
Lehman Brothers Holdings plc – In Administration

Joint Administrators' progress
report for the period 15 September
2013 to 14 March 2014

11 April 2014

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Purpose of the Joint Administrators' progress report

Introduction

This is the eleventh progress report by the Joint Administrators (the "Administrators") of Lehman Brothers Holdings plc ("LBH" or the "Company").

This report provides an update on the work that the Administrators have undertaken and the progress made since their appointment, with particular focus on the progress made in the six months to 14 March 2014.

Objectives of the Administration

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

The specific aims of this Administration were to:

- Realise all assets, including all cash and derivative positions on a managed basis;
- Mitigate as far as is possible and agree in principle the claims of all creditors; and
- Continue to manage its subsidiaries with a view to maximising returns to LBH.

Creditors' Committee

The Administrators have met with the Creditors' Committee ("the Committee") on six occasions since its constitution on 12 December 2008, to discuss significant issues and outline key decisions.

The most recent Committee meeting was held on 18 March 2014, shortly after the end of the period covered by this report.

Outcome for creditors

Ordinary unsecured creditors

The Administrators have concluded that it is appropriate to pay a dividend to ordinary unsecured creditors and have applied to Court for permission to pay a dividend to LBH's unsecured creditors.

If the Court gives permission, the Administrators currently anticipate that a first interim distribution will be made to ordinary unsecured creditors before the end of 2014.

Subordinated unsecured creditors

LBH guaranteed the following Lehman Brothers Capital funds:

- Lehman Brothers UK Capital Funding LP (ISIN: XSo215349357)
- Lehman Brothers UK Capital Funding II LP (ISIN: XSo229269856); and
- Lehman Brothers UK Capital Funding III LP (ISIN: XSo243852562)

Investors in the above funds are entitled to submit a claim against LBH for the amount they have invested in each fund. However, the guarantee provided by LBH is subordinated to LBH's ordinary unsecured creditors and, accordingly, any claim an investor has will be a subordinated claim.

Therefore, LBH's ordinary unsecured creditors will have to be paid in full before any distribution will be made to subordinated unsecured creditors. Based on current estimates, the Administrators consider that there is unlikely to be any surplus funds available to pay a dividend to subordinated unsecured creditors.

Pension Liability

Following the Supreme Court judgment in July 2013, to which the Administrators referred in their previous report, the stay which had been in force for the Upper Tribunal proceedings came to an end. The Upper Tribunal has the role of deciding whether a Financial Support Direction ("FSD") should be made, and against which entities, in respect of the Lehman Brothers Pension Scheme. LBH is one of the potential targets of a FSD.

In accordance with directions from the Upper Tribunal, written arguments have been produced by the Pensions Regulator and the pension scheme trustees. The Upper Tribunal has also issued a timetable for the FSD targets (including LBH) to file its written defences, and has set a date in February 2015 for a substantive hearing. The Upper Tribunal is expected to issue further directions in July 2014.

There remains a risk of LBH having a liability to the pension scheme under a FSD, and the Administrators will continue to monitor the position and take steps as appropriate.

Extension to the Administration

The Administrators made an application to the High Court to extend the Administration to 30 November 2015. The application was granted at a hearing on 23 October 2013.

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

Signed:



DA Howell
Joint Administrator
Lehman Brothers Holdings plc

AV Lomas, SA Pearson, DA Howell, GE Bruce and JG Parr were appointed as Joint Administrators of Lehman Brothers Holdings plc to manage its affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, DA Howell, GE Bruce and JG Parr are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

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

Joint Administrators' actions to date

Asset review

Following the Administrators' appointment, a detailed review of the asset position was undertaken which identified the following categories of assets:

- Investments in subsidiary undertakings;
- Financial assets; and
- Inter-company debts.

The Administrators continue to monitor all of the investments, ensuring that the strategy put in place remains the most effective way to realise value for the benefit of LBH's creditors.

Tax

As creditors are aware, LBH incurred significant tax losses in pre-appointment tax accounting periods.

A tax loss agreement was entered into with, inter alia, the other PwC Lehman administration companies. LBH has realised £7.6m from the sale of tax losses to date.

In accordance with the tax loss agreement, tax function costs (which are an allocation of centrally incurred tax costs) have been deducted from the payments received.

Investments in subsidiary undertakings

There are a number of subsidiary companies where LBH's equity interest may have value but, until significant matters in those companies are resolved, including the pension FSD, the amount of potential total realisations for LBH remains uncertain.

Financial assets

This is the most significant outstanding financial asset:

Campo Iris ("CI")

As previously reported, LBH is the majority shareholder of CI, which entered into a joint venture with a Spanish company. CI's only asset is cash at Bank within the joint venture, which totals c.€1m.

The financial and statutory affairs of CI have now been brought up to date and the monies from the joint venture realised. The liquidation of CI can now commence and is expected to take no longer than three months to conclude.

The monies will be distributed to the joint venture shareholders on a 50/50 basis. It is anticipated that LBH will receive c.€0.5m (before costs) in due course from its investment in CI.

Inter-company debts

The Company had two key functions:

- As a holding company for a number of entities in the UK Group; and
- As a "pass-through" vehicle for the transfer of subordinated debt and cash funding to Lehman Brothers International (Europe).

The book value of unsecured associated company debtors is c.£338m. Eight debtor balances totalling c.£17.6m have been written off as a consequence of the debtor companies either being sold or dissolved.

To date, the Administrators have submitted 16 claims totalling c.£380m on behalf of LBH, from which c.£9.8m has been realised so far. Debtor realisations during the reporting period comprise the following:

- Interim distributions from the estates of Mable Commercial Funding Limited and Lehman Brothers (PTG) Limited totalling £5.0m and £0.7m, respectively.
- Interim distributions from Storm Funding Limited and Lehman Brothers Europe Limited of £0.1m in total.
- A fourth distribution from the estates of Lehman Brothers Special Financing Inc ("LBSF") and Lehman Commercial Paper Inc ("LCPI") of \$0.6m and \$0.2m respectively.

On 3 April 2014, a fifth distribution was received from LBSF and LCPI of \$0.6m and \$0.3m, respectively. As these sums were received after the reporting date, they are not included in the attached receipts and payments account.

These funds were immediately converted into GBP to minimise the foreign exchange risk. Further dividends from LBSFI and LCPI are expected to be received on a six monthly basis.

Unsecured non-preferential creditors

According to the directors' Statement of Affairs ("SoA"), LBH has 28 unsecured non-preferential creditors owed \$2bn (c.£1.1bn). Of these claims, 99.9% by value of LBH's creditors are inter-company balances.

To date, 17 claims have been received totalling c.£1bn of which three claims, totalling £3.8m, were not listed on the SoA.

As stated earlier in this report, the Administrators have applied to Court for permission to make a distribution to LBH's unsecured creditors. The Administrators are continuing the process of establishing in principle the claims of unsecured creditors, in accordance with the proposals agreed by creditors on 20 November 2008. The Administrators will begin formally admitting claims once the Court gives permission to do so.

Statutory and other Information

| | |
|---|---|
| <i>Court details for the Administration:</i> | High Court of Justice, Chancery Division, Companies Court – case 7943 of 2008 |
| <i>Full name:</i> | Lehman Brothers Holdings plc |
| <i>Trading name:</i> | Lehman Brothers Holdings plc |
| <i>Registered number:</i> | 01854685 |
| <i>Registered address:</i> | Level 23, 25 Canada Square, London E14 5LQ, United Kingdom |
| <i>Company directors:</i> | Mr IM Jameson (resigned 25/07/09), Mr AJ Rush (resigned 19/11/08), Mr DS Rushton (resigned 25/07/09), Mr C Pellerani (resigned 13/11/08), Mr D Gibb (resigned 28/07/09) |
| <i>Company secretary:</i> | Ms M Smith (resigned 06/02/10), Ms P Dave (resigned 09/02/10), Ms ESE Upton (resigned 09/02/10) |
| <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> | 15 September 2008 |
| <i>Current Administrators' names and addresses:</i> | AV Lomas, SA Pearson, DA Howell, GE Bruce and JG Parr, of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT |
| <i>Appointer's name and address:</i> | High Court of Justice, Chancery Division, Companies Court |
| <i>Objective being pursued by the Administrators:</i> | Achieving a better result for LBH's creditors as a whole than would be likely if LBH were wound up (without first being in Administration) |
| <i>Division of the Administrators' responsibilities:</i> | In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Joint Administrators may be done by any one or more of the persons for the time being holding that office. |
| <i>Details of any extensions of the initial period of appointment:</i> | On 23 October 2013, the High Court of Justice granted an extension of the Administration to 30 November 2015. |
| <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 dissolution, which would occur once the final distribution has been made to unsecured creditors of the Company. |
| <i>Estimated dividend for unsecured creditors:</i> | It is too early to estimate the likely dividend for ordinary unsecured creditors. Based on current estimates, it is unlikely that there will be a dividend paid to subordinated unsecured creditors. |
| <i>Estimated values of the prescribed part and LBH's net property:</i> | Not applicable 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. |

Financial Information

Administrators' remuneration

The Committee is responsible for approving the basis and amount of the Administrators' remuneration. It has resolved that the Administrators' remuneration be fixed by reference to the time properly given by the Administrators and their staff in attending to matters arising in the Administration.

The Committee has also resolved that the Administrators may draw 75% of their time costs on account from time to time.

At a meeting held on 18 March 2014, the Committee approved the Administrators' remuneration of £519,148 plus VAT for the period 1 January 2012 to 31 January 2014. In total, the Committee has approved remuneration for the period to 31 January 2014 of £3,301,746 plus VAT.

As at 14 March 2014, the Administrators have drawn remuneration of £3,146,698 plus VAT. The balance of approved remuneration of £155,048 plus VAT will be drawn in due course.

Administrators' Category 2 disbursements

The Committee has given its approval for the Administrators to draw Category 2 disbursements of £39.8k plus VAT. These disbursements relate to monies paid to PricewaterhouseCoopers LLP Legal (which is connected to the Administrators' firm) and represent company secretarial costs incurred on behalf of LBH's subsidiaries. LBH will ultimately benefit from funds flowing from these estates.

Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 14 March 2014, and a cumulative total since commencement of the Administration, is set out overleaf.

Sums have been rounded to the nearest £0.1m.

Key movements in the period

- Intercompany debtor receipts of £5.8m;
- Dividend receipts from LBSF and LCPI totalling \$0.8m; and

- Legal costs totalling £0.4m, relating to advice in respect of the ongoing pension matter, the application to extend the Administration, and the preparatory work for the Court application for permission to make a distribution to ordinary unsecured creditors.

Net receipts as at 14 March 2014 total approximately £61.3m.

Receipts and Payments Account

| | GBP | | USD | | EUR | |
|------------------------------------|-------------|---------------------|-------------|---------------------|-------------|---------------------|
| | 14-Mar-14 | Movements in Period | 14-Sep-13 | Movements in Period | 14-Sep-13 | Movements in Period |
| | £'m | £'m | £'m | £'m | £'m | £'m |
| Receipts | | | | | | |
| Investments in subsidiaries | 1.0 | - | 1.0 | - | 0.5 | - |
| Intercompany debtors | 5.9 | 5.8 | 6.3 | 0.8 | 5.5 | - |
| Book debts | 0.1 | - | 0.0 | - | - | - |
| Sale of tax losses | 7.6 | - | 7.6 | - | - | - |
| Bank interest | 0.5 | 0.1 | 0.2 | - | 0.2 | - |
| LBAM tax loss receipts | 2.5 | - | 2.5 | - | - | - |
| Net proceeds from sale of LBAM | (0.8) | - | (0.8) | - | - | - |
| Total Receipts | 16.8 | 5.9 | 10.9 | 0.8 | 80.3 | 0.3 |
| Payments | | | | | | |
| Legal fees | 1.1 | 0.3 | 0.8 | - | - | - |
| Payments on behalf of subsidiaries | 0.1 | - | 0.1 | - | - | - |
| IT costs | 0.2 | - | 0.2 | - | - | - |
| Joint Administrators' remuneration | 3.1 | 0.1 | 3.0 | - | - | - |
| Professional fees | 0.1 | - | 0.1 | - | - | - |
| Insurance | 0.2 | - | 0.2 | - | - | - |
| Net contribution to tax costs | 0.3 | - | 0.3 | - | - | - |
| VAT | 0.4 | - | 0.4 | - | - | - |
| Total Payments | 5.5 | 0.4 | 5.1 | 0.0 | 0.0 | 0.0 |
| Intercompany Transfers | | | | | | |
| Payment | - | - | - | (0.8) | (80.3) | (0.3) |
| Receipt | 50.0 | 0.5 | 49.5 | - | - | - |
| Net Position | 61.3 | 6.0 | 55.3 | 0.0 | 0.0 | 0.0 |
| Cash Balances | | | | | | |
| HSBC | 0.3 | (0.2) | 0.5 | - | - | - |
| Money market deposits | 61.0 | 6.2 | 54.8 | - | - | - |
| Total Cash/Movements | 61.3 | 6.0 | 55.3 | 0.0 | 0.0 | 0.0 |

Total Cash as at 14 March 2014 based on exchange rates on 14 March 2014 was £61.3m

Funds are invested on the money markets in order to accrue interest and to manage risk.