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Lehman Brothers Holdings plc – In Administration

Joint Administrators' progress report for the period 15 March 2012 to 14 September 2012

12 October 2012

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the eighth 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 September 2012.

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 are 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 on five occasions since 12 December 2008, in order to discuss significant issues and outline key decisions. The most recent meeting was held on 25 January 2012.

Outcome for creditors

At this time the Administrators are unable to provide a reliable estimate of the likely dividend to ordinary unsecured creditors.

As it seems likely that funds will become available for unsecured creditors, the Administrators are continuing the process of establishing in principle the claims of unsecured creditors. This is in line with the proposals agreed by creditors on 20 November 2008. The Administrators anticipate that LBH will become a distributing Admininstration in due course.

The Administrators will continue to manage the Administration in accordance with the proposals approved by creditors and will also consult with your Creditors' Committee.

Pension Liability

As noted in the last report, the case in the Supreme Court relating to the status of liability under a Financial Support Direction ("FSD") is due to be heard in May 2013. In the meantime, the Upper Tribunal hearing on whether LBH should have a FSD made against it is likely to remain stayed.

As reported previously, it will be a significant period of time before any potential liability against LBH under a FSD can be quantified.

Extension of the administration

On 2 November 2011 the High Court of Justice granted an Order to extend the period of the Administration to 30 November 2013.

Future reports

The Adminstrators' next progress report to creditors will be sent in approximately six months.

Signed:

DA Howell
Joint Adminstrator
Lehman Brothers Holdings plc

AV Lomas, SA Pearson, DY Schwarzmann, MJA Jervis and DA Howell 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, DY Schwarzmann, MJA Jervis and DA Howell 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

Asset review

Following the appointment of Administrators, 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 which have proved to be of value to other group companies.

A tax loss agreement was entered into with, interalia, the other PwC Lehman administration companies. This agreement set out the basis for allocating tax losses, and the value to be paid to loss surrendering companies such as LBH. This has resulted in receipts of £7.6m as at 14 September 2012.

In line 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

Lehman Brothers Asset Management (Europe) Limited ("LBAM")

As previously advised, the business and assets of LBAM were sold on 7 May 2009. The benefit of the residual tax losses was retained by LBH and the Administrators have received c. £2.6m to date in respect of these losses. This is in addition to the £7.6m detailed above.

Other Subsidiaries

There are a number of other 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 realisations for LBH remains uncertain.

Financial assets

The most significant outstanding financial assets are:

Campo Iris ("CI")

CI is a wholly owned subsidiary of LBH which entered into a joint venture with a Spanish company. CI's only asset is cash at Bank within the joint venture, which is understood to be c.€1m.

Previously, the Administrators wrote to the public prosecutor in Luxembourg requesting that CI be wound up. This request was denied and the Administrators have recently been advised that this decision is final.

Further to the Creditors' Committee approval the Administrators have agreed the budgeted costs to appoint a director to CI to bring its financial and statutory affairs up to date and then to seek to wind up CI in order to realise the funds in the joint venture. The appointment is expected to happen shortly.

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 LBIE.

There are 59 intercompany relationships which have been identified. The six largest debtors total c.£329m and the six largest creditors total c.£874m which represents 89% and 90% of the total intercompany debtor and creditor balances respectively.

The Administrators established a specific workstream to work on the intercompany balances of the UK Administration companies. Its primary task on behalf of LBH is to provide evidence to

support LBH's claim against its debtors and to adjudicate upon the evidence submitted by LBH's creditors. Discussions regarding creditors' claims are continuing and the Administrators will shortly issue letters of understanding to some creditors in order to agree claims in principle. Undertaking this process will enable the Company to distribute funds promptly when it is in position to do so.

On 11 October 2011, the Administration entered into a settlement agreement with Lehman Brothers Holdings Inc ("LBHI") and certain other affiliates previously subject to Chapter 11 proceedings in the USA in conjunction with other UK affiliates. The Plans of Reorganisation became effective on 6 March 2012. Pursuant to this agreement LBH had its claims against Lehman Brothers Special Financing Inc ("LBSF") and Lehman Commercial Paper Inc ("LCPI") agreed at $19.3m and $2.2m respectively. The first distributions from those estates were received in the period, being $3.88m from LBSF and $0.26m from LCPI. A second distribution was received from each estate on 1 October (after the period covered by this report) being $0.3m from LBSF and $0.2m from LCPI.

Section 3 Statutory and other Information

Court details for the Administration:	High Court of Justice, Chancery Division, Companies Court - case 7943 of 2008
Full name:	Lehman Brothers Holdings plc
Trading name:	Lehman Brothers Holdings plc
Registered number:	01854685
Registered address:	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
Company directors:	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)
Company secretary:	Ms M Smith (resigned 06/02/10), Ms P Dave (resigned 09/02/10), Ms ESE Upton (resigned 09/02/10)
Shareholdings held by the directors and secretary:	None of the directors own shares in the Company
Date of the Administration appointment:	15 September 2008
Administrators' names and addresses:	AV Lomas, SA Pearson, DY Schwarzmann, MJA Jervis and DA Howell, of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT
Appointer's name and address:	High Court of Justice, Chancery Division, Companies Court
Objective being pursued by the Administrators:	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)
Division of the Administrators' responsibilities:	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.
Details of any extensions of the initial period of appointment:	The High Court of Justice has granted three successive extensions to the Administration period to: 30 November 2010, 30 November 2011 and most recently 30 November 2013.
Proposed end of the Administration:	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.
Estimated dividend for unsecured creditors:	There are too many uncertainties to accurately estimate the likely dividend for unsecured creditors.
Estimated values of the prescribed part and LBH's net property:	Not applicable as there is no qualifying floating charge.
Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:	Not applicable as there is no prescribed part.
The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):	The European Regulation on Insolvency Proceedings does apply to this Administration and these are the main proceedings.

Section 4 Financial Information

Administrators' remuneration

Time cost information including a detailed narrative describing the work undertaken by the Administrators and their staff has been provided to your Creditors' Committee which has approved the basis and quantum of the Administrators' remuneration to 31 December 2011, totalling £2,782,598, plus VAT.

In the six months to 14 September 2012, further remuneration of £223,711 has been drawn, being 75% of the Administrators' time costs for the period from 1 July 2011 to 30 June 2012. All remuneration has been drawn in accordance with resolutions agreed with your Creditors' Committee.

Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 14 September 2012, and a cumulative total since commencement of the Administration, is set out overleaf.

Key movements in period

- Receipts from LBSF and LCPI totalling $4.14m
- In the six months to 14 September 2012 a further £185k has been realised from the sale of tax losses to group companies.
- A further £87k has been earned in interest.
- The beneficiaries of the assets held on trust are: LB Redditch No 1 Limited and LB Redditch No 2 Limited. These funds are their recoveries in respect of tax refunds.
- The benefit of retaining LBAM's residual tax losses has resulted in further recoveries of £1.1m, bringing the total recoveries to approximately£2.6m.
- The tax cost reallocation resulted in a rebate of £150k.

Net receipts as at 14 September 2012 total approximately £54.7m.

Section 5 Receipts and Payments Account

	GBP			USD			EUR		
	14-Mar-12	Movements in Period	14-Sep-12	14-Mar-12	Movements in Period	14-Sep-12	14-Mar-12	Movements in Period	14-Sep-12
Receipts									
Investments in subsidiaries	895,943	-	895,943	476,050	-	476,050	-	-	-
Tax refund	15,000	-	15,000	-	-	-	-	-	-
Sale of tax losses	7,427,010	185,370	7,612,380	-	-	-	-	-	-
Book debts	82,073	3,965	86,038	-	4,138,564	4,138,564		-	
Financial assets	-	-	-	23,459	-	23,459	250,000	-	250,000
Bank Interest	191,297	86,681	277,978	227,212	-	227,212	5,785	-	5,785
Assets held on trust	7,308	945	8,253	-	-	-	-	-	-
LBAM tax loss receipts	1,421,326	1,132,267	2,553,593	-	-	-	-	-	-
Net proceeds from sale of LBAM	(847,960)	-	(847,960)	74,087,363	-	74,087,363	3,377	-	3,377
Total Receipts	9,191,997	1,409,228	10,601,225	74,814,084	4,138,564	78,952,648	259,162	-	259,162
Payments									
Legal fees	511,688	18,270	529,958	4,161	-	4,161	-	-	-
Postage	988	1,237	2,225	-	-	-	-	-	-
Payments on behalf of subsidiaries	33,004	50,919	83,923	-	-	-	-	-	-
Wages & salaries	8,901	4,291	13,192	-	-	-	-	-	-
Bank charges	8,323	-	8,323	880	70	950	67	-	67
IT costs	150,000	-	150,000	-	-	-	-	-	-
Joint Administrators' remuneration	2,589,346	223,711	2,813,057	-	-	-	-	-	-
Joint Administrators' category 1 disbursements	38,549	-	38,549	-	-	-	-	-	-
Professional fees	97,950	1,322	99,272	-	-	-	-	-	-
Insurance	161,766	-	161,766	-	-	-	-	-	-
Contribution to tax costs	584,566	(149,628)	434,938	-	-	-	-	-	-
VAT	261,129	49,375	310,504	-	-	-	-	-	-
Total Payments	4,446,210	199,497	4,645,707	5,041	70	5,111	67	-	67
Intercompany Transfers									
Payment	-	-	-	(74,803,478)	(4,143,000)	(78,946,478)	(254,000)	-	(254,000)
Receipt	46,100,454	2,590,832	48,691,286	-	-	-	-	-	-
Net Position	50,846,241	3,800,563	54,646,804	5,565	(4,506)	1,059	5,095	-	5,095
Cash Balances									
HSBC	554,297	121,903	676,200	5,565	(4,506)	1,059	5,095	-	5,095
Money market deposits	50,291,944	3,678,661	53,970,605	-	-	-	-	-	-
Total Cash/Movements	50,846,241	3,800,564	54,646,805	5,565	(4,506)	1,059	5,095	-	5,095

Total Cash as at 14 September 2012 based on exchange rates on 14 September 2012 was £54,651,579

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