each	2,000,000	2,000,000
5,100,000 Class B, 5% redeemable preference shares of $1,000 each	5,100,000	-

	$000	$000
Allotted, called up and fully paid		
4,473,114,000 ordinary shares of $1 each at 30 November 2006	4,473,114	3,248,114
1,050,000,000 ordinary shares of $1 each issued during the year	1,050,000	1,225,000
5,523,114,000 ordinary shares of $1 each at 30 November 2007	5,523,114	4,473,114

During the year the authorised share capital was increased by $1,000,000,000 through the creation of 1,000,000,000 ordinary shares of $1 each. During the year 1,050,000,000 ordinary shares of $1 each were issued.

During the year 5,100,000 Class B, 5% non-cumulative preference shares of $1,000 each, redeemable in May 2012, were authorised and issued. These are included in 'Creditors: amounts falling due over one year'.

17. Reconciliation of movement in shareholders' funds

	2007 $000	2006 $000
Opening shareholders' funds	4,022,737	2,705,132
Share capital issued during the year	1,050,000	1,225,000
Profit attributable to the shareholders of the Company	942,090	92,605
Closing shareholders' funds	6,014,827	4,022,737

Notes to the financial statements

at 30 November 2007

18. Contingent liabilities

Stock borrowing and lending

Notes 12 and 14 reflect the Company's stock borrowing and lending activities only to the extent that collateral given or received is in the form of cash. The Company also borrows and lends stock against non-cash collateral in the form of other stocks, certificates of deposit, eligible bills and standby letters of credit. The market value of non-cash collateral in use at the end of the year was as follows:

	2007	*2006*
	$000	*$000*
Received in respect of stock lent	572,686	177,609
Given in respect of stock borrowed	42,873,368	44,327,549

Other

The Company is registered with HM Customs & Excise as a member of the Lehman Brothers Limited Group for VAT purposes and, as a result, is jointly and severally liable on a continuing basis for amounts owing by other members of the Group in respect of unpaid VAT.

19. Ultimate parent company

The ultimate parent company of Lehman Brothers International (Europe) is Lehman Brothers Holdings Inc. which is incorporated in the state of Delaware in the United States of America.

The Company has taken advantage of the exemption in paragraph 3(c) of Financial Reporting Standard (FRS) 8 'Related party transactions' from disclosing transactions with related parties that are part of the Lehman Brothers Holdings Inc. group.

The largest group in which the results of the Company are consolidated is that headed by Lehman Brothers Holdings Inc. incorporated in the United States of America. The smallest group in which they are consolidated is headed by Lehman Brothers Holdings Scottish Limited Partnership which is registered in Scotland. The consolidated financial statements of these Groups are available to the public from 745 Seventh Avenue, New York, USA and from 25 Bank Street, London, UK, respectively.

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Lehman Brothers International (Europe) (in administration) – exchang and clearing house communications

The joint administrators (the "Administrators") of Lehman Brothers International (Europe) (in administration) ("LBIE") wish to inform affected clients of LBIE about the current status of its position with various Recognised Investment Exchanges ("RIE"), Recognised Overseas Investment Exchanges ("ROIE"), Recognised Clearing Houses ("RCH"), Recognised Overseas Clearing Houses ("ROCH"), Multilateral Trading Facilities ("MTF") and Designated Investment Exchanges ("DIE").

An RIE is an investment exchange, and an RCH is a clearing house, which is recognised and supervised by the FSA under the Financial Services and Markets Act 2000. The FSA has also recognised and supervises a number of ROIEs and ROCHs under the Financial Services and Markets Act 2000. An MTF brings together multiple parties buying and selling interests in financial instruments in a way that results in a contract in accordance with the rules of the FSA. A DIE is considered by the FSA to provide an appropriate degree of protection for its customers.

Please note that the list below does not detail all RIEs, ROIEs, RCHs, ROCHs, MTFs and DIEs that LBIE is currently working with. The Administrators intend to update this communication in the coming days and weeks with further information.

For further details about the rules, regulations and actions of each RIE, ROIE, RCH, ROCH, MTF and DIE, please refer to their respective websites.

Chi-X Europe Ltd ("Chi-X")

The Administrators are not aware of any outstanding trades on Chi-X.

European Multilateral Clearing Facility N.V. ("EMCF")

EMCF issued a default notice on 15 September. This led to all outstanding trades being closed by EMCF.

Turquoise

The Administrators are not aware of any outstanding trades on Turquoise.

European Central Counterparty Ltd ("EuroCCP")

EuroCCP issued a default notice on 15 September. This led to all outstanding trades being closed out by Euro CCP. All related unsettled instructions remain frozen and will not be included in the CREST settlement processing.

Lehman administration contact details

Find out more

Lehman Brothers – latest updates

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Bookmark with:

MEFF Renta Variable ("MEFF")

The Administrators are not aware of any outstanding trades on MEFF.

Euronext

The Administrators are not aware of any outstanding trades on Euronext.

LCH.Clearnet

The Administrators have been working with LCH.Clearnet to transfer client positions to other brokers as nominated by LBIE's clients. This exercise is now concluded.

EUREX & Eurex Clearing AG

The Administrators have been working with Eurex Clearing AG to transfer client positions to other brokers as nominated by LBIE's clients. This exercise has largely been concluded.

Euroclear UK & Ireland Limited ("EUI")

Accounts relating to LBIE and its UK affiliates remain disabled and all related unsettled instructions remain frozen and will not be included in CREST settlement processing. For further information regarding OTC cash trades in CREST please refer to this update

The London Metal Exchange Limited ("LME")

The Administrators are not aware of any outstanding trades on LME.

London Stock Exchange plc ("LSE")

LSE issued a default notice on 15 September 2008. The Administrators have been working with the LSE to provide the relevant data required to ensure the LSE can calculate the appropriate net settlement due to or from LBIE. This relates to transactions not cleared through LCH.Clearnet (see LCH.Clearnet above), but which are subject to the LSE default rules.

EDX London Ltd ("EDX")

The Administrators are not aware of any outstanding trades on EDX.

LIFFE

The Administrators are not aware of any outstanding trades on LIFFE.

ICE Futures Europe ("ICE")

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The Administrators are not aware of any outstanding trades on ICE.

In addition the Administrators would also like to draw your attention to the current status of LBIE in regards to the following international exchanges and clearing houses which are not recognised and supervised under the FSA as detailed above:

OMX Nordic Exchanges in Copenhagen, Helsinki and Stockholm ("OMX")

The Administrators are not aware of any outstanding trades on OMX.

Powernext SA

The Administrators are not aware of any outstanding trades on Powernext SA.

European Energy Exchange AG ("EEX")

The Administrators are not aware of any outstanding trades on EEX.

The European Commodity Clearing AG ("ECC")

The Administrators are not aware of any outstanding trades on ECC.

Safex Equity Derivatives ("Safex")

The Administrators are not aware of any outstanding trades on Safex.

Vienna Stock Exchange

The Administrators are not aware of any outstanding trades on the Vienna Stock Exchange.

The Administrators would like to thank all the exchanges and clearing houses for their continued co-operation and understanding.

Further details relating to the administration are included on the PwC website www.pwc.co.uk

Notes to Editors:

AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis were appointed as Joint Administrators of Lehman Brothers International (Europe) on 15 September 2008 to manage its affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis are licensed to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

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PwC administrators save over 2500 city jobs through sale of Lehman Brothers

23/09/2008 14:50

Tony Lomas, Steven Pearson, Dan Schwarzmann and Mike Jervis, partners at PricewaterhouseCoopers LLP, and joint administrators to Lehman Brothers International Europe ('Lehman Brothers') are pleased to announce that following a week of extensive activity they have successfully completed a sale of the investment banking and equities businesses of Lehman Brothers to Nomura, the Asian-based investment bank.

Commenting on the sale, Dan Schwarzmann, joint administrator and partner at PricewaterhouseCoopers LLP said:

"The last week has seen a period of intense activity and with the support of PwC's recovery and corporate finance teams, as well as the staff at Lehman Brothers, we are absolutely delighted to be able to confirm that we have secured a sale of the investment banking and equities businesses of Lehman Brothers in the UK and Europe.

"This sale, which is conditional on a number of issues, means the continuing employment of around 2,500 Lehman's staff, a vast number of whom have been working with us to get this unprecedented deal done."

Mike Jervis, joint administrator and partner at PricewaterhouseCoopers LLP said:

"Clearly we are very pleased with this outcome which secures the future of so many staff but there is still a great deal of work to be done on this very complex administration. The interests of creditors and clients is of paramount importance. Our priority remains the orderly wind down of the business and we will be working with many remaining staff as we do this."

Notes to Editors:

1. The deal includes the investment banking and equities businesses of the Lehman Brothers offices in: The Netherlands, Qatar, Dubai, Kuwait, the UK, Spain, Italy, Germany and Sweden

2. Lehman Brothers, the principal UK trading company in the Lehman group, was placed into administration on the 15th September, together with Lehman Brothers Ltd, LB Holdings PLC and LB UK RE Holdings Ltd. These are currently the only UK incorporated companies in administration.

3. The joint administrators have been appointed to wind down the business in as orderly a manner as possible.

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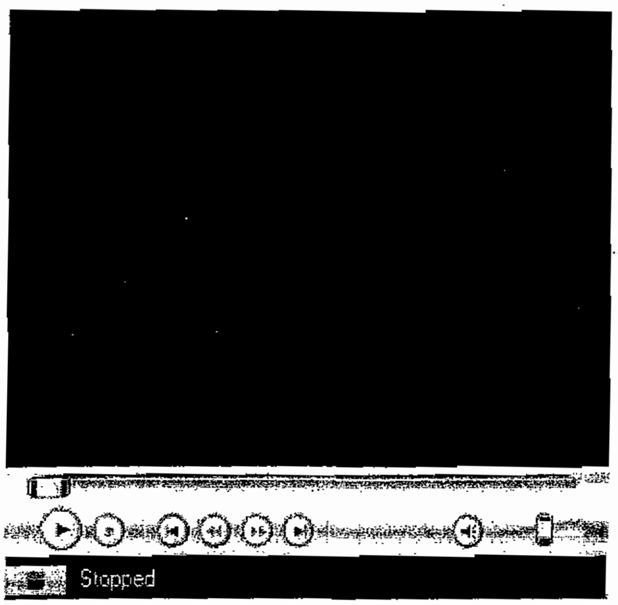
Lehman Brothers International (Europe) (in administration) – latest updates

Here are the latest announcements:

- Exchange and clearing house communications - 02/10/08
- Latest update - 300908
- Client money and assets update - 26/9/08
- Update on OTC cash trades unsettled in CREST - 24/9/08
- Update video - 18/9/08
- Contact details for queries

Webcast: PwC announces sale of Lehman Brothers to Nomura



Dan Schwarzmann and Mike Jervis, partners at PricewaterhouseCoopers LLP, discuss the sale of the investment banking and equities businesses of Lehman Brothers to Nomura, the Asian-based investment bank.

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Lehman administration contact details

Find out more

Lehman Brothers International (Europe) (in administration) – client money and assets update
Lehman Brothers International (Europe) (in administration) – exchange and clearing house communications
Update on OTC cash trades unsettled in CREST
PwC administrators save over 2500 city jobs through sale of Lehman Brothers
Lehman Brothers International (Europe) – In administration

Lehman Brothers International (Europe) – In administration

15/09/2008 08:53

Tony Lomas, Steven Pearson, Dan Schwarzmann and Mike Jervis, partners at PricewaterhouseCoopers LLP, were appointed as joint administrators to Lehman Brothers International (Europe) ('Lehman Brothers') on 15 September 2008.

Lehman Brothers, the principal UK trading company in the Lehman group, was placed into administration earlier this morning, together with Lehman Brothers Ltd, LB Holdings PLC and LB UK RE Holdings Ltd. These are currently the only UK incorporated companies in administration.

The joint administrators have been appointed to wind down the business in as orderly a manner as possible.

Tony Lomas, joint administrator and partner of PricewaterhouseCoopers LLP emphasised:

"Because the group managed its funding on a global basis the UK trading operation found itself unable to meet its obligations when the flow of funds dried up last night. Our priority now is to work with management and trading counterparties to agree the manner in which the assets and liabilities will be handled.

"I would also like to emphasise that a number of group companies remain solvent and will continue to trade. These companies include LBAM (Europe) and a series of special purpose vehicles designed to manage portfolios of residential and commercial real estate assets and non performing loans."

ENDS

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Lehman Brothers International (Europe) – in administration – Update

17/09/2008 12:00

Following the appointment of Tony Lomas, Steven Pearson, Dan Schwarzmann and Mike Jervis, partners at PricewaterhouseCoopers LLP, as joint administrators to Lehman Brothers International (Europe) ('Lehman Brothers') on 15 September 2008, Tony Lomas has the following update:

"The last 48 hours has seen a period of intense activity and we are grateful for the continued support of the management and staff as we address the complexities of the task.

"The administrators have been working to understand the operating position of the company with a view to identifying how its various holdings can be wound-down in an orderly manner.

"A priority has been establishing arrangements to retain staff to ensure the orderly disposal of assets and we have taken steps to achieve this. We are currently reviewing various proposals to transact and over the last 24 hours we have resolved trading issues with the London Clearing House to ensure that customers begin to transfer trades to third parties.

"The administrators recognise the difficulty this situation is creating for the various market participants and request their patience while the practical matters are resolved to allow an orderly re-evaluation to be executed.

"There have been expressions of interest in LBAM (Europe) and Lehman Brothers Europe Ltd (the asset management and corporate finance advisory businesses) which are solvent and continue to operate and we have begun discussions with interested parties.

"We are also taking a keen interest in developments with Lehman Brothers in the US."

Ends

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Lehman Brothers International (Europe) – in administration - update

17/09/2008 18:51

PricewaterhouseCoopers LLP, the administrators of Lehman Brothers International (Europe), can confirm that salary payments, to all employees who are still employed by the Companies in Administration, and who have continued to report to work, will be paid no later than 30 September 2008, a month in arrears.

Unfortunately, due to the timing of the Administration, the administrators will be unable to process any salary or other employment-related payments this week. This means that they will not be in a position to make salary payments on Friday, 19 September 2008.

ENDS

For more information contact:

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Lehman Brothers International (Europe) – in administration - update

19/09/2008 10:30

Following the appointment of Tony Lomas, Steven Pearson, Dan Schwarzmann and Mike Jervis, partners at PricewaterhouseCoopers LLP, as joint administrators to Lehman Brothers International (Europe) ('Lehman Brothers') on 15 September 2008, the administrators have the following update:

Tony Lomas, partner, PricewaterhouseCoopers LLP;

"While we have a market that continues to trade, there has never been an event of this kind in which trades have been left hanging to this extent and therefore counterparties and clearing houses do not know how to assess the risks they face. There is unprecedented uncertainty and complexity in the market; nobody designed their systems or transaction structures to cope with the current situation. As a consequence, there is a high degree of cautiousness on the part of intermediaries and advisers in the market on how to proceed which is reflected in the way they are handling trading issues. Our responsibility is to ensure that we maximise the value of the assets to Lehman and to avoid preferring one counter party over another."

Steven Pearson, partner, PricewaterhouseCoopers LLP;

"As a result of being suspended from all markets Lehman Brothers was unable to trade, to address this arrangements have been made to use the brokerage services of other market participants. This has enabled us to begin realising some of the companies' proprietary market positions."

Dan Schwarzmann, partner, PricewaterhouseCoopers LLP;

"We are in discussions with interested parties to sell the Lehman Brothers Asset Management and Corporate Finance businesses. Our duty is to maximise value for creditors and the best way to do this is to keep each team together. In this way the interests of both staff and creditors are aligned. We are in discussions with potential partners at present and our aim is to complete a deal in the next few days so as to create certainty for all involved."

Mike Jervis, partner, PricewaterhouseCoopers LLP;

"One of our key priorities is assessing client accounts. We intend to continue to provide information to the market in this respect as and when we can, we will report progress."

Ends

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Administration of Lehman Brothers UK Real Estate Holdings Limited – Update

19/09/2008 11:50

Following the appointment of Tony Lomas, Steven Pearson, Dan Schwarzmann and Mike Jervis, partners at PricewaterhouseCoopers LLP, as joint administrators to Lehman Brothers International (Europe) ('Lehman Brothers') on 15 September 2008, Barry Gilbertson, partner and real estate specialist, PricewaterhouseCoopers LLP, has the following update concerning the administration of the real estate owning entity, Lehman Brothers UK Real Estate Holdings Limited ('LBUKRE'):

"Since appointment on 15 September, despite the complexity of LBUKRE and its trading activities, the Administrators have made considerable progress in identifying what assets are under the control of LBUKRE and have taken steps to ensure that the pace and structure of any disposals optimise the realisations generated for the creditors of LBUKRE.

"LBUKRE appears to have more than 200 subsidiary entities or joint ventures, with property activities covering both investment and development. These properties are principally located in the UK, but also in Sweden, France, Finland, Spain, Croatia and several additional European countries. The total underlying asset value, before allowing for funding structures, is considered to be in the region of $15 billion.

"In addition, there are non-performing loan and mortgage portfolios, together with a limited number of private equity interests and shareholdings in listed businesses.

"Our review of the LBUKRE portfolio will not be completed for several weeks, but we are gathering all expressions of interest so that we can communicate with interested parties as soon as we are ready".

Any expressions of interest in the tangible real estate assets should be directed, in the first instance, to barry.gilbertson@uk.pwc.com and ed.b.cook@uk.pwc.com. At this stage, email is preferable to a telephone call. All emails will be acknowledged. At this stage, email is preferable to a telephone call. All emails will be acknowledged.

ENDS

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Lehman Brothers International (Europe) - client money and assets

21/09/2008 21:44

The joint administrators (the "Administrators") of Lehman Brothers International (Europe) ("LBIE") wish to inform affected customers of LBIE about the steps that are being taken to identify and return client monies and assets held by LBIE.

Background
The Administrators treat the identification and return of client monies and assets ("Client Assets") of LBIE as a very important and urgent matter. A procedure for that identification has been agreed with the FSA, with whom the Administrators have been working very closely in relation to this aspect of the Administration. We set out below a brief description of that procedure, and conclude with an update on progress and an indication of a possible timetable for the return of Client Assets.

LBIE controls Client Assets through other institutions, and in principle it should be possible for these Client Assets to be returned to clients. However, prior to doing so the Administrators are obliged to ensure that all Client Assets are accessible by the Administrators and that they qualify to be treated as client monies or assets. Subject to these preconditions such Client Assets should, in due course, be available for return. In addition, in respect of each client for which Client Assets are held, the Administrators must ensure that there are no liabilities owed by the client which might give rise to an entitlement to withhold all or part of a return of the Client Assets in question. Those steps will ensure no creditors are given preference and is consistent with the Administrator's duties to preserve and realise the company's assets for its creditors.

Collecting the information required for these purposes is time consuming. The business conducted by LBIE is complex, with many hundreds of clients, in particular prime brokerage clients, dealing with, and receiving services from, a range of different business units within LBIE, requiring data and input from a number of different systems.

For certain business units such as prime brokerage clients should be aware that, in relation to Client Assets provided to LBIE, it was customary for LBIE to have a right of "re-hypothecation" or right of "use" (referred to below as a "right of use"). In effect that entitled LBIE to lend such securities in the stock loan or repo markets, with the result that the assets, once "used", were no longer held for the client on a segregated basis, and as a result the client may cease to have any proprietary interest in them.

Process
In summary, the process for the identification and return of Client Assets, which has been agreed with the FSA, involves the following key steps:

1. For those clients who have the benefit of client money protection, under the FSA rules, ascertain client money balances held with various institutions in aggregate and reconcile those balances to LBIE client records.
2. Ensure funds in (1) above are accessible by the Administrators for return.
3. Identify Client Assets in aggregate, and the manner in which the different types of assets are held. For example, assets may be registered in nominee names, held via an accountholder in a clearing system and/or third party custodians may be used.
4. Check documentation with each client for whom Client Assets appear to be held, including prime brokerage agreements (and any side agreements thereto), netting agreements, and other relevant documents, to confirm that money received from or on behalf of a particular client is "client money" within the meaning of the FSA rules and to verify related security rights and set off rights in respect of Client Assets.
5. Reconcile the Client Assets by client to the client's claimed position, and identify whether the client has any relevant liabilities. If any such liabilities are identified, then to determine the extent to which such liabilities owed by the client may reduce the amounts properly returnable to the client. It is also necessary to analyse whether LBIE has exercised any "right of use" over Client Assets, and whether assets so used have ceased to be available.
6. In determining the amount potentially returnable, to take account of any unsettled transactions between the client and LBIE, and provide for any potential liabilities of the client resulting from such unsettled transactions.

Further steps may be identified as this process is conducted.

Timetable

To complete the above processes will take considerable time. Our current view is that this process could take several months to conclude. Once certain aspects of the process are completed, the Administrator may consider partial returns subject to conditions. We are working closely with the FSA in the conduct of this vital process. We will update clients about progress on an ongoing basis.

Further details relating to the administration are included in the PwC website www.pwc.co.uk

ENDS

Notes to Editors:

AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis were appointed as Joint Administrators of Lehman Brothers International (Europe) on 15 September 2008 to manage its affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis are licensed to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

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Lehman Brothers International (Europe) - in administration - update on sale of business.

22/09/2008 12:14

Dan Schwarzmann, joint administrator and partner at PricewaterhouseCoopers LLP, provides an update on the status of the *sales process* concerning the investment banking and equities businesses within Lehman Brothers in the UK and Europe.

'We have now focused on one party as they are interested in acquiring a wider team, which should result in a better deal for staff and creditors of these businesses. Given the complexity of Lehman Brothers, these negotiations are difficult, but I'm hoping to give certainty to all involved as soon as possible.'

Further updates will be circulated as soon as they are available

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PwC administrators save over 2500 city jobs through sale of Lehman Brothers

23/09/2008 14:50

Tony Lomas, Steven Pearson, Dan Schwarzmann and Mike Jervis, partners at PricewaterhouseCoopers LLP, and joint administrators to Lehman Brothers International Europe ('Lehman Brothers') are pleased to announce that following a week of extensive activity they have successfully completed a sale of the investment banking and equities businesses of Lehman Brothers to Nomura, the Asian-based investment bank.

Commenting on the sale, Dan Schwarzmann, joint administrator and partner at PricewaterhouseCoopers LLP said:

"The last week has seen a period of intense activity and with the support of PwC's recovery and corporate finance teams, as well as the staff at Lehman Brothers, we are absolutely delighted to be able to confirm that we have secured a sale of the investment banking and equities businesses of Lehman Brothers in the UK and Europe.

"This sale, which is conditional on a number of issues, means the continuing employment of around 2,500 Lehman's staff, a vast number of whom have been working with us to get this unprecedented deal done."

Mike Jervis, joint administrator and partner at PricewaterhouseCoopers LLP said:

"Clearly we are very pleased with this outcome which secures the future of so many staff but there is still a great deal of work to be done on this very complex administration. The interests of creditors and clients is of paramount importance. Our priority remains the orderly wind down of the business and we will be working with many remaining staff as we do this."

Notes to Editors:

1. The deal includes the investment banking and equities businesses of the Lehman Brothers offices in: The Netherlands, Qatar, Dubai, Kuwait, the UK, Spain, Italy, Germany and Sweden

2. Lehman Brothers, the principal UK trading company in the Lehman group, was placed into administration on the 15th September, together with Lehman Brothers Ltd, LB Holdings PLC and LB UK RE Holdings Ltd. These are currently the only UK incorporated companies in administration.

3. The joint administrators have been appointed to wind down the business in as orderly a manner as possible.

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Update on OTC cash trades to be settled in CREST

25/09/2008 09:42

The Administrators of Lehman Brothers International (Europe) (in administration) ("LBIE") wish to update counterparties of LBIE regarding unsettled OTC cash trades that were due to be settled in CREST (Euroclear UK& Ireland).

Background

The Administrators appreciate the degree of uncertainty in the market created by the unsettled OTC cash trades that were due to be settled in CREST and confirm that they are working closely with CREST and treating the resolution of this as a very important and urgent matter.

Process

Certain counterparties and customers have contacted the Administrators with proposals concerning the possible cancellation of OTC cash unsettled trades. It is currently possible for the Administrators to deal with such proposals in limited circumstances.

Accordingly, we request that, until further notice, counterparties contact the Administrators with a proposal if all of the following principles apply:

1. The counterparty will be required to pay a fee, to be agreed with the Administrators.
1. The proposal should concern OTC cash trades that were to be settled in CREST.
1. The unsettled trades must have been executed OTC, and not be subject to the default or other rules of an Exchange or Clearing House.
1. As a precondition for cancellation the counterparty will be required to lodge an amount equivalent to the net value of the cancellation in escrow, to be released on conclusion of the cancellation process.
1. Prior to agreeing to any proposal, the Administrators will require a confidentiality undertaking to be signed.
1. A standard indemnity will be required indemnifying the Administrators. Details will be provided on request.

Once these principles are satisfied, the Administrators will consider a proposal for effecting cancellation of trades.

For further details please contact: enquiries.lehmanbrothers@uk.pwc.com ensuring that the subject field is entitled **OTC CASH TRADES.**

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Lehman Brothers International (Europe) (in administration) – exchange and clearing house communications

25/09/2008 09:52

The joint administrators (the "Administrators") of Lehman Brothers International (Europe) (in administration) ("LBIE") wish to inform affected clients of LBIE about the current status of its position with various Recognised Investment Exchanges ("RIE"), Recognised Overseas Investment Exchanges ("ROIE"), Recognised Clearing Houses ("RCH") and Recognised Overseas Clearing Houses ("ROCH").

An RIE is an investment exchange, and an RCH is a clearing house, which is recognised and supervised by the FSA under the Financial Services and Markets Act 2000. The FSA has also recognised and supervises a number of ROIEs and ROCHs under the Financial Services and Markets Act 2000.

Please note that the list below does not detail all RIEs, ROIEs, RCHs and ROCHs that LIBE is currently working with. The Administrators intend to update this communication in the coming days and weeks with further information.

For further details about the rules, regulations and actions of each RIE, ROIE, RCH and ROCH, please refer to their respective websites.

LCH.Clearnet

The Administrators have been working with LCH.Clearnet to transfer client positions to other brokers as nominated by LBIE's clients. This exercise is now concluded.

EUREX & Eurex Clearing AG

The Administrators have been working with Eurex Clearing AG to transfer client positions to other brokers as nominated by LBIE's clients. This exercise has largely been concluded.

Euroclear UK & Ireland Limited ("EUI")

Accounts relating to LBIE and its UK affiliates remain disabled and all related unsettled instructions remain frozen and will not be included in CREST settlement processing. For further information regarding OTC cash trades in CREST please refer to
http://www.pwc.co.uk/eng/issues/Lehman_exchange_update_240908.html

The London Metal Exchange Limited ("LME")

Outstanding trades on LME, currently registered with LCH, will be addressed in the coming days.

London Stock Exchange plc ("LSE")

LSE issued a default notice on 15 September 2008. The Administrators have been working with the LSE to provide the relevant data required to ensure the LSE can calculate the appropriate net settlement due to or from LBIE. This relates to transactions not cleared through LCH.Clearnet (see LCH.Clearnet above), but which are subject to the LSE default rules.

EDX London Ltd ("EDX")

The Administrators are not aware of any outstanding trades on EDX.

LIFFE

The Administrators are not aware of any outstanding trades on LIFFE.

ICE Futures Europe ("ICE")

The Administrators are not aware of any outstanding trades on ICE.

The Administrators would like to thank all the RIEs, ROIEs, RCHs and ROCHs for their continued co-operation and understanding.

Further details relating to the administration are included on the PwC website www.pwc.co.uk.

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Lehman Brothers International (Europe) (in administration) – client money and assets update

26/09/2008 10:00

Following on from the statement issued on 21 September 2008, the joint administrators (the "Administrators") of Lehman Brothers International (Europe) ("LBIE") wish to inform clients of LBIE that they are considering, in consultation with their legal advisors and the FSA, structures which may enable them to offer counterparties a partial distribution of monies and assets designated as Client Assets.

The Administrators hope to be in a position to provide further updates on these proposals in due course. Counterparties should understand that it is likely to take some weeks for these structures to be fully developed.

The Administrators appreciate and acknowledge the significant difficulties that are being faced by counterparties and can confirm that the *identification* and return of Client Assets remains a major priority.

ENDS

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About PricewaterhouseCoopers

30 September 2008: Lehman Brothers (Europe) - In administration - Update

30/09/2008 16:30

Following the appointment of Tony Lomas, Steven Pearson, Dan Schwarzmann and Mike Jervis, partners at PricewaterhouseCoopers LLP, as joint administrators to Lehman Brothers International (Europe) and Lehman Brothers Limited (together 'Lehman Brothers') on 15 September 2008, the administrators confirmed that a restructuring of the business was necessary and 750 employees have been made redundant with effect from today.

Tony Lomas, partner, PricewaterhouseCoopers LLP, said:

"It is extremely disappointing that despite exhausting all avenues these jobs could not be saved. As we move into our third week, we continue to be focussed on maximising the value of recoveries for creditors, whilst minimising the impact on other stakeholders as much as possible."

Arrangements are being made to ensure that over the coming days, the individuals affected by this have the opportunity to attend a one on one meeting to discuss how this impacts them personally.

Ends

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Lehman Brothers webcast - transcript

Tony Lomas, partner, PricewaterhouseCoopers LLP

Good afternoon. We wanted to take this opportunity to communicate some of the progress that we have made here at Lehman's in the UK because there is a lot of uncertainty out there, a lot of counterparties interacting with the banks wanting to know what is going on, concern amongst the staff and so on and so forth.

A lot of work has been done since Monday morning to progress some of these issues in an effort to take control of the companies affairs and focus on some recovery plans for the assets and as we begin to wind down various businesses for which we are responsible. I would like to emphasise that we are not responsible in an administration capacity for all of the companies here there are still some companies which are unaffected by this as so far as its still solvent to trading.

As regards to the others in principally the trading companies there are a lot of issues that we have we have had to be dealing with.

One very important point when we arrived was that there were no funds here so staff were concerned they were not going to be paid their September salaries and we were concerned we were not going to be able to make various other payments necessary to continue the companies affairs. We have successfully concluded the negotiation on raising funds we have arranged a loan from CarVal a Global Financial Institution which has enabled us now to give the undertaking to staff that before the end of the month we will be paying all staff here, there are 4,500 of them, so long as, of course, they are turning up to work in order to help in our efforts to take this forward.

It is important also, that that the trading entities out there who are doing business with Lehman and who want to resolve situations understand how we operate as an administrator and what is important to us so that they can take this into account when they develop their strategies to deal with their exposures. What I will say on that is that a key to us is the control and protection of the assets that belong to the company here and to turn those assets into cash we need to make sure that we do that and those assets don't transfer in some uncontrolled third party and further more with regards to the liabilities that Lehman has to various institutions we need to make absolute certain sure that no preference is created that no institution out there receives payment who shouldn't receive it in priority to anybody else.

So those principals are overriding all of our actions here we have communicated to the traders in order to develop a new way of working forward. We wanted to take the opportunity so to work through some of the areas the business and communicate various specific actions that we have been

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Lehman Brothers webcast

taking and these have come under the control of Steven Pearson, my partner who is dealing with the principal operation in the group.

Steven Pearson, partner, PricewaterhouseCoopers LLP

Thanks Tony what I would like to do is spend a little time talking through some of the specific steps and actions that we are taking in order to assert control all over the companies books and assets. Firstly, we are in ongoing discussions with a number of global financial institutions to assist us with a number of things.

Firstly, in assisting us with transacting certain market positions the company has effectively been suspended from trading by the various different exchanges and by working through third party brokers we are hopeful that we would be able to transact market position relatively soon.

Secondly, they are assisting us in finding a resolution to the failed trades, the various different market positions that the company took the tailed end of last week which was not settled.

Thirdly, we are working with them together with the company's management to identify strategy for optimum liquidating the various different interests that the company has got across its various books. We have worked extensively with the two principals exchanges in Europe- Eurex and London Clearing House and we have an arrangement with each of those parties now whereby certain client positions are effectively being transferred. That should allow an orderly transition of certain client funds to third parties. We have arranged for a standstill on certain margin calls with the exchanges and we have got an exercise which we will jointly be doing with Lehman staff and staff of the relevant Clearing Houses to ensure that we minimise the impact on the effective parties. This ultimately should meet the first objective which we have identified which is to ensure we have realised cash for the benefit of the company creditors and counterparties.

Secondary, where we have spent extensive time is in the prime brokerage area in dealing with specific assets that have pledge or owned by certain third party clients. Now the entire market is aware their very substantial positions is many hundreds of billions dollars of funds are being invested through Lehman and that there are a number of client accounts positions in respect of that. Now I should emphasise this is exceptionally complex whilst on the face of it the mechanisms for putting in place client monies into protective positions is relatively simple. The mechanisms by which those are affected are extremely complex and whether they do or don't constitute clients funds is an area where which we are taking extensively legal advice from our lawyers Linklaters. In practice that means we won't be in a position to transfer some certain client accounts and certain client funds in the relevant short-term and indeed I cannot at this point give any clarity as to when those positions will be transferred.

Clearly we are here to look after the interest to Lehman in the first interest and market in the second instance and that provided significant leverage to clients in order to take market positions we expect to liquidate a number of those positions over the coming days using the third party brokers that I referred to and as part of that we do expect to realise assets for the estate whether or not there will be any residual interest to the clients on behalf of those leverage positions were taken we do not know at this particular time and at this point in time we don't have a definitive position as to whether that excess would indeed be clients funds as I referred to a moment ago. Also I would like to mention the company's derivative book. The company has very substantial positions in various derivative markets.

As a consequence of the companies administration that is a termination event under many of the companies derivative contracts and as a consequence it is likely that the counterparties may have terminated positions and indeed we have received many thousands termination notices which is what is to be expected in these circumstances.

In practice that means it is quite difficult for the company to understand its position on a counterparty by counterparty basis because they have not been through the exercise of valuing the consequences of those termination notices and indeed in our experiences it may take some months or years to fully assess the extent of the specific crystallised losses or in the money position that are established by virtually those terminations. I should emphasise that we are working with our advisors Linklaters and third party advisors in order to formulate strategy for each of the trading books that the company has.

We have been working with the heads of each of the trading books to cover each of their principal activities that the companies engaged in and we have been undertaking a stratification process by region and by project book in order to determine an appropriate strategy to determine each area. We expect to be in a position to be transacting certain parts of the book over the coming day or so, I cannot give any clarity of the timing of that because it is depending upon both the collaboration of certain exchanges which we are working through and the brokerage arrangement that we are currently in the process putting in place.

That should however, enable the company to start freeing up some of its trades and we are ensuring we are consulting with the regulatory authorities and the different market participants as part of this process.

In particular the Bank of England's is being very help in establishing new banking facilities for us because the company didn't have any bank accounts of its own that were in operation anyway, relying on the parent company estates for all transactions so that has enable us to deposit the monies we borrowed and now begin to make payments including the salary payments.

The FSA has also been very helpful also in helping us interact with the various counterparties to try and work our way through some of these problems which frankly have some way to go still because of the complexity here as I'm sure you have the enquires that we are getting, we are also setting up an enquiry line and telephone number which will be announced in due course and we have set up a web site so that email enquiries can be received and dealt with.

We have had that many that the systems have become jammed so we are not confident that we can turn these around as quickly as our counterparties would like so this is a step to try and resolve that.

So the email address to use for those that want to do so is enquiries.lehmanbrothers@uk.pwc.com and the telephone number will be announced soon.

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Lehman Brothers International (Europe) - client money and assets

21/09/2008 21:44

The joint administrators (the "Administrators") of Lehman Brothers International (Europe) ("LBIE") wish to inform affected customers of LBIE about the steps that are being taken to identify and return client monies and assets held by LBIE.

Background
The Administrators treat the identification and return of client monies and assets ("Client Assets") of LBIE as a very important and urgent matter. A procedure for that identification has been agreed with the FSA, with whom the Administrators have been working very closely in relation to this aspect of the Administration. We set out below a brief description of that procedure, and conclude with an update on progress and an indication of a possible timetable for the return of Client Assets.

LBIE controls Client Assets through other institutions, and in principle it should be possible for these Client Assets to be returned to clients. However, prior to doing so the Administrators are obliged to ensure that all Client Assets are accessible by the Administrators and that they qualify to be treated as client monies or assets. Subject to these preconditions such Client Assets should, in due course, be available for return. In addition, in respect of each client for which Client Assets are held, the Administrators must ensure that there are no liabilities owed by the client which might give rise to an entitlement to withhold all or part of a return of the Client Assets in question. Those steps will ensure no creditors are given preference and is consistent with the Administrator's duties to preserve and realise the company's assets for its creditors.

Collecting the information required for these purposes is time consuming. The business conducted by LBIE is complex, with many hundreds of clients, in particular prime brokerage clients, dealing with, and receiving services from, a range of different business units within LBIE, requiring data and input from a number of different systems.

For certain business units such as prime brokerage clients should be aware that, in relation to Client Assets provided to LBIE, it was customary for LBIE to have a right of "re-hypothecation" or right of "use" (referred to below as a "right of use"). In effect that entitled LBIE to lend such securities in the stock loan or repo markets, with the result that the assets, once "used", were no longer held for the client on a segregated basis, and as a result the client may cease to have any proprietary interest in them.

Process
In summary, the process for the identification and return of Client Assets, which has been agreed with the FSA, involves the following key steps:

1. For those clients who have the benefit of client money protection, under the FSA rules, ascertain client money balances held with various institutions in aggregate and reconcile those balances to LBIE client records.
2. Ensure funds in (1) above are accessible by the Administrators for return.
3. Identify Client Assets in aggregate, and the manner in which the different types of assets are held. For example, assets may be registered in nominee names, held via an accountholder in a clearing system and/or third party custodians may be used.
4. Check documentation with each client for whom Client Assets appear to be held, including prime brokerage agreements (and any side agreements thereto), netting agreements, and other relevant documents, to confirm that money received from or on behalf of a particular client is "client money" within the meaning of the FSA rules and to verify related security rights and set off rights in respect of Client Assets.
5. Reconcile the Client Assets by client to the client's claimed position, and identify whether the client has any relevant liabilities. If any such liabilities are identified, then to determine the extent to which such liabilities owed by the client may reduce the amounts properly returnable to the client. It is also necessary to analyse whether LBIE has exercised any "right of use" over Client Assets, and whether assets so used have ceased to be available.
6. In determining the amount potentially returnable, to take account of any unsettled transactions between the client and LBIE, and provide for any potential liabilities of the client resulting from such unsettled transactions.

Further steps may be identified as this process is conducted.

Timetable

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To complete the above processes will take considerable time. Our current view is that this process could take several months to conclude. Once certain aspects of the process are completed, the Administrator may consider partial returns subject to conditions. We are working closely with the FSA in the conduct of this vital process. We will update clients about progress on an ongoing basis.

Further details relating to the administration are included in the PwC website www.pwc.co.uk

ENDS

Notes to Editors:

AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis were appointed as Joint Administrators of Lehman Brothers International (Europe) on 15 September 2008 to manage its affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, DY Schwarzmann and MJA Jervis are licensed to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

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IN THE HIGH COURT OF JUSTICE

COMPANIES COURT

St. Dunstan's House

Monday, 22nd September 2008

Before:

MR. JUSTICE MORGAN

BETWEEN:

(1) RAB CAPITAL PLC
(2) RAB CAPITAL MARKET (MASTER) FUND — Applicants

- and -

LEHMAN BROTHERS INTERNATIONAL (EUROPE) — Respondents

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MR. MORTIMER and MR. GLEDHILL (instructed by Simmons & Simmons) appeared on behalf of the Applicants.

MR. TROWER and MR. BAKER (instructed by Linklaters) appeared on behalf of the Respondents.

JUDGMENT

(As approved by the Judge)

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MR. JUSTICE MORGAN:

1 In view of the time (7.45pm), and in view of any precedent creating effect of my decision, I think I will announce my decision and give the basic strands of the reason but not do more. If someone wants to take my decision to the Court of Appeal then I will give my reasons in more detail later without, I think, much delay.

2 The application before me tonight is that the intended application by the Applicant for directions to be given by the court to the administrators, should be listed to be heard this Friday, 26th September, on an urgent basis with a time estimate of half a day. I am going to refuse to make that order.

3 The circumstances of this administration are unusual. They have been described to me in great detail by counsel for the administrators. I have very considerable sympathy for the position of the Claimant. For a considerable time during the argument I was more than willing to give the court's assistance to help the Claimant in its difficulty.

4 There are two factors that have persuaded me not to do that. The first is that the administrators as officers of the court have the job of appraising the claim, dealing with it, and giving effect to such rights as are clearly established. I do not myself see this present claim in court as involving very much by way of legal issues. It strikes me it is very much more a case of administering an application for the return of what appears, overwhelmingly at the moment, to be the assets of the Claimant. There will be others who will be making similar claims. It is the job of the administrators to process those. It is not the job of the judges of the High Court to take on that burden.

5 Of course, when the first application of this kind is made, when the grounds appear to be very strong, a judge is very tempted to do justice in the individual case, but I am concerned about the precedent effect of giving this relief. The floodgates argument has been referred to, I think appropriately so, and it seems to me, from the material I have, that it is very likely indeed that if I give this relief tonight it will be the first of very very many, which will be a considerable difficulty for the court to deal with, and in any case it is not the courts that should deal with these matters in the first instance, it is the administrators as officers of the court.

6 The second matter is that when one tries hard to meet a very proximate time limit, as is the case here, a hearing on Friday, to get a decision on Friday, and in any event before 1st October, one's ambitions are often derailed by small

points on the facts of the individual case. There does appear to be a point here that could derail all ambitions of getting a decision on Friday, which could be taken advantage of by the Claimant on 1st October. That is that on the information available it looks very likely as if the English company (in administration) is not the de facto custodian of the relevant assets. Those assets are in New York where the sub-custodian is an American company in liquidation. The American company has already been requested to return these assets to the English subsidiary in administration and that has not yet produced a return of the assets. So even if we all ran very fast, tried very hard, and the Claimant did get an order against the English company, it would have to be that the English company did what it could to get the assets from the United States, and that might just repeat today's problem for a second time, but this time dealing with the company in the United States in liquidation and under a different legal code.

7 Those are short reasons only. I have not attempted to describe or narrate the circumstances of the case, but I hope that in fairness to the parties they indicate the reasons that in the end have weighed with me. That is my decision.