
***Lehman Brothers
Lease & Finance No. 1
Limited –
In Administration***
Joint Administrators' final report

29 April 2016

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

The Joint Administrators (the “**Administrators**”) are pleased to provide their final progress report on the Administration of Lehman Brothers Lease & Finance No.1 Limited (the “**Company**” or “**LBL&F**”) pursuant to Rules 2.47 and 2.110 of the Insolvency Rules 1986 (“IR86”).

The Administrators are required to provide a summary of their proposals, which is shown in Section 3 of this report. The Administrators are also required to provide certain statutory information pursuant to Rule 2.47(1)(a) to (d) IR86, which is shown in Section 4.

Details of the steps taken by the Administrators and the outcome of the Administration are set out below.

Objectives of the Administration

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

The specific aims of the Administration were to:

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

Outcome for creditors

On 24 June 2013, the Court granted the Administrators permission to make distributions to unsecured non-preferential creditors.

In the course of the Administration, the Administrators have paid four dividends to unsecured non-preferential creditors with admitted claims. Distributions total £33.7m and equate to 27.6773 pence in the £.

Changes in office holder

Creditors may recall that upon an application to the High Court of Justice, an order was made on 30 November 2009 to appoint Steven Pearson and Michael Jervis as Joint Administrators of the Company.

A further order was made on 22 March 2013 to appoint Gillian Bruce and Guy Parr as Joint Administrators and for Dan Schwarzmann and Michael Jervis to cease to act.

Discharge

On 1 July 2015, the High Court of Justice granted the Administrators' application for each of the Administrators presently in office to be discharged from liability pursuant to Paragraph 98(1) of Schedule B1 to the Insolvency Act 1986 (“Sch.B1 IA86”) in respect of any action of theirs 14 days after they cease to act, as set out in the Administrators' proposals and approved by creditors on 18 December 2008.

Exit route from Administration

In accordance with Paragraph 84 Sch.B1. IA86 and as envisaged in the Administrators' proposals, a notice will be filed with the Registrar of Companies to move LBL&F from Administration to dissolution.

The Company will be dissolved three months after registration of the notice.

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 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.

Section 2 Joint Administrators' actions

Overview

LBL&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.

Administrators' actions

The Administrators' actions during the period of the Administration to 23 October 2015 have been detailed in previous progress reports. These actions are set out in summary below.

Sale of infrastructure assets

On 31 March 2010, LBL&F reached an agreement with LBL in relation to the sale and purchase of LBL&F's infrastructure assets and the use of infrastructure and furniture assets by Nomura Holdings, Inc. and the Lehman Administration companies in the period prior to the sale.

The Company received consideration of c.£19.7m under the terms of the agreement.

Pre-appointment VAT settlement

The Administrators accepted a settlement from HM Revenue & Customs (“**HMRC**”) of c.£8.3m, plus statutory interest of c.£1.1m in respect of LBL&F's pre-appointment VAT claim.

Following a ruling that, in principle, compound interest is payable on overpaid VAT, LBL&F had a further potential claim against HMRC. The value of the claim was estimated at between £40k and £80k.

In July 2015, the potential claim was assigned to LBL&F's sole creditor by way of a distribution in specie.

Corporation Tax

The Company received c.£5.9m in respect of corporation tax refunds relating to the pre appointment period.

LBL&F also received a post appointment refund of c.£1.5m relating to excess payments made on account in the course of the Administration.

A further c.£1.3m has been realised in respect of tax losses sold to Group companies.

Remaining assets

As described below, LBL&F's remaining assets have been assigned to the sole creditor, Lehman Brothers Holdings Inc. (“**LBHI**”), by way of a distribution in specie.

Intercompany creditors

On 11 October 2011 the Company acting by its Administrators (in conjunction with other Lehman UK affiliates) entered into a settlement agreement with LBHI and certain other affiliates previously subject to Chapter 11 proceedings in the USA in respect of intercompany claims. The plans of reorganisation under the US proceedings became effective on 6 March 2012 following approval from the US court. Pursuant to this settlement agreement, the Administrators adjudicated and admitted LBHI's claim at £121.5m (\$192.4m).

Final distribution to creditors

In specie distribution

On 8 July 2015, the Administrators wrote to creditors regarding their proposed strategy for the disposal of the Company's remaining assets, which would expedite the closure of the Administration, thereby saving time and costs whilst preserving value for the creditors.

On 22 July 2015 the following resolution was approved by the sole creditor:-

That the division, by the Administrators, of the unsold assets of the Company amongst the Company's creditors in their existing form is hereby approved in accordance with Rule 2.71 of the Rules, including but not limited to the division of the receivable due to the Company from LBL and the Company's potential VAT compound interest claim.

On 3 March 2016, LBL&F made a distribution in specie to LBHI of the Company's unsold assets, including the receivable due from LBL and its potential VAT compound interest claim against HMRC. This concludes asset realisations in the Administration and as a result, the objective of the Administration has now been achieved.

Final cash distribution

A final cash distribution in the sum of c.£1m was made to the Company's sole creditor on 3 March 2016, bringing the total distributions to c.£33.7m, equivalent to 27.6773 pence in the £.

Investigations and actions

Nothing has come to the Administrators' attention during the course of the Administration to suggest that any further work is required in accordance with our duties under the Company Directors' Disqualification Act 1986 and Statement of Insolvency Practice No.2.

Tax and VAT

The Administrators have complied with their obligations as proper officers for tax to keep the Company's tax and VAT affairs and file appropriate returns. HM Revenue & Customs ("HMRC") has provided clearance for the Administrators to bring the Administration to an end.

Section 3 Summary of the Joint Administrators' proposals

The Administrators made the following proposals for achieving the purpose of administration which were approved by the creditors on 18 December 2008. There have been no major amendments or deviations from the proposals.

1. The Administrators will continue to manage and finance LBL&F's business, affairs and property from asset realisations in such manner as they consider expedient with a view to achieving a better result for LBL&F's creditors as a whole than would be likely if LBL&F had been immediately liquidated.
2. The Administrators may investigate and if appropriate, pursue any claims that LBL&F may have under the Companies Act 1985, the Companies Act 2006 or the Insolvency Act 1986 ("IA86") or otherwise. In addition, the Administrators shall do all such other things and generally exercise all their powers as Administrators as they in their discretion consider desirable in order to achieve the purpose of the Administration or to protect and preserve the assets of LBL&F or to maximise their realisations or for any other purpose incidental to these proposals.
3. The Administrators will at their discretion establish in principle the claims of unsecured creditors for adjudication by a subsequent liquidator or supervisor of a company voluntary arrangement and the costs of so doing be met as a cost of the Administration as part of the Administrators' remuneration.
4. The Administrators may at their discretion make an application to court for permission to make distributions to unsecured creditors under Paragraph 65(3) Schedule B1 IA86.
5. A creditors' committee will be established if sufficient creditors are willing to act on it. The Administrators propose to seek the election of a creditors' committee and to consult with it from time to time. Where the Administrators consider it appropriate, they will seek sanction from the committee to a proposed action rather than convening a meeting of all creditors.
6. The Administrators will consult with the creditors' committee concerning the necessary steps to extend the Administration beyond the statutory duration of one year if an extension is considered advantageous. The Administrators

shall either apply to the court or seek consent from the appropriate classes of creditors for an extension.

7. The Administrators may use any one or a combination of "exit route" strategies in order to bring the Administration to an end. The Administrators wish to retain a number of the options which are available to them, including:
 - (a) the Administrators may place LBL&F into creditors' voluntary liquidation. In these circumstances, it is proposed that Derek Anthony Howell, Anthony Victor Lomas and Michael John Andrew Jervis be appointed as Joint Liquidators and any act required or authorised to be done by the Joint Liquidators may be done by either any or all of them. In accordance with Paragraph 83(7) Schedule B1 IA86 and Rule 2.117(3) of the Insolvency Rules 1986, creditors may nominate alternative liquidators, provided that the nomination is made after the receipt of these proposals and before they are approved, OR
 - (b) The Administrators may formulate a proposal for a company voluntary arrangement ("CVA") and put it to meetings of LBL&F's creditors and shareholders for approval. If the CVA is approved, the Administration will be brought to an end by notice to the Registrar of Companies on completion of the Administration under Paragraph 84 Schedule B1 IA86, following registration of which LBL&F will be dissolved three months later, OR
 - (c) Once all of the assets have been realised and the Administrators have concluded all work within the Administration, the Administrators will file a notice under Paragraph 84(1) Schedule B1 IA86 with the Registrar of Companies, following registration of which the Company will be dissolved three months later or apply to court under Paragraph 79 Sch.B1 for the Administration to be ended, OR
 - (d) The Administrators may apply to the Court to allow the Administrators to distribute surplus funds to unsecured non-preferential creditors. If such permission is given, the Administration will be brought to an end by notice to the Registrar of Companies under Paragraph 84 Schedule B1 IA86, following

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- (e) registration of which LBL&F will be dissolved three months later. If permission is not granted the Administrators will place LBL&F into creditors' voluntary liquidation or otherwise act in accordance with any Order of the Court.
8. The Administrators shall be discharged from liability pursuant to Paragraph 98(1) Sch.B1 IA86 in respect of any action of theirs as Administrators at a time determined by the creditors committee or, if no creditors committee appointed, after 14 days from the date of ceasing to act as Administrators of LBL&F.
 9. The Administrators' fees will be fixed under Rule 2.106 of the Insolvency Rules 1986 by reference to the time properly given by the Administrators and the various grades of their staff according to their firm's usual charge-out rates for work of this nature and that disbursements for services provided by the Administrators' own firm (defined as Category 2 disbursements in Statement of Insolvency Practice No.9) be charged in accordance with the Administrators' firm's policy. It will be for the creditors' committee to fix the basis and level of the Administrators' fees and Category 2 disbursements but if no committee is appointed, it will be for the general body of creditors to determine these instead.

Section 4 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>	7 More London Riverside, London, SE1 2RT, United Kingdom
<i>Date of the Administration appointment:</i>	24 October 2008
<i>Current Administrators' names and addresses:</i>	GE Bruce, SA Pearson, AV Lomas and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT.
<i>Appointer's / applicant's name and address:</i>	The directors of the Company, 7 More London Riverside, London, SE1 2RT
<i>Objective being pursued by the Administrators:</i>	Achieving a better result for creditors as a whole than would be likely if the Company was wound up (without first being in Administration).
<i>Division of the Administrators' responsibilities:</i>	In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Joint Administrators, may be done by any or one or more of the Joint Administrators.
<i>Details of any extensions of the initial period of appointment:</i>	Four successive extensions were granted by the High Court of Justice with the latest due to expire on to 30 November 2017.

Section 5 Financial Information

Administrators' expenses

In accordance with revised Statement of Insolvency Practice number 9 ("SIP9"), which took effect on 1 December 2015, the Administrators are required to provide a statement of all expenses incurred in the period under review and an estimate of future expenses.

Set out in Section 6 of this report is the Administrators' receipts and payments account which shows expenses incurred by the Administrators in the period from 29 October 2015 to 22 April 2016 and cumulative total expenses to date.

As the Administration is ending, there will be no further expenses.

Administrators' remuneration

In June 2009, the Administrators requested and received consent from LBL&F's sole creditor for the Administrators' remuneration to be fixed by reference to the time properly given by them and the various grades of their staff. The Administrators were also authorised to draw their remuneration from time to time.

In accordance with SIP9, the following information has been provided in Section 7 of this report:-

(i) an analysis of the Administrators' time costs for the period 1 October 2015 to 31 March 2016, including the cumulative total time costs from the date of the Administrators' appointment to 31 March 2016; and

(ii) a summary of the Administrators' time costs for the period, including the key categories of work, details of the work undertaken, a description of why the work was necessary and whether or not the work was of financial benefit to the creditors or if it was required by statute.

During the course of the Administration, remuneration of £1,461,571 plus VAT has been drawn in respect of time costs incurred to closure. Time costs for this period total £80,804 plus VAT, which represents 203 hours at an average hourly rate of £398. Details of time costs previously incurred have been provided in earlier reports.

Disbursements

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

The Administrators' expenses policy allows for all properly incurred expenses to be recharged to the Administration.

The Joint Administrators have incurred Category 1 disbursements of £2,238 to date.

No disbursements were incurred during the reporting period.

Creditors' rights

Creditors have the right to challenge the Administrators' remuneration or other expenses if they think that they are excessive. An explanatory note giving creditors a statement of their rights in relation to the Administrators' remuneration and expenses, and their rights to request further information, can be found online at:

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

Creditors can request a paper copy of the above guide by contacting Lehman.affiliates@uk.pwc.com.

Section 6 Final Receipts and Payments Account

	Note	As at 26-Apr-16 GBP (£)	Movements GBP (£)	As at 23-Oct-15 GBP (£)
Receipts				
Realisation from infrastructure assets and Level 7 lease		19,710,218	-	19,710,218
Debtors		379,387	-	379,387
Realisations from sale of tax losses		1,289,338	-	1,289,338
Corporation Tax refund		7,409,523	-	7,409,523
Pre-appointment VAT settlement		9,429,838	-	9,429,838
Interest received gross		824,740	-	824,740
Total		39,043,044	-	39,043,044
Payments				
Insurance		463,336	-	463,336
Legal Fees		82,597	2,414	80,183
Pension related legal costs recharged from LB SF No.1		145,059	-	145,059
Pension related legal costs		25,570	-	25,570
Purchase of Tax Losses		1,180,578	-	1,180,578
Joint Administrators' remuneration	1	1,461,571	90,553	1,371,018
Joint Administrators' Category 1 disbursements		23,566	-	23,566
Statutory costs		40,227	10,237	29,990
Corporation Tax		1,480,000	-	1,480,000
Employee costs		6,674	4,272	2,402
Tax function costs	1	275,938	-	275,938
IT costs		5,741	-	5,741
Storage costs		391	391	-
Capital Goods Scheme payment		32,275	-	32,275
VAT recoverable	2&3	-	(29,411)	29,411
VAT irrecoverable	2&3	129,195	7,618	121,577
Total		5,352,718	86,074	5,266,644
Total receipts less total payments		33,690,326	(86,074)	33,776,400
Distributions to unsecured creditors				
1st dividend of 8.00p in the £, declared in October 2013		9,738,980	-	9,738,980
2nd dividend of 15.48p in the £, declared in September 2014		18,844,926	-	18,844,926
3rd dividend of 3.39p in the £, declared in September 2015		4,123,635	-	4,123,635
4th dividend of 0.8073p in the £, declared in March 2016		982,785	982,785	-
Total		33,690,326	982,785	32,707,541
Cash in hand/ (movement in year)		-	- (1,068,859)	1,068,859
Cash in hand is represented by				
HSBC (non-interest bearing)		-	(1,068,859)	1,068,859
Total Cash		-	(1,068,859)	1,068,859

Notes:

- (1) An adjustment has been made to the prior period balance in order to re-categorise £66,741.32 of tax function costs, which had previously been disclosed as Joint Administrators' remuneration.
- (2) LBL&F is VAT registered and entitled to reclaim 63.09% of input VAT. 36.91% of input VAT is irrecoverable.
- (3) An adjustment has been made to the prior period balances to re-categorise £18,834 of recoverable VAT as irrecoverable VAT in light of certain transactions being ineligible for the partial recovery of VAT.
- (4) The Administrators have not provided a copy of the Company's Statement of Affairs as it is not readily comparable to the Receipts and Payments account.

Section 7 Joint Administrators' time costs

Classification of work	Partner/Director Hours £		Senior Manager/Manager Hours £		Senior Associate Hours £		Associate/Support Staff Hours £		Total Hours £	
Accounting and Treasury	-	-	1.65	733	3.35	923	3.25	727	8.25	2,383
Strategy and Planning	25.10	19,779	30.15	12,879	46.30	13,382	0.80	189	102.35	46,229
Statutory and Compliance	0.70	629	12.15	5,259	24.50	7,840	30.65	7,128	68.00	20,856
Tax and VAT	1.00	1,101	13.30	8,080	1.00	335	8.30	1,590	23.60	11,106
LBIE Recharges	0.02	12	0.02	10	0.76	208	-	-	0.80	230
Total for six months ended 31 March 2016	26.82	21,521	57.27	26,961	75.91	22,688	43.00	9,634	203.00	80,804
Average hourly rate for the six month period		802		471		299		224		398
Cumulative total to 31 March 2016										1,461,571

Current charge out rates	Business Recovery Services	Specialist	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 minimum unit for time charged by the Joint Administrators and their staff is 0.05 of an hour.
	Max £/hr	Max £/hr	
Grade	From 1 July 2015	From 1 July 2015	* 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.
Partner	899	1,262	
Director	788	1,108	
Senior manager	527	932	
Manager	444	680	
Senior Associate	271	505	
Associate/Support Staff	236	235	

* Recharge calculations can result in time units of less than the minimum of three minutes.

Narrative of the Joint Administrators' time costs for the six months ended 31 March 2016

Accounting and Treasury - £2,383

An essential function for management of funds held by the Administrators on behalf of the Company, the Administrators' treasury and cash management teams monitor and control the movement of funds, mitigate risk and seek to maximise the interest made on investments for the benefit of the Company's creditors. Prior to the reporting period, funds were removed from interest bearing accounts in anticipation of closure.

Activities include:

- Provision of information for the purposes of statutory reporting;
- Arrangement of receipts and payments of funds and coding of movements;
- Monitoring flow of funds into the bank accounts; and
- Preparing for closure of the accounts.

Strategy and Planning - £46,229

The Administrators and their staff have invested this time in the planning and delivery of their strategy for the progression of the Administration to closure. This work included preparing for the distribution in specie of the Company's remaining assets in order to expedite closure of the Administration. As a consequence of the Administrators' actions, costs were reduced and LBL&F's sole creditor received its final dividend sooner than would otherwise have been possible.

A final cash distribution of c.£1m was paid to the sole creditor in March this year.

Activities include:

- Dealing with case closure matters, including the final distribution and the distribution in specie;
- Reviewing and updating financial information;
- Discussions regarding strategy for the Administration;
- Evaluating exit routes and strategy for the closure;
- Preparation of documents in relation to the distribution in specie to LBHI; and
- Updating strategy documents.

Statutory and Compliance - £20,856

The following tasks were undertaken in accordance with the Administrators' statutory obligations or internal compliance.

- Preparation and circulation of the Administrators' 14th and final progress report;
- Preparation of the of Administrators' receipts and payments account;
- Statutory filings at Companies House and Court;
- Preparing a detailed remuneration summary and narrative of work undertaken;
- Undertaking a six monthly review of the Administration;
- Managing the Administration database; and
- Review of the final time costs in preparation for billing.

Tax and VAT - £11,106

The following tasks were undertaken for VAT and tax compliance purposes.

- Discussions regarding distributions and closure strategy;
- Preparation of post-appointment tax computations;
- Meetings and discussions with the tax team;
- VAT reconciliation and preparation of VAT returns;
- Review of documents and discussions regarding tax provision; and
- Submission of final tax computations to obtain clearance from HMRC.

Lehman Brothers International (Europe) (“LBIE”) Recharges - £230

This is an apportionment of the costs incurred and levied by LBIE against associated companies which are in administration. The indirect benefit of LBL&F’s creditors is through cost savings from the centralisation of services. The recharges relate to:

- Administering the Cost Recharge Agreement and issuing charges;
- Providing assistance to the Tax team administering the Group Payment Agent;
- Providing central estate accounting services including forecasting, reporting and application of appropriate controls for shared service costs;
- Controlling and reporting time costs incurred for the provision of shared services and analysing and preparing monthly fee reports on time costs;
- Liaising with LBIE over the closing out of recharge position for building and occupancy and other costs; and
- Dealing with sundry ad-hoc requests.

Section 8 *Estimated future work, expenses and other matters*

Estimated future work and expenses

The Administration will now come to a close and no further work will be undertaken, or expenses incurred, by the Administrators. Details of expenses incurred during the period may be found in Section 6 of this report.

Relationships

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

Details of subcontracted work

Certain centralised services were undertaken on behalf of LBL&F by employees retained by LBIE; this included the provision of certain tax and VAT services and key staff resource. The costs of such services have been recharged to LBL&F on a time costs basis and are disclosed separately as part of the Administrators' fee analysis.

Legal and other professional firms

The Administrators instructed the following professionals on this case. The selection of individual legal firms was determined by the jurisdiction and nature of the advice being sought, and whether a conflict existed.

Service provided	Name of firm / organisation	Reason selected	Basis of fees
Legal services	<i>Linklaters LLP</i>	<i>Industry knowledge</i>	<i>Time costs</i>
Legal services	<i>Dentons UKMEA LLP</i>	<i>Industry knowledge</i>	<i>Time costs</i>

All professional firms instructed by the Administrators were required to provide a narrative explanation in support of invoices. All invoices were reviewed before being approved for payment.