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

Joint Administrators' progress
report for the period 24 October
2012 to 23 April 2013

23 May 2013

Contents

| | | |
|------------------|---|--------------|
| Section 1 | <i>Purpose of the Joint Administrators' progress report</i> | 3-4 |
| Section 2 | <i>Joint Administrators' actions to date</i> | 5 |
| Section 3 | <i>Statutory and other Information</i> | 6 |
| Section 4 | <i>Financial Information</i> | 7 |
| Section 5 | <i>Receipts and Payments Account</i> | 8 |
| Section 6 | <i>Joint Administrators' time costs for the period 1 October 2012 to 31 March 2013</i> | 9- 10 |

Section 1 Purpose of the Joint Administrators' progress report

Introduction

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

This report provides an update on the work the Administrators have undertaken and the progress made since our appointment, with particular focus on the progress made in the six months to 23 April 2013.

Objectives of the Administration

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

The specific aims of the Administration are to:

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

Outcome for creditors

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

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

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

The Scheme Trustees have requested that the Upper Tribunal overturns the Panel's decision and rule that the 38 companies (including LB L&F) should also be subject to an FSD. LB L&F is still, therefore, at risk from this potential liability, but

(together with the 36 other affected entities) maintains that the FSD should be struck out on the grounds that it is now no longer possible for the Regulator to impose a FSD against the Company. Following a judgment on 14 June 2012, the Upper Tribunal declined the strike out, meaning that LB L&F is still at risk of a FSD. An appeal has been made to the Court of Appeal and the hearing began on 29 April 2013. Judgement has been reserved and will be handed down in due course.

The Administrators continue to monitor the pensions issues closely and are seeking an interim resolution that may enable an early distribution to creditors.

Change of Administrators

Upon an application to the High Court of Justice ("the Court"), an order was made on 22 March 2013 that GE Bruce and JG Parr be appointed Joint Administrators and that DA Howell, DY Schwarzmann and MJA Jervis cease to be Joint Administrators of the Company.

The Court also ordered that former Joint Administrators shall be released from all liability pursuant to the relevant sections in the Insolvency Act 1986 in respect of their acts and omissions and otherwise in respect of their conduct as administrators of the Company and that such release will take effect 56 days after the date of this progress report. The Court gave permission for each creditor and member of the Company to apply to vary or discharge its Order by an application issued within 28 days of receipt of this progress report.

Exit route from administration

On the application of the Administrators, the High Court made an Order to further extend the period of the Administration to 30 November 2014.

Future reports

The Administrators will next report to creditors in approximately six months.

Signed:



GE Bruce
Joint Administrator
Lehman Brothers Lease & Finance No.1 Limited

AV Lomas, SA Pearson, GE Bruce and JG Parr have been appointed as Joint Administrators of Lehman Brothers Lease & Finance No.1 Limited to manage its affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, GE Bruce and JG Parr are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

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

Section 2 Joint Administrators' actions to date

Overview

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

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

Administrators' actions to date

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

Outstanding matters

As previously reported, further recoveries may still arise from the sale of group relief, but these are unlikely to be significant given the overall loss profile of the group.

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

HM Revenue & Customs continues to challenge the quantum of LB L&F's claim of £8.8m in respect of pre appointment VAT. The Administrators remain confident that this issue will be resolved in the near future and are working towards a settlement of this whilst planning for a shelter arrangement for the interest which will be received as part of the settlement.

Section 3 Statutory and other Information

| | |
|---|--|
| <i>Court details for the Administration:</i> | High Court of Justice, Chancery Division, Companies Court - case 9434 of 2008 |
| <i>Full name:</i> | Lehman Brothers Lease & Finance No.1 Limited |
| <i>Trading name:</i> | Lehman Brothers Lease & Finance No.1 Limited |
| <i>Registered number:</i> | 04387086 |
| <i>Registered address:</i> | Level 23, 25 Canada Square, London E14 5LQ, United Kingdom |
| <i>Company directors:</i> | IM Jameson (resigned 17/07/09), SJ Williams (resigned 20/07/09) |
| <i>Company secretary:</i> | M Smith (resigned 25/01/10), P Dave (resigned 25/01/10), ESE Upton (resigned 25/01/10) |
| <i>Shareholdings held by the directors and secretary:</i> | None of the directors own shares in the Company |
| <i>Date of the Administration appointment:</i> | 24 October 2008 |
| <i>Administrators' names and addresses:</i> | GE Bruce, SA Pearson, AV Lomas and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT. DA Howell, MJA Jervis and DY Schwarzmann ceased to be Administrators on 22 March 2013. |
| <i>Appointer's name and address:</i> | The directors of the Company, 25 Bank Street, London E14 5LE |
| <i>Objective being pursued by the Administrators:</i> | Achieving a better result for creditors as a whole than would be likely if the Company was wound up (without first being in Administration). |
| <i>Division of the Administrators' responsibilities:</i> | The current Joint Administrators are GE Bruce, SA Pearson, AV Lomas and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT. In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Joint Administrators, may be done by any or one or more of the Joint Administrators. |
| <i>Details of any extensions of the initial period of appointment:</i> | The Court has granted a fourth extension of the Administration to 30 November 2014. |
| <i>Proposed end of the Administration:</i> | The Administrators wish to retain various exit options available to them however the most likely exit route from the Administration is to seek permission to distribute from the administration and proceed to dissolve Company or place it into Creditors' Voluntary Liquidation. |
| <i>Estimated dividend for unsecured creditors:</i> | It is too early to estimate the likely dividend for unsecured creditors. |
| <i>Estimated values of the prescribed part and LB L&F's net property:</i> | There is no prescribed part as there is no qualifying floating charge. |
| <i>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</i> | Not applicable as there is no prescribed part. |
| <i>The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):</i> | The European Regulation on Insolvency Proceedings does apply to this Administration and these are the main proceedings. |

Section 4 Financial Information

Administrators' remuneration

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

Attached at Section 6 is a summary of the Administrators' time costs for the period 1 October 2012 to 31 March 2013, presented in accordance with Statement of Insolvency Practice 9, together with a narrative of the work performed.

Time costs for the period 1 October 2012 to 31 March 2013 are £160,765, which represents 319.62 hours at an average hourly rate of £502.99.

Time cost analyses covering the period 24 October 2008 to 30 September 2012 have been provided previously.

To date, remuneration of £972k plus VAT has been drawn in respect of time costs incurred from 24 October 2008 to 28 February 2013.

Receipts and payments account

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

The IT costs incurred during the period are LB L&F's contribution to the production and running of the Entity Prioritisation Model ("EPM") whose cost was incurred by Lehman Brothers International (Europe). The EPM has been used for considering options in respect of the pensions issue.

Net receipts to 23 April 2013 amount to £24.4m, including £724k earned in interest.

Section 5 Receipts and Payments Account

| | As at 23 April 2013 GBP (£) | As at 23 October 2012 GBP (£) | Movements GBP (£) |
|--|-----------------------------------|-------------------------------------|----------------------|
| Receipts | | | |
| Realisations from sale of tax losses | 1,118,533 | 1,118,533 | - |
| Corporation Tax refund | 5,916,233 | 5,916,233 | - |
| Realisation from infrastructure assets and Level 7 lease | 19,710,218 | 19,710,218 | - |
| Interest received gross | 723,684 | 689,860 | 33,824 |
| Total Receipts | 27,468,668 | 27,434,844 | 33,824 |
| Payments | | | |
| Insurance | 463,336 | 463,336 | - |
| Legal Fees | 31,509 | 26,310 | 5,199 |
| Purchase of Tax Losses | 1,180,578 | 1,180,578 | - |
| Joint Administrators' remuneration | 971,825 | 712,531 | 259,294 |
| Joint Administrators' Category 1 disbursements | 3,566 | 3,566 | - |
| Statutory costs | 1,244 | 1,244 | - |
| Employee costs | 1,763 | 1,763 | - |
| Tax function costs | 230,159 | 268,797 | (38,638) |
| IT costs | 5,741 | - | 5,741 |
| Net VAT Paid | 161,087 | 123,014 | 38,073 |
| Total Payments | 3,050,808 | 2,781,139 | 269,669 |
| Net Position | 24,417,860 | 24,653,705 | (235,845) |
| Cash Balances | | | |
| HSBC (non-interest bearing) | 103,056 | 201,635 | (98,579) |
| Short term deposits | 24,314,804 | 24,452,070 | (137,266) |
| Total Cash | 24,417,860 | 24,653,705 | (235,845) |

Section 6 Joint Administrators' time costs for the period 1 October 2012 to 31 March 2013

| Classification of work | Partner/Director | | Senior Manager/Manager | | Senior Associate | | Associate/Support Staff | | Total hours | |
|--------------------------------|------------------|---------------|------------------------|---------------|------------------|---------------|-------------------------|--------------|---------------|----------------|
| | Hours | £ | Hours | £ | Hours | £ | Hours | £ | Hours | £ |
| Accounting and treasury | 0.30 | 251 | 15.35 | 6,355 | 25.95 | 6,863 | 17.10 | 3,762 | 58.70 | 17,231 |
| Administration and planning | 8.40 | 7,039 | 11.20 | 4,637 | 2.80 | 708 | - | - | 22.40 | 12,384 |
| Realisation of assets | - | - | 2.80 | 1,159 | 1.10 | 278 | - | - | 3.90 | 1,437 |
| Statutory and other compliance | 1.00 | 838 | 1.80 | 745 | 10.10 | 2,555 | 1.90 | 407 | 14.80 | 4,545 |
| Tax and VAT | 30.40 | 31,954 | 125.80 | 70,695 | 54.50 | 20,334 | 3.00 | 437 | 213.70 | 123,420 |
| LBL recharges | 0.11 | 71 | 1.43 | 614 | 1.79 | 477 | 2.79 | 586 | 6.12 | 1,748 |
| Grand Total | 40.21 | 40,153 | 158.38 | 84,205 | 96.24 | 31,245 | 24.79 | 5,192 | 319.62 | 160,765 |

| Current charge out rates | Business Recovery Services | | Specialist | |
|--------------------------|----------------------------|--|------------|--|
| | Max £/hr | | Max £/hr | |
| Partner | 836 | | 1,027 | |
| T Director | 639 | | 932 | |
| Senior manager | 492 | | 869 | |
| Manager | 414 | | 634 | |
| Senior Associate | 346 | | 389 | |
| Associate/Support Staff | 220 | | 204 | |

The Administrators' remuneration has been fixed by reference to the time properly given by the joint administrators and their staff in attending to matters arising in the administration. The maximum unit for time charged by the Joint Administrators and their staff is 0.05 of an hour.

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

Summary of the Joint Administrators' time costs for the period 1 October 2012 to 31 March 2013

Accounting and treasury - £17,231

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

Administration and planning - £12,384

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

Asset Realisations - £1,437

- Review debtor positions.

Statutory and Reporting - £4,545

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

Tax and VAT - £123,420

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

LBL recharges - £1,748

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