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

Joint Administrators' progress  
report for the period 15 September  
2015 to 14 March 2016

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12 April 2016

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

## ***Introduction***

This progress report has been prepared by the Joint Administrators (the "Administrators") of Lehman Brothers Limited ("LBL" or the "Company") under Rule 2.47(3)(a) of the Insolvency Rules 1986.

This is the fifteenth such progress report and provides an update on the work that the Administrators have undertaken, with particular focus on the progress made during the six months from 15 September 2015 to 14 March 2016 (the "reporting period").

## ***Objectives of the Administration***

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

The specific aims of this Administration have included:

- Realise all assets of LBL, where value may exist;
- Provide ongoing employee and infrastructure support to the other Group companies that are in Administration in exchange for appropriate reimbursement;
- Mitigate, so far as possible, any further liabilities against LBL by the transfer or termination of contracts; and
- Adjudicate the claims of creditors and pay distributions to creditors with admitted claims.

## ***Creditors' Committee***

The Administrators regularly meet with the Creditors' Committee (the "Committee") and, to date, twenty-two meetings of the Committee have taken place.

The meetings with the Committee provide the Administrators with the opportunity to explain in detail how the Administrators are dealing with key aspects of the Administration and to consult with the Committee on critical issues.

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

As reported previously, the Administrators have paid a dividend of 100p in the £ to former employees on admitted preferential unsecured claims (comprising claims for unpaid wages and holiday

pay) and the Administrators have also declared and paid a first interim dividend of 1.66p in the £ to ordinary unsecured creditors.

Creditors who have not yet submitted a claim are requested to do so as soon as possible. Further information is available at:

<http://www.pwc.co.uk/business-recovery/administrations/lehman/LBL-in-administration.jhtml>

The timing and quantum of any future dividend are at present uncertain as a result of LBL's registered shareholding in Lehman Brothers International (Europe) in Administration ("LBIE"). LBIE is an unlimited liability company and LBL is therefore potentially liable for any shortfall to creditors of that estate (which may include interest, subordinated claims and certain other claims). This remains subject to complex, ongoing litigation termed the "Waterfall" proceedings. Further information regarding the "Waterfall" proceedings is provided in Section 2.2.

## ***Change of Administrators***

On 15 March 2016, the Court granted the Administrators' application for an order that Zelf Hussain of PricewaterhouseCoopers LLP be appointed as Joint Administrator of LBL and that Dan Schwarzmann, Anthony Lomas, Steven Pearson and Guy Parr (the "Resigning Administrators") be permitted to resign.

The order was sought to enhance LBL's ability to pursue effectively the remaining complex, high value issues and workstreams in the Administration, including the Waterfall proceedings, referred to below.

Copies of the Court Order and Judgment will be made available on the LBL website once received from the Court.

The appointment of Zelf Hussain and the resignation of the Resigning Administrators will be effective immediately upon filing notices of resignation in Form 2.38B with the Court and sending a copy of the same to the Registrar of Companies and the Committee, which will be done a short period after copies of the Court Order and Judgment have been made available to creditors on the LBL website.

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## ***Future reports***

The Administrators anticipate that they will circulate their next report to creditors in approximately six months.

Signed:



MJA Jervis  
Joint Administrator  
Lehman Brothers Limited

*MJA Jervis, AV Lomas, SA Pearson, DY Schwarzmann and JG Parr were appointed as Joint Administrators of Lehman Brothers Limited to manage its affairs, business and property as agents without personal liability. MJA Jervis, AV Lomas, SA Pearson, DY Schwarzmann 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 bound by the Insolvency Code of Ethics which can be found at:*

*<https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>*

*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.*

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## ***Section 2 Joint Administrators' actions to date***

Creditors will be aware that before the Administration, LBL held most of the UK service and employee contracts on behalf of the Lehman Brothers Group of companies (the "Group"), and provided all HR, IT, property, accounting and other services for the Group in the UK and Europe.

From the commencement of the Administration, LBL continued to provide services to the other UK based Lehman Brothers Companies that are in Administration (the "Lehman Administration Companies"). On 31 May 2013, the Administrators agreed with LBIE and other Lehman Administration Companies to transfer to LBIE the then continuing services and the 400 retained employees.

Since their appointment, the Administrators have utilised specialist teams from within PricewaterhouseCoopers LLP ("PwC"), who have worked with retained LBL (and latterly LBIE) employees to ensure that the operations of LBL are properly coordinated and the objectives of the Administration are met.

Further detail on the activities of the current teams is provided in the following pages.

As at the date of the Administration, LBL's primary assets included inter-company receivables, tax refunds, IT assets and fixtures & fittings. The management and realisation of these assets have been undertaken by separate workstream teams to maximise the outcome for LBL's creditors as a whole.

Key progress from 15 September 2015 to 14 March 2016 includes:

- Continued adjudication of the claims of unsecured creditors including former employees, and payment of further catch up dividends in relation to the first interim dividend of 1.66p in the £ to unsecured creditors;
- Ongoing participation in the "Waterfall" proceedings, progress on which is explained in more detail below and upon the outcome of which the ultimate return to creditors is dependent;
- Continued discussions with LBIE and Lehman Brothers Europe Limited ("LBEL"), in respect of the inter-company balances; and
- Continued pursuit and recovery of amounts due to LBL from other Group companies

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

The receipts and payments account at Section 7 shows cash held increasing by £23.8m to £292.9m in the six month reporting period. Key movements include:

- Recoveries of c. £20.4m in relation to inter-company receivables; and
- VAT of c. £11.1m recovered in LBL's capacity as the representative member of the VAT group. Of this, c. £7.6m was distributed to other Lehman Administration Companies.

### ***Statement of expenses***

A statement of expenses incurred to the date covered by this report and an estimate of future expenses is set out at Section 8.

### ***Investigations and actions***

Nothing has come to our attention during the period under review to suggest that we need to do any more work in line with our duties under the Company Directors' Disqualification Act 1986 and Statement of Insolvency Practice No.2.

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## 2.1 Intercompany balances

### Overview

The global nature of the Lehman business, with highly integrated trading and non-trading relationships across the Group, led to a complex series of intercompany positions at the date of Administration. These included 289 debtor and creditor balances between LBL and the rest of the Group, representing at book value £1.2bn of receivables and £0.7bn of payables. Of these, c. £1.1bn (>90%) of receivables relate to five relationships. In addition, LBL held guarantees from Lehman Brothers Holdings Inc (“LBHI”) in respect of claims against some other Group companies.

### Progress

The Intercompany team has continued to make progress in the agreement and recovery of a number of significant receivable balances such that these amounts can ultimately be made available to LBL’s unsecured creditors, including seeking to agree its intercompany balances with LBIE and LBEL.

As a service company, LBL recharged to other group companies the costs it incurred in the provision of services. In excess of 95% of such costs were charged to either LBIE or LBEL.

The Administrators have reviewed LBL’s balance sheet as at the date of Administration, to identify the adjustments that should be made to the balance sheet to reflect the estimated actual outcome and consequential recharge adjustments to the inter-company accounts with LBIE, LBEL and other entities. Following the adjudication of creditor claims and payment of a first interim dividend, the Administrators have sought to finalise, where possible, adjustments to the balance sheet. Discussions with the Administrators of LBIE and LBEL, in respect of the inter-company balances are ongoing.

As described in Section 2.2 below, the “Waterfall” proceedings are still ongoing so the outcome is currently uncertain. As a consequence, it is not possible at this stage to indicate what recovery may be made in relation to LBL’s claim against LBIE or whether ultimately LBIE will be found to be a debtor or a creditor of LBL.

For similar reasons, the final balance with LBEL is also uncertain.

To date, LBEL has paid dividends totalling 100p in the £ to its unsecured creditors, whose claims have been admitted.

LBEL may pay a surplus to its shareholder, Lehman Brothers Holdings Plc (“LBH Plc”). The amount of the surplus (if any) in LBEL to be paid to LBH Plc is currently uncertain as it depends on a number of factors including the inter-company balance with LBL.

LBL’s largest claim of £710m is against LBH Plc, which is also in Administration. In February, the Administrators of LBH plc declared a second interim distribution and LBL received c. £14.2m. To date, LBL has received distributions of £43.1m from LBH Plc. Further distributions are expected but the timing and quantum of future distributions is subject to a number of uncertainties.

Other material developments include:

- As creditors are aware, a Plan of Reorganisation of LBHI and the other Affiliates in US Chapter 11 proceedings became effective on 6 March 2012. To date, LBL has received distributions totalling £68m (\$108m). Distributions of \$7m have been received in the reporting period. The total recovery from these claims remains uncertain. Further distributions are anticipated on a six monthly basis;
- LBL continues to monitor the position with Lehman Brothers Luxembourg Investment S.A.R.L (“LBLIS”) in relation to LBL’s claim of \$225m, of which \$72m has been repaid to date. It is anticipated that material further realisations will be received, however the timing and quantum is currently uncertain;
- In December 2015, LBL reached agreement with Lehman Brothers Bankhaus (LBB) and a claim of €1.58m was admitted into the LBB estate. To date distributions of approximately €1.3m have been received. Further distributions are expected although the timing and quantum is currently unknown; and
- A number of smaller recoveries have been received from group companies in a variety of jurisdictions, and further recoveries are anticipated.

The Intercompany team continues to proactively progress approximately 33 other LBL Affiliate balances where there remains a reasonable prospect of future realisations.

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## 2.2 Waterfall proceedings

The “Waterfall” proceedings address LBL’s potential liability as the registered holder of one share in LBIE, an unlimited company. The outcome of the “Waterfall” proceedings will to a large extent determine the total amount of claims admitted in LBL’s estate, and therefore the dividend that might ultimately be paid to LBL’s creditors.

### **“Waterfall I” application**

As previously reported, the Administrators applied to the High Court jointly with the Administrators of LBIE and Lehman Brothers Intermediate Holdings 2 Ltd (“LBHI2”) for directions in relation to the potential liability of LBL and LBHI2 in respect of shares held in LBIE, an unlimited company, and in relation to subordinated debt owed by LBIE to LBHI2 (the “Waterfall I” application).

In March 2014, the Waterfall I judgment was handed down.

The judgment addressed a number of questions. In particular, it was held that when LBIE has gone into Liquidation, but not before, the shareholders of LBIE may be subject to calls to provide funds to enable LBIE to pay additional sums, including statutory interest, “non provable debts” such as foreign exchange losses, and subordinated debts. LBIE remains in Administration and has not gone into Liquidation. However, it was further decided that even though it is not in Liquidation, LBIE may make a contingent claim against its shareholders in respect of amounts that it would (if in Liquidation) call on its shareholders to pay.

The Administrators of LBL, LBIE and LBHI2, and LBHI, were given leave to appeal some parts of the judgment. The appeal was heard over five days at the end of March 2015 and judgment was handed down on 14 May 2015. The appeal judgment upheld key elements of the judgment at first instance. The Supreme Court subsequently granted LBL, LBHI2 and LBIE leave to appeal and the hearing of that appeal is listed for October 2016.

As previously reported, LBIE has submitted a claim for £10.4bn in the estate of LBL. This is formed of three components as follows:

1. Pension debt of £119m (see Section 2.3 of this report);
2. Inter-company claim of £254m (see Section 2.1 of this report); and
3. A contingent contribution claim of £10bn, for the estimated deficiency in LBIE’s estate including statutory interest, “non provable

debts” such as foreign exchange losses, and subordinated debts.

No elements of LBIE’s claim have been admitted by LBL.

### **“Waterfall II” application**

As previously reported, the Administrators of LBIE have made another application to the Court (the “Waterfall II” application) for directions in relation to a number of questions relating principally to the nature and quantum of LBIE’s liabilities.

Given the scope of the Waterfall II Application, the issues have been separated into three parts and a separate procedural timetable and trial for each part has been agreed. Parts A and B were heard in February and May 2015. The judgments for Parts A and B were received on 31 July 2015. The parties have been granted leave to appeal and the appeal has been listed for hearing in April 2017. Part C was heard in November 2015 and judgment is awaited. A number of supplemental matters also remain to be decided.

LBL is not party to the Waterfall II application, but its outcome may materially impact the potential liabilities of LBIE, and consequently may also impact the potential liability of LBL as the registered holder of a share in LBIE. The Administrators therefore continue to closely monitor this application and have reserved the right to apply to the Court to be joined, should it appear necessary to do so to ensure that all credible arguments that would operate so as to reduce any contribution claim by LBIE are put to the Court.

### **Potential further applications**

The Administrators of LBL are conducting further detailed investigations into the basis on which LBL held one share in LBIE, any consequential impact on the liability of LBL for any deficiency in LBIE, and the treatment of any such liability in LBL by reason of LBL’s role as a service company recharging its costs, the inter-relationship between LBL and LBHI2 (LBIE’s majority shareholder), and otherwise. Although a number of these questions were raised in the Waterfall I proceedings, the Court declined to decide them, and depending upon the outcome of the investigations additional questions may require to be addressed to the Court before the claims of LBIE, LBHI2 and LBEL in LBL’s estate can be finally adjudicated. The progress of these investigations was initially delayed by LBIE for more than 6 months.



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Pending final adjudication of the claims of LBIE, LBHI2 and LBEL, substantial reserves have been made in LBL's estate and the interim dividend paid to date is consequently small.

A further update will be provided in the Joint Administrators' next report.



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## **2.3 Creditor claims and dividend prospects**

### ***Progress***

#### ***Preferential creditors***

As creditors are aware from previous reports, a dividend of 100p in the £ has been paid to preferential creditors whose claims have been admitted. To date, c. 94% of expected claims by value have been agreed and paid and the Administrators continue to deal with new preferential claims as and when they are submitted.

#### ***Unsecured creditors***

##### ***Claims agreement***

Since the previous report, the Administrators have continued to adjudicate a small number of claims.

Any creditor who has yet to submit their claim should do so as soon as possible. Further information is available at:

<http://www.pwc.co.uk/business-recovery/administrations/lehman/LBL-in-administration.jhtml>

Claims and supporting documentation can be submitted via email to [lbl.enquiries@uk.pwc.com](mailto:lbl.enquiries@uk.pwc.com)

#### ***Catch up dividends***

It is the Administrators' policy to make periodic catch up dividend payments to creditors when further claims are agreed. During the period covered by this report, further catch up dividends totalling £31k have been paid. The level of newly adjudicated claims will be kept under review and further catch up dividends paid at such a time as it is economically viable to do so.

#### ***Claim appeals***

In their previous report, the Administrators advised that three appeals had been made to the Court in respect of claims rejected by the Administrators. Two of these appeals have now been settled.

The remaining appeal relates to a claim in respect of LBL's leasehold interest in Lehman Brothers' former premises at 25 Bank Street. This appeal is a substantial and complex matter, listed for hearing in February 2017. For legal and commercial reasons, it is not possible to provide any further detail at this stage.

### ***Claim reserves and dividend prospects***

The Administrators are currently reserving for claims totalling £11.8bn, including inter-company claims from LBIE, LBHI2 and LBEL. The quantum and timing of future dividends remains uncertain and is materially dependent upon the issues discussed in Section 2.2 above.

### ***Issues and priorities***

The priorities for the next six months are:

- Review, adjudicate and pay preferential claims of former employees as these are received;
- Continue to review and adjudicate outstanding unsecured claims, including dealing with any new claims received, and paying catch up dividends on agreed claims;
- Continue discussions with LBIE, LBHI2 and LBEL regarding their inter-company balances and where practicable agree elements of those balances;
- Continue the investigations into the basis on which LBL held one share in LBIE, any consequential impact on the liability of LBL for any deficiency in LBIE, and the treatment of any such liability in LBL, and make such applications to Court, or join in applications to Court as necessary in relation to such matters; and
- Continue the claims appeal process in respect of the Bank Street claim.

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## 2.4 Corporation Tax, VAT and other tax compliance

### Overview

Prior to entering Administration, LBL coordinated the Group's corporate tax, VAT and PAYE affairs. Since Administration, this role has diminished but LBL continues to act as representative member of the Lehman VAT group and has coordinated the Group tax loss allocation.

The ongoing key objectives for the tax team include:

- Compliance - Ensuring corporation tax compliance, VAT compliance and statutory filing obligations are met.
- Planning - Effective projection and planning to minimise tax leakage from the UK Group and maximise VAT recoveries, improving returns for LBL's creditors.
- PAYE and other employment taxes - Finalise agreement of amounts due to HM Revenue & Customs ("HMRC") in respect of pre-Administration employment related taxes and settle open Employment Benefit Trust ("EBT") schemes.
- HMRC relationship - Maintaining a good working relationship with HMRC to facilitate the pragmatic and timely resolution of issues.

### Progress

Specific progress in the reporting period includes:

#### Corporation Tax

- Submission of the 2014 corporation tax return
- Drafting of the 2015 corporation tax return
- Submission of 2014 group relief documentation for certain companies
- Considering the possible impact for LBL of a potential change in LBL's Administrators on the treatment of LBL in the Lehman UK corporation tax group.

#### VAT

All group VAT returns have been submitted up to, and including, the quarter ended November 2015;

- Since the last report to creditors, LBL has received repayments from HMRC for the May, August and November 2015 VAT quarters totalling £227k, £209k and £212k respectively; and
- The VAT return for quarter ended February 2016 is currently being prepared and will shortly be submitted to HMRC.

#### PAYE and other employment taxes

- Further discussions with HMRC and the Trustees of the Lehman Brothers EBT around potential settlement in respect of PAYE tax liabilities arising for the five beneficiaries for the 5 beneficiaries who did not take up the settlement in July 2015.

Over the next six months, the tax team's work will include:

- Finalising and submitting the corporate tax return to 31 May 2015;
- Drafting the group relief agreement for 2014 for the remaining companies, when relevant tax returns are finalised;
- Finalising the intercompany reconciliation process;
- Liaising with HMRC to conclude the agreement of its unsecured claims;
- Continuing to pursue potential settlement of the EBT PAYE liabilities and facilitating the ultimate closure of the scheme; and
- Dealing with residual employer tax issues.

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## Section 3 Statutory and other Information

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<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - Case 7945 of 2008
<i>Full name:</i>	Lehman Brothers Limited
<i>Trading name:</i>	Lehman Brothers Limited
<i>Registered number:</i>	846922
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<i>Date of the Administration appointment:</i>	15 September 2008
<i>Administrators' names and addresses:</i>	MJA Jervis, AV Lomas, SA Pearson, DY Schwarzmann, and JG Parr, of PricewaterhouseCoopers LLP, 7 More London Riverside, SE1 2RT
<i>Appointer's / applicants' name and address:</i>	High Court of Justice, Chancery Division, Companies Court on the application of the directors of the Company, 25 Bank Street, London, E14 5LE.
<i>Division of the Administrators' responsibilities:</i>	In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Joint Administrators may be done by any or one or more of the persons for the time being holding that office.
<i>Details of any extensions of the initial period of appointment:</i>	The Court has granted four successive extensions to the Administration to: 30 November 2011; 30 November 2013; 30 November 2014; and 30 November 2016.
<i>Estimated dividend for unsecured creditors:</i>	<p>An Order was granted giving the Joint Administrators leave to pay distributions to (non-preferential) unsecured creditors of LBL.</p> <p>The Joint Administrators declared and paid a first interim dividend of 1.66p in the £ to the unsecured creditors on 15 December 2014. The timing and quantum of any future dividends are currently uncertain.</p>

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## ***Section 4 Joint Administrators' Remuneration***

### ***Background***

This section sets out the process for setting and monitoring the Administrators' remuneration.

In this case, the Committee is responsible for agreeing the basis and quantum of the Administrators' remuneration.

### ***The Insolvency Rules 1986 ("IR86")***

By way of context, the manner in which the Administrators' remuneration is determined and approved is set out in IR86 Rules 2.106 to 2.109.

There are two alternative fee bases under IR86, either:

- A percentage of the value of the property with which the administrator has to deal; or
- By reference to the time properly given by the administrator and his staff in attending to matters arising in the administration.

The Insolvency Rules also provide that in arriving at its decision on remuneration, the Committee is required to consider the following matters:

- The complexity (or otherwise) of the case;
- Any responsibility of an exceptional kind or degree which falls on the administrator;
- The effectiveness with which the administrator appears to be carrying out, or to have carried out, their duties; and
- The value and nature of the property which the administrator has to deal with.

### ***Statement of Insolvency Practice No. 9 ("SIP9")***

In addition to IR86, SIP9 provides guidance to insolvency practitioners, creditors and other interested parties in relation to the remuneration of, inter alia, administrators. The purpose of SIP9 is to:

- Ensure that administrators are familiar with the statutory provisions relating to office holders' remuneration;
- Set out best practice with regard to the observance of the statutory provisions;

- Set out best practice with regard to the provision of information to those responsible for the approval of fees to enable them to exercise their rights under the insolvency legislation; and
- Set out best practice with regard to the disclosure and drawing of disbursements.

When seeking agreement for remuneration, the Administrators are required to provide sufficient supporting information to enable those responsible for approving their remuneration ('the approving body') to form a judgement as to whether the proposed remuneration is reasonable having regard to all the circumstances of the case. The nature and extent of the supporting information which should be provided will depend upon:

- The nature of the approval being sought;
- The stage during the administration of the case at which it is being sought; and
- The size and complexity of the case.

Creditors have the right to ask for information and challenge the Administrators' fees if they believe that they are too high. Creditors can find an explanatory note online at:

<http://www.icaew.com/~media/corporate/files/technical/insolvency/creditors%20guides/a%20creditors%20guide%20to%20administrators%20fees%20010407.ashx>

### ***Resolution of the Creditors' Committee***

Given the fundamental uncertainties about the value of the property with which the Administrators have to deal, the Committee resolved that the Administrators' remuneration be based on the 'time properly given' basis – i.e. an hourly billing basis.

The Committee also resolved that the Administrators may draw 75% of their time costs on account to assist with the smoothing of working capital. All such costs are subject to detailed reporting to the Committee and the extent to which the Administrators can draw remuneration is subject to its approval.

## Costs incurred and approved to date

To 14 March 2016, the Administrators have drawn fees of £23.4m (exclusive of VAT) in line with the Committee resolution and approvals. These fees are shown in the receipts and payments account at Section 7.

The time cost charges incurred in the period 1 September 2015 to 29 February 2016 are £1.6m. An analysis of the total hours and cost incurred by grade of staff can be found at Section 5.

### Hourly rates

The following table summarises the hourly rate ranges charged per hour for the grades of staff who have already worked on the Administration during the reporting period:

<b>Grade</b>	<b>Min Rate (£)</b>	<b>Max Rate (£)</b>
Partner	781	1,101
Director	685	1,015
Senior Manager	318	932
Manager	281	556
Senior Associate	236	416
Associate	74	236

### Payments to associates

Fees of £24k were paid to PricewaterhouseCoopers Limited (Hong Kong) in the period covered by this report.

These fees were in respect of time spent pursuing LBL's financial interest in various Group companies in Asia and were paid as part of the Administrators' remuneration in accordance with the resolution of the Committee.

### Relationships

The Administrators have no business or personal relationships with the parties who approve their fees or who provide services to the Administration where the relationship could give rise to a conflict of interest.

## Legal and other professional firms

A summary of legal advisors instructed by the Administrators can be found at Section 6.

## Disbursements

The following disbursements were incurred in the reporting period:

<b>Description</b>	<b>Category 1 £</b>	<b>Category 2 £</b>
Reimbursement of staff expenses	23,862	-
IT licence costs	55	4,244
Other	63	-
<b>Total</b>	<b>23,980</b>	<b>4,244</b>

The Administrators do not need approval to draw expenses or disbursements unless they are for shared or allocated services provided by their own firm, including room hire, document storage, photocopying, communication facilities. These "Category 2" disbursements must be directly incurred on the case, subject to a reasonable method of calculation and allocation and approved by the same party who approves their fees.

Disbursements of £68,852 were drawn in the reporting period, as shown in the receipts and payments account at Section 7.

## Section 5 Analysis of Joint Administrators' time costs

The table below summarises time spent by the Administrators and their staff in the six month period from 1 September 2015 to 29 February.

Reporting Category	Partner		Director		Senior Manager		Manager		Senior Associate		Associate		Total	
	Hours	Cost £	Hours	Cost £	Hours	Cost £	Hours	Cost £	Hours	Cost £	Hours	Cost £	Hours	Cost £
Strategy and planning	136.5	122,478			201.9	106,401	3.5	1,554	30.9	8,434			372.8	238,867
Statutory and compliance	2.1	1,770			0.7	369	76.8	34,099	97.2	36,043	204.2	46,067.00	381	118,348
Accounting and Treasury			1.40	959	9.6	5,033	84.1	39,415			40.3	9,499.00	135.4	54,906
Tax and VAT	40.7	44,811	50.4	50,348	42.2	27,951	28.1	13,747	108.6	43,019	34.6	7,645.00	304.6	187,521
Intercompany					168.4	93,518	24.8	11,011	107.6	33,251	13.6	3,210.00	314.4	140,990
Litigation	22.5	20,228			567.2	258,713	312.3	117,544	340.7	86,321	467.4	66,152.00	1710.1	548,958
Employee and creditor claims	13	11,687	3.90	2,956	61.2	32,173	216.5	89,686	342.5	103,008	251.2	56,004.00	888.3	295,514
<b>Total</b>	<b>214.8</b>	<b>200,974</b>	<b>55.7</b>	<b>54,263</b>	<b>1051.2</b>	<b>524,158</b>	<b>746.1</b>	<b>307,056</b>	<b>1027.5</b>	<b>310,076</b>	<b>1011.3</b>	<b>188,577</b>	<b>4,106.6</b>	<b>1,585,104</b>
<b>Average rate (£/Hour)</b>		<b>935.63</b>		<b>974.2</b>		<b>498.63</b>		<b>411.55</b>		<b>301.78</b>		<b>186.47</b>		<b>385.99</b>

Summary of time costs incurred to 29 February 2016	Cost £
Cumulative time costs to 31 August 2015	22,593,953
Time costs incurred in the period 1 September 2015 to 29 February 2016	1,585,104
<b>Total</b>	<b>24,179,057</b>

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Examples of work undertaken in the six month period to 29 February 2016, broken down by category, can be found below.

### ***Strategy and planning - £239k***

This work relates to directing and coordinating the overall conduct of the Administration so that it is progressed in a timely and efficient manner for the benefit of the Company's creditors. Key activities include:

- Considering and directing the overall strategy for LBL;
- Oversight of the claims adjudication process;
- Directing LBL's engagement in the Waterfall I and II applications for directions, and in planning and managing further steps to address LBIE's claim in LBL;
- Interactions with LBIE's Administrators in relation to the pension claim, recharges and the contribution claim;
- Coordinating and directing workstream activities;
- Oversight of reporting and accounting, including periodic meetings to monitor progress;
- Interaction with parties interested in acquiring claims against the Company; and
- Considering potential changes to the investment of funds held.

### ***Statutory and compliance - £118k***

Work the Administrators undertake in order to ensure compliance with statutory and regulatory requirements. Key activities include:

- Preparing presentation for and organising the Committee meeting held in November 2015;

- Communications to and consultations with Committee members in relation to the Waterfall Application and other matters;
- Six monthly regulatory review of case progress;
- Statutory filings at Companies House and Court;
- Preparing and circulating the Administrators' progress report to creditors for the six months to 14 September 2015; and
- Preparing witness statement and submitting an application to the Court for permission that certain of the Administrators may be replaced and attending hearing.

### ***Accounting and treasury - £55k***

Work reported in this category relates to LBL's accounting and treasury activities to maximise interest receipts, manage liquidity and minimise financial risk, preserving value for creditors. Key activities include:

- Investment, monitoring and control of LBL's free cash resources, including ensuring cash held at best rates only in approved banks and subject to frequently reviewed limits;
- Liaison with LBIE over payroll and non-payroll recharges;
- Management of receipts and payments;
- Preparing of periodic receipts & payments reports and information to support financial management;
- Providing input to VAT returns and distribution of VAT receipts to other Lehman Administration Companies; and
- Provision of assistance to Tax and Human Resource teams.



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### ***Tax and VAT - £188k***

Work reported in this category includes compliance with tax legislation and planning to ensure the efficient realisation of assets for the benefit of the Company's creditors as a whole. For further information see Section 2.4.

### ***Intercompany - £140k***

This work relates to the agreement of intercompany balances and collection of receivables for the benefit of creditors. See section 2.1 for further detail.

### ***Litigation - £549k***

Work reported in this category relates to complex proceedings associated with LBL's registered shareholding in LBIE and in respect of the recharge of costs to LBIE (and LBEL). Resolution of these issues is necessary in order to enable further distributions to LBL's creditors. For further information see Section 2.2.

### ***Employee and creditor claims - £296k***

This work relates to the adjudication of creditors' claims and dealing with creditors generally in order to enable the payment of dividends. Work on intercompany and tax-related claims is excluded. See Section 2.3 for further information.

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## ***Section 6 Legal professionals***

The following legal professionals are currently instructed by the Administrators:

<b>Service provided</b>	<b>Name of firm / organisation</b>	<b>Reason selected</b>	<b>Basis of fees</b>
Legal services, including: <ul style="list-style-type: none"><li>• Local advice on overseas asset realisations</li><li>• Litigation advice and considerable input on matters including those central to the “Waterfall” proceedings.</li><li>• Legal input into the claims adjudication process where required and proceedings where the rejection of claims is appealed to Court.</li><li>• Advice on other ad-hoc matters.</li></ul>	<ul style="list-style-type: none"><li>• Buis Burgi AG</li><li>• Dechert LLP</li><li>• DLA Daper UK LLP</li><li>• Linklaters LLP</li><li>• Mori Hamada and Masumoto</li></ul>	<ul style="list-style-type: none"><li>• Specialist knowledge and experience (in overseas jurisdictions, where applicable)</li></ul>	<ul style="list-style-type: none"><li>• Time cost basis. Time costs analyses are reviewed and approved prior to payment of invoices.</li></ul>

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## Section 7 Receipts and Payments to 14 March 2016

Amount in millions	As at 14 Mar 2016				As at 14 Sept 2015		Movement
	GBP	EUR	USD	CHF	Total in GBP	Total in GBP	
<b>Receipts</b>							
Contribution from third parties <sup>1</sup>	141.9	0.6	11.3	-	149.6	149.6	-
Building recharge receipts	130.3	-	-	-	130.3	130.3	-
Payroll recharge receipts	502.0	0.1	57.1	-	538.4	538.4	-
Other (including realisations and payments for other companies)	189.2	3.0	185.7	0.2	310.4	285.7	24.7
Tax related receipts	696.2	-	-	-	696.2	685.1	11.1
VAT received on invoices	7.2	-	-	-	7.2	7.2	-
<b>Total receipts for period</b>	<b>1,666.8</b>	<b>3.7</b>	<b>254.1</b>	<b>0.2</b>	<b>1,832.1</b>	<b>1,796.3</b>	<b>35.8</b>
<b>Payments</b>							
Building and occupancy cost	(179.5)	(0.3)	(62.9)	-	(219.8)	(219.8)	-
Payroll and employee costs <sup>2</sup>	(520.3)	(2.8)	(45.2)	-	(551.4)	(551.2)	(0.2)
Return of recharge surplus	(2.4)	-	-	-	(2.4)	(2.4)	-
Other costs and payments	(69.4)	(0.3)	(1.2)	-	(70.4)	(70.4)	-
Other advisors' costs	(1.3)	-	-	-	(1.3)	(1.3)	-
Legal fees	(17.4)	-	-	-	(17.4)	(15.2)	(2.2)
Administrators' fees <sup>3</sup>	(23.8)	-	-	-	(23.8)	(22.7)	(1.1)
Return of Corporation Tax to group companies	(466.7)	-	-	-	(466.7)	(466.7)	-
VAT related payments	(170.0)	-	-	-	(170.0)	(162.4)	(7.6)
VAT paid on invoices	(10.7)	-	(1.4)	-	(11.6)	(11.0)	(0.6)
Intercompany transfer	(1.5)	-	-	-	(1.5)	(1.5)	-
<b>Total payments for period</b>	<b>(1,463.0)</b>	<b>(3.4)</b>	<b>(110.7)</b>	<b>-</b>	<b>(1,536.3)</b>	<b>(1,524.6)</b>	<b>(11.7)</b>
<b>Inter-currency transfers</b>							
Receipts from inter-currency transfers	123.6	2.7	57.8	-	162.4	158.0	4.4
Payments from inter-currency transfers	(31.1)	(2.9)	(201.2)	(0.2)	(161.8)	(157.1)	(4.7)
<b>Net inter-currency transfers</b>	<b>92.5</b>	<b>(0.2)</b>	<b>(143.4)</b>	<b>(0.2)</b>	<b>0.6</b>	<b>0.9</b>	<b>(0.3)</b>
<b>Distributions</b>							
Distribution to preferential creditors @ 100p/£ (declared 07/06/13)	(1.8)	-	-	-	(1.8)	(1.8)	-
Distribution to unsecured creditors @ 1.66p/£ (declared 15/12/14)	(1.7)	-	-	-	(1.7)	(1.7)	-
<b>Total distributions</b>	<b>(3.5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3.5)</b>	<b>(3.5)</b>	<b>-</b>
<b>Net cash position</b>	<b>292.8</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	<b>292.9</b>	<b>269.1</b>	<b>23.8</b>
<b>Bank balances</b>							
Bank of England	-	-	-	-	-	-	-
HSBC <sup>4</sup>	42.9	0.1	-	-	43.0	7.9	35.1
Money Market Funds	249.9	-	-	-	249.9	261.2	(11.3)
<b>Net bank balance</b>	<b>292.8</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	<b>292.9</b>	<b>269.1</b>	<b>23.8</b>

### Notes:

- 1) Includes elements of building & occupancy and payroll related recharges
- 2) Payroll cost attributable to LBL
- 3) Includes Administrators' disbursements of £0.4m
- 4) Funds held in interest bearing accounts

Rates used for conversion are Financial Times rates fixed on 14 March 2012.

1 USD = 0.6366 GBP

1 EUR = 0.8322 GBP

1 CHF = 0.6874 GBP

*\* The Administrators have not provided a current estimated outcome statement because this information is commercially sensitive and may be prejudicial to the Administration.*

## Section 8 Statement of Expenses

The following table provides details of Administration expenses. Expenses are amounts properly payable by the Administrators from the estate including fees, but excluding distributions to creditors. The table also excludes any potential tax liabilities payable as an administration expense because amounts becoming due will depend on the position at the end of the tax accounting period.

The table should be read in conjunction with the receipts and payments account at Section 7, which shows expenses paid during the period and the total paid to date.

R&P category	Paid in previous periods (£m)	Paid in period (£m)	Incurred in period but not paid (£m)	Cumulative (£m)	Estimated future (£m) <sup>1</sup>	Estimated total (£m)
Building and occupancy cost	219.8	-	-	219.8	-	219.8
Payroll and employee costs	551.2	0.2	-	551.4	1.0	552.4
Return of recharge surplus	2.4		-	2.4	-	2.4
Other costs and payments	70.4		-	70.4	5.0	75.4
Other advisors' costs <sup>2</sup>	1.3		-	1.3	Materially uncertain	Materially uncertain
Legal fees <sup>2</sup>	15.3	2.2	0.2	17.6	Materially uncertain	Materially uncertain
Administrators' time costs <sup>2</sup>	22.4	1.0	0.8	24.2	Materially uncertain	Materially uncertain
Administrators' disbursements <sup>2</sup>	0.3	0.1	-	0.4	Materially uncertain	Materially uncertain
<b>Total</b>	<b>883.1</b>	<b>3.5</b>	<b>1.0</b>	<b>815.1</b>	Materially uncertain	Materially uncertain

### Notes:

1) Relates only to LBL costs. No provision has been made for costs borne by LBL and recharged to other Lehman estates.

2) These costs are highly contingent on the outcome of ongoing and prospective litigation, further information on which can be found at Section 2. As a result, it is not possible to provide a meaningful estimate of the total expense.

3) Excludes VAT, which is partly recoverable.

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