
Lehman Brothers Europe Limited – In Administration

Joint Administrators' progress
report for the period 23 September
2013 to 22 March 2014

15 April 2014

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the eleventh progress report by the Joint Administrators (the "Administrators") of Lehman Brothers Europe Limited ("LBEL" or the "Company").

Creditors should have received the Administrators' proposals (the "Proposals") dated 14 November 2008 which were approved at a meeting of creditors held on 1 December 2008. Creditors should also have received the Administrators' previous ten progress reports. If any creditor requires copies of these reports, please contact Nigel Rackham at PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT. Alternatively, these are also available on the Administrators' website at <http://www.pwc.co.uk/business-recovery/administrations/lehman/lehman-brothers-europe-limited-in-administration.jhtml>.

This report provides an update on the work that the Administrators have undertaken and the progress made since our appointment, with particular focus on the six months to 22 March 2014 (the "Period").

Business activities

The Company's principal activity was the provision of investment banking services such as advising on mergers and acquisitions ("M&A") transactions.

LBEL utilised employees from Lehman Brothers Limited (in Administration) ("LBL") and operated from the Lehman Group's former premises at 25 Bank Street, London, E14 5LE.

Objectives of the Administration

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

The specific aims of the Administration are to:

- Protect and manage LBEL's assets;
- Realise these assets; and
- Agree the value of creditors' claims and pay dividends as funds permit.

Creditors' Committee

A Creditors' Committee (the "Committee") was formed on 5 May 2009 and now has the following members:

- Lehman Brothers Commercial Services;
- Lehman Brothers Holdings plc (in Administration);
- Thomas Marsoner; and
- John Wakely.

The Administrators have met with the Committee seven times and consulted with them on an ad-hoc basis on certain issues.

The Administrators will continue to manage the Administration in accordance with the Proposals approved by creditors and in consultation with the Committee.

Interim distributions

On 13 November 2013 the Administrators paid a second interim dividend of 10 pence in the pound to creditors with agreed claims. The total paid out by way of dividend was £9.0m. This takes the total dividend to 50 pence in the pound and aggregate payments to £44.8m.

Outcome for creditors

Pursuant to Rule 2.97 of the Insolvency Rules 1986, the Administrators require the permission of the High Court of Justice (the "Court") in order to declare a dividend where there is an application to the Court pending, to reverse or vary a decision to reject a proof of debt.

Due to a creditor appeal during the Period against a decision on a proof of debt, the Administrators are currently preparing an application to the Court for permission to declare a further dividend. Neither the timing nor the quantum of this can be determined at present.

Administrators' remuneration

The Committee's duties include approving the basis and quantum of the Administrators' remuneration.

To date, remuneration of £21.2m (excluding Value Added Tax (“VAT”)) has been drawn in accordance with that approval and details of the remuneration are provided in Section 4 of this report. Based on the value of the property realised to date, a further £1.5m is available to be drawn as remuneration.

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/Files/Technical/Insolvency/creditors-guides/a-creditors-guide-to-administrators-fees-010407.pdf>

Extension of the Administration

Upon the application of the Administrators, the Court made an order on 23 October 2013 extending the period of the Administration to 30 November 2015.

Future reports

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

Signed:



D Y Schwarzmann
Joint Administrator
Lehman Brothers Europe Limited

DY Schwarzmann, AV Lomas, SA Pearson and JG Parr were appointed as Joint Administrators of Lehman Brothers Europe Limited to manage its affairs, business and property as agents without personal liability.

DY Schwarzmann, AV Lomas, SA Pearson 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

Progress to date

Debts due from advisory services clients

The Administrators do not expect to recover any further material M&A debts.

Inter-company claims

a) Repo transaction between LBEL and Lehman Brothers International (Europe) (in Administration) ("LBIE")

The principal material debtor balance related to funds due to LBEL in connection with the Global Master Repurchase Agreement ("GMRA") between LBEL and LBIE.

As previously reported, LBEL and LBIE reached a full and final settlement in relation to the termination of the GMRA on 5 October 2012. £371.6m has since been received in respect of the realisation of securities, which were part of a reverse repo transaction under the GMRA.

Nominal recoveries in relation to the sale of the remaining securities managed by LBIE were received during the Period.

The settlement agreement also gave rise to a small unsecured claim against LBIE on which dividends are being paid.

b) LBHI and its US debtor affiliates

LBEL, in conjunction with other UK affiliates, reached a final settlement agreement with Lehman Brothers Holdings Inc. ("LBHI") and its US debtor affiliates in Chapter 11. This agreement became fully binding and operational on 6 March 2012.

As a result, LBEL has received four dividends from LBHI and its US debtor affiliates totalling \$5.3m, of which \$1.4m was received in October 2013. Following the declaration by LBHI of a fifth dividend on 27 March 2014, the Administrators received a further \$1.5m in April 2014.

c) Other Debtors

The Administrators have continued to investigate other inter-company balances in the Period.

A small number of debts remain outstanding on LBEL's books with a balance of less than £1m in

total. Claims have been submitted against inter-company debtors where appropriate.

Creditor claims

The Administrators paid a second interim dividend to creditors totalling £9.0m during the Period.

The majority of creditors' claims received to date by the Administrators have been agreed.

The previous report described certain material claims which were still to be resolved. Following extensive reviews, the Administrators are pleased to confirm that progress has been made with one of these claims allowing for a further distribution to be planned. However, as another creditor recently appealed the Administrators' decision to reject his proof of debt, the Administrators require the permission of the Court to declare a further dividend.

In addition, a full reserve of £119m for a potential future pension liability has been made.

Neither the timing nor the quantum of any further dividends can be determined at present.

Taxation

The Administrators have agreed LBEL's Corporation Tax affairs with HM Revenue and Customs ("HMRC") for all periods up to the year ended 22 September 2010.

Tax returns to 5 October 2012 (date of cessation of trade) have been submitted to HMRC. In respect of post-appointment periods:

- LBEL has been able to utilise its own losses in full to shelter its profits (either through loss carry back or loss carry forward claims) and therefore has not had excess losses to surrender to the wider group for value; and
- LBEL claimed group losses in respect of 2011 of £39m for which it is required to pay £4.8m in May 2014.

No further material Corporation Tax repayments are expected in respect of pre-appointment periods.

VAT repayments of £1.9m for returns filed for November 2012, February 2013, May 2013 and

August 2013 have been paid to LBEL in the Period. LBEL is also due to receive a further £0.5m in respect of the VAT return filed for November 2013.

Pension liability

Following the Supreme Court judgment in July 2013, to which we referred in the 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. The Determinations Panel had previously decided that a FSD should be made against LBEL; however, this decision is now subject to a complete re-hearing by the Upper Tribunal.

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 LBEL) to file their written replies, and has set a date in February 2015 for a substantive hearing. The Upper Tribunal is expected to issue further directions in July 2014.

Also since the last report, the Administrators have participated, with the administrators of 13 other Lehman entities, in a Court application relating to the maximum quantum of a Contribution Notice (“CN”) if this were to be issued by the Pensions Regulator in the event of non-compliance with a FSD. The Court held that the aggregate liability under CNs issued to more than one target company could exceed the amount of £119m claimed as a statutory debt due from the pension scheme employer, LBL. This judgment is being appealed. In the meantime, LBEL is continuing to reserve £119m in respect of any liability that may arise in connection with a FSD.

Future strategy

The Administrators will continue to:

- Gather evidence for any further claims to be made against other Lehman estates;
- Pursue finalisation of the pension liability and seek agreement of the remaining disputed claims; and
- Make further payments to creditors as funds permit.

Section 3 Statutory and other information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 8243 of 2008.
<i>Full name:</i>	Lehman Brothers Europe Limited
<i>Trading name:</i>	Lehman Brothers Europe Limited
<i>Registered number:</i>	03950078
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom.
<i>Date of the Administration appointment:</i>	23 September 2008.
<i>Administrators' names and addresses:</i>	DY Schwarzmann, AV Lomas, SA Pearson 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 LBEL's creditors as a whole than would be likely if LBEL were wound up (without first being in Administration).
<i>Division of the Administrators' responsibilities:</i>	In relation to paragraph 100(2) Sch.B1 of the Insolvency Act 1986, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by any or all of the 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 an extension of the Administration to 30 November 2015.
<i>Proposed end of the Administration:</i>	The Administrators are not yet in a position to determine the most likely exit route from the Administration and wish to retain the options available to them.
<i>Estimated dividend for unsecured creditors:</i>	In addition to the total dividend of 50 pence in the pound that has been paid to date, it is expected that a further dividend will be paid to unsecured creditors in 2014. It is not currently possible to determine the quantum of this or any further distribution.
<i>Estimated values of LBEL's net property and the prescribed part:</i>	In the absence of qualifying floating charges, the Insolvency Act 1986 (Prescribed Part) Order 2003 does not apply to these proceedings.
<i>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</i>	Not applicable.
<i>The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):</i>	The European Regulation on Insolvency Proceedings applies to this Administration and the proceedings are the main proceedings.

Section 4 Financial information

Administrators' remuneration

The manner in which Administrators' remuneration is determined and approved is set out in the Insolvency Rules 1986 2.106 to 2.109 (the "Rules").

At a meeting held by correspondence on 20 February 2009, the creditors resolved to form a Committee whose duties would include approving the basis and quantum of the Administrators' remuneration.

There are two bases of determining the remuneration under the Rules, either:

- A percentage of the value of the property with which the Administrators have to deal; or
- By reference to the time properly given by the insolvency practitioner and his staff in attending to matters arising in the Administration.

The 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 Administrators;
- The effectiveness with which the Administrators appear to be carrying out, or have carried out, their duties; and
- The value and nature of the property with which the Administrators have to deal.

Statement of Insolvency Practice No.9 ("SIP 9")

In addition to the Rules, SIP 9, issued by the Joint Insolvency Committee, provides guidance to insolvency practitioners and creditors' committees in relation to the remuneration of administrators.

The purpose of SIP 9 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 remuneration 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 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.

Remuneration review and approval process

In October 2008 a Court order authorised the Administrators, subject to ratification by the Committee, to draw remuneration of 75% of the time costs incurred at the time of the application, being £2.8m including VAT.

At the instigation of the Committee it was resolved not to agree the Administrators' remuneration on a time cost basis, but instead the independent members of the Committee resolved that the Administrators' remuneration be fixed at 5% of the value of the property with which the Administrators have to deal. The Administrators were authorised to draw such remuneration as and when realisations became available.

Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 22 March 2014, and a cumulative total since commencement of the Administration, is set out on page 8.

Significant receipts in the Period covered by this report include:

- Book debt receipts totalling £1.6m mainly comprising the fourth dividend from LBHI and its US debtor affiliates; and
- £1.9m of VAT repayments as discussed in the Taxation section on page 3.

Significant payments in the Period covered by this report include:

- £9.0m in respect of the second interim dividend to unsecured creditors; and
- £4.8m in respect of Administrators' remuneration (including VAT).

Total cash held as at 22 March 2014 was approximately £373m (GBP equivalent).

Section 5 Receipts and payments account

RECEIPTS	GBP (£) '000	As at 22 March 2014		As at 22 March 2014 TOTAL GBP equivalent £	Movements 23 September 2013 to 22 March 2014 (GBP equivalent) £	22 September 2013 (GBP equivalent) RESTATED at 22 March 2014 exchange rate £	As at 22 September 2013 TOTAL GBP equivalent £
		US (\$) '000	EUR (€) '000				
Book debts	2,788	15,149	21,168	29,660	1,575	28,085	28,528
GMRA settlement agreement proceeds	371,589	-	-	371,589	4	371,585	371,585
Interest	1,627	34	110	1,740	574	1,166	1,168
Corporation tax repayment	48,443	-	-	48,443	-	48,443	48,443
VAT repayment	2,264	-	-	2,264	1,888	376	376
Currency transfer*	26,872	-	-	26,872	4,656	22,216	22,216
Receipts Grand Totals	453,583	15,183	21,278	480,568	8,697	471,871	472,316
PAYMENTS							
Employee costs	6,010	80	67	6,115	25	6,090	6,092
Building and occupancy costs	877	-	-	877	-	877	877
Legal fees	1,590	228	-	1,729	184	1,545	1,549
Tax function costs	350	-	6	355	-	355	355
Payment for group relief losses	112	-	-	112	-	112	112
Distribution to unsecured creditors	43,882	-	1,137	44,831	9,020	35,811	35,819
Administrators' remuneration**	25,409	-	-	25,408	4,801	20,607	20,607
Administrators' disbursements	21	-	-	21	-	21	21
Investment management charges	2,420	-	-	2,420	-	2,420	2,420
Currency transfer*	-	14,817	19,989	25,686	4,560	21,126	21,467
Payments Grand Totals	80,671	15,125	21,199	107,554	18,590	88,964	89,319
NET POSITION	372,912	58	79	373,014	(9,893)	382,907	382,997
CASH BALANCES							
HSBC	1,076	58	79	1,178			
Money markets	371,836			371,836			
Total Cash	372,912	58	79	373,014			

Exchange rates as at 22 September 2013:

US\$ 1 : GBP	0.6250
EURO €1 : GBP	0.8443

Exchange rates as at 22 March 2014

US\$ 1 : GBP	0.6062
EURO €1 : GBP	0.8356

Amounts include VAT where applicable

* The difference in total GBP equivalents arises from converted sums being converted at exchange rates as at the end of each reporting period. No actual gains/losses on currency were made in the Period.

** This amount includes £2.76m that had previously been paid by another Lehman Group company on behalf of LBEL.



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