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***LB Holdings  
Intermediate 2 Limited  
– In Administration***

Joint Administrators' progress  
report for the period 14 July 2013 to  
13 January 2014

11 February 2014

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

## ***Introduction***

This is the tenth progress report by the Joint Administrators (the "Administrators") of LB Holdings Intermediate 2 Limited ("LBHI2" or the "Company").

This report provides an update on the work the Administrators have undertaken and the progress made since their appointment, with particular focus on the progress made in the six months to 13 January 2014.

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

The Administrators are pursuing the objective of achieving a better result for LBHI2's creditors as a whole than would be likely if LBHI2 were wound up (without first being in Administration).

The Administrators will continue to manage the Administration in accordance with the proposals approved by creditors.

## ***Outcome for creditors***

The Administrators expect a distribution to be made to unsecured creditors in due course, however the quantum and timing of this distribution remains uncertain, principally due to three outstanding issues which affect the extent of LBHI2's total assets and liabilities;

- The continued uncertainty around a potential pension liability;
- The extent to which LBHI2 may be required to contribute to the debts and liabilities of Lehman Brothers International (Europe) ("LBIE"), by virtue of LBHI2's position as shareholder of LBIE (an unlimited company).
- In the event of there being a surplus in LBIE, amongst a number of connected issues, whether LBHI2's right to prove in the LBIE estate in respect of a subordinated debt claim has priority over statutory interest.

These issues are discussed further in Section 2.

## ***Extension to the Administration***

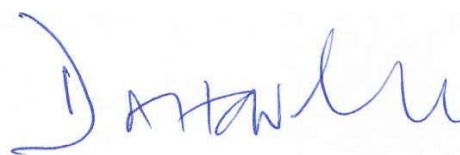
The Administration was due to end automatically on 30 November 2013. The Administrators formed the view that it would not be possible to achieve the purpose of Administration by that date.

Accordingly, the Administrators applied to Court for an order to extend the Administration, and the Court has granted an extension until 30 November 2015.

## ***Future reports***

The Administrators' next progress report to creditors will be sent in approximately six months or the end of the Administration, whichever is sooner.

Signed:



DA Howell  
Joint Administrator  
LB Holdings Intermediate 2 Limited

*DA Howell, AV Lomas, SA Pearson, GE Bruce and JG Parr were appointed as Joint Administrators of LB Holdings Intermediate 2 Limited to manage its affairs, business and property as agents without personal liability. DA Howell, 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 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 Administrations.*

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

### ***Overview of the Company's business***

LBHI2 holds the investment in Lehman Brothers International (Europe) ("LBIE").

As previously advised, LBHI2's investment in LBIE was principally financed by:

- The issue of \$6.1bn floating rate notes;
- The issue of \$730m of fixed rate notes; and
- A combination of long and short term loan facilities from Lehman Brothers Holdings Plc of which some \$2.2bn remains due.

### ***Administrators' actions***

#### ***LBHI2's potential pensions liability***

As outlined in the Administrators' last report, LBHI2 continues to be at risk of a Financial Support Direction ("FSD") being made against it in relation to the Lehman Brothers Pension Scheme. If imposed, a FSD would create an obligation on LBHI2 (and any other companies which also received a FSD) to put forward a proposal for financial support for the Scheme, for approval by the Pensions Regulator. If such a proposal were not made, or were not approved by the Pensions Regulator, it is possible that the Regulator could seek a Contribution Notice, which would create a debt due to the Scheme which would rank alongside other creditors of LBHI2.

Although the Pensions Regulator's Determinations Panel decided that LBHI2 should not receive a FSD, this is to be reconsidered by the Upper Tribunal. The Pensions Regulator has recently filed its statement of case for the Upper Tribunal proceedings, setting out the reasons why it considers a FSD should be imposed.

A date has not yet been set by the Upper Tribunal for a full hearing on whether FSD should be issued and against which Lehman entities. An initial directions hearing has been scheduled for 12 March 2014, at which a timetable may be set for future proceedings. The Administrators continue to keep the pensions issues under close review, and have engaged legal advisers to ensure that LBHI2's interests are represented.

Our last report referred to a joint reserve for the pension liability. This reserving arrangement proved not to be acceptable to the Scheme trustees, and it was therefore discontinued and was not brought into full effect.

#### ***The Waterfall Application***

As advised in the Administrators' previous reports, LBHI2, together with LBL and LBIE, made a joint application to seek a determination on various issues concerning their shareholding and other relationships ("the Waterfall Application").

The Administrators have retained Dentons UKMEA LLP to advise on the issues between LBHI2 and LBIE, as well as Anthony Trace QC and Rosanna Foskett of Counsel. The Administrators have been working with the administrators of LBL and LBIE, and their respective legal advisors, to find a resolution to these complex issues.

A joint application for directions on these issues was made to the UK High Court, by LBIE, LBL and LBHI2, on 14 February 2013. The substantive hearing was scheduled for November 2013. The hearing concluded on 20 November 2013 and judgment has been reserved to a future point in time.

#### ***LBHI2 Joint Venture in respect of claims against LBIE***

As reported previously, LBHI2 filed a proof of debt for its claims against LBIE for £1,292,255,510. This comprised a claim for £1,254,165,598 (c.\$2,225,000,000) pursuant to three subordinated loan agreements entered into on 1 November 2006 between LBHI2 (as lender) and LBIE (as borrower) (the "Subordinated Debt") and a non-subordinated claim for £38,089,911 (the "Senior Claims").

Shortly following the end of the reporting period, the Administrators entered into a Joint Venture on 31 January 2014 with Elliott Management Corporation ("Elliott") and King Street Capital Management, L.P ("KS") in connection with the claims of LBHI2 in the estate of LBIE.

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As a result of the Joint Venture, LBHI2 has received approximately £650,000,000, along with the right to receive future contingent sums, for its economic interests in the Senior Claims and the Subordinated Debt.

These funds have been received after the end of the reporting period and therefore are not included in the receipts and payments account at Section 5.

In addition to the creditor claims referred to above, LBHI2 entered into a participation agreement that gives the Joint Venture partners an interest in 24.9% of the preferred equity in LBIE.

The Joint Venture also includes a joint recovery pool which entitles LBHI2 to recoveries from certain claims against the LBIE estate held by Elliott and KS dependent on realisations from LBIE.

### ***Debtors***

The Administrators entered into a settlement agreement with Lehman Brothers Holdings Inc (“LBHI”) on 11 October 2011. Pursuant to this agreement LBHI2 had its claim against LBHI agreed at \$2.7m in respect of direct claims and \$302m in respect of guarantee claims.

Since the Administrators’ ninth progress report, a further dividend of \$13,895,960 has been received from LBHI. To date, dividends received total \$48,644,612.

## Section 3 Statutory and other Information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - Court Case 429 of 2009
<i>Full name:</i>	LB Holdings Intermediate 2 Limited
<i>Trading name:</i>	LB Holdings Intermediate 2 Limited
<i>Registered number:</i>	05957878
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<i>Company directors:</i>	D Gibb (resigned 17/07/09), IM Jameson (resigned 17/07/09) and AJ Rush (resigned 17/07/09)
<i>Company secretary:</i>	P Dave (resigned 25/01/10) and ESE Upton (resigned 25/01/10)
<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>	14 January 2009
<i>Administrators' names and addresses:</i>	DA Howell, AV Lomas, SA Pearson, GE Bruce and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT.
<i>Appointer's name and address:</i>	The directors, 25 Bank Street, London E14 5LE
<i>Objective being pursued by the Administrators:</i>	Achieving a better result for LBHI2's creditors as a whole than would be likely if LBHI2 were wound up (without first being in Administration)
<i>Division of the Administrators' responsibilities:</i>	The current Joint Administrators of LBHI2 are DA Howell, AV Lomas, SA Pearson, GE Bruce and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT. 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 High Court of Justice has granted four successive extensions to the Administration period to: 30 November 2010; 30 November 2011, 30 November 2013 and most recently 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>	It is too early to estimate the likely dividend for unsecured creditors.
<i>Estimated values of the prescribed part and LBHI2'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.

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## ***Section 4 Financial Information***

### ***Administrators' remuneration***

At the meeting of creditors which was held by correspondence on 24 March 2009, creditors resolved that the Administrators' remuneration 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.

Details of the Administrators' time costs for period between 14 January 2009 and 30 June 2013 have been provided in previous reports. Attached at Section 6 of this report, is a summary of the Administrators' time costs incurred from 1 July to 31 December 2013, presented in accordance with the Statement of Insolvency Practice 9 ("SIP9"), together with a narrative of the work performed.

The SIP9 summary shows that time costs for the period 1 July 2013 to 31 December 2013 are £1,354,611, representing 2,045 hours at an average hourly rate of £662.

To date, the Administrators have drawn remuneration of £668,748, plus VAT in respect of timecosts incurred in the period 14 January 2009 to 30 September 2013.

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

An account of the receipts and payments in the Administration showing movements for the six months to 13 January 2014 is set out overleaf.

The largest receipt in the period, also discussed in Section 2, was a \$13.89m dividend received from LBHI, equivalent to approximately £8.48m.

## Section 5 Receipts and Payments Account

	As at 13 January 2014		Movements		As at 13 July 2013	
	GBP (£)	USD (\$)	GBP (£)	USD (\$)	GBP (£)	USD (\$)
<b>Receipts</b>						
Dividends received	-	48,644,612	-	13,895,960	-	34,748,652
Sale of tax losses	9,031,410	-	-	-	9,031,410	-
Contribution to pension club deal	300,000	-	300,000	-	-	-
Gross interest received	130,053	-	48,482	-	81,571	-
<b>Total Receipts</b>	<b>9,461,463</b>	<b>48,644,612</b>	<b>348,482</b>	<b>13,895,960</b>	<b>9,112,981</b>	<b>34,748,652</b>
<b>Payments</b>						
Contribution to pension club deal	300,000	-	-	-	300,000	-
Net Tax function costs	123,845	-	-	-	123,845	-
Legal Fees and disbursements	3,071,304	-	2,545,744	-	525,560	-
Gross wages & salaries	1,763	-	-	-	1,763	-
Statutory costs	384	-	-	-	384	-
IT Costs	5,741	-	-	-	5,741	-
Bank charges	-	87	-	40	-	47
Office holders' fees	668,748	-	315,095	-	353,653	-
Office holders' disbursements	2,198	-	-	-	2,198	-
VAT paid	737,475	-	567,811	-	169,664	-
<b>Total Payments</b>	<b>4,911,458</b>	<b>87</b>	<b>3,428,650</b>	<b>40</b>	<b>1,482,808</b>	<b>47</b>
<b>Intracompany transfers</b>						
Receipts	30,655,871	-	8,621,088	-	22,034,783	-
Payments	-	(48,643,500)	-	(13,895,900)	-	(34,747,600)
<b>Net Position</b>	<b>35,205,876</b>	<b>1,025</b>	<b>5,540,920</b>	<b>20</b>	<b>29,664,956</b>	<b>1,005</b>
<b>Cash Balances</b>						
HSBC	35,205,876	1,025	34,992,864	20	213,012	1,005
Money markets	-	-	29,451,944	-	29,451,944	-
<b>Total Cash</b>	<b>35,205,876</b>	<b>1,025</b>	<b>5,540,920</b>	<b>20</b>	<b>29,664,956</b>	<b>1,005</b>

Note: The total GBP equivalent cash in hand at the exchange rate on 13 January 2014 is £35,206,501. Funds are invested on the money markets to generate interest and manage risk.



## **Section 6 Joint Administrators' time costs for the period 1 July to 31 December 2013**

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total Hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	-	-	16.25	7,004	26.60	7,854	28.60	6,549	71.45	21,407
Asset Realisations	-	-	-	-	0.40	144	-	-	0.40	144
Creditors	-	-	0.70	302	0.60	216	1.72	394	3.02	912
Statutory and Reporting	0.40	349	15.70	6,872	36.55	11,349	4.65	1,065	57.30	19,635
Strategy and Planning	348.65	280,536	526.25	257,488	6.20	2,193	2.45	561	883.55	540,778
Tax and VAT	601.95	585,657	82.30	60,394	318.15	121,497	23.30	3,234	1,025.70	770,782
LBIE Recharges	0.05	31	0.47	206	1.02	242	2.13	474	3.67	953
<b>Grand Total</b>	<b>951.05</b>	<b>866,573</b>	<b>641.67</b>	<b>332,266</b>	<b>389.52</b>	<b>143,495</b>	<b>62.85</b>	<b>12,277</b>	<b>2,045.09</b>	<b>1,354,611</b>
<b>Average cost per hour</b>		<b>911</b>		<b>518</b>		<b>368</b>		<b>195</b>		<b>662</b>

<b>Current charge out rates</b>	<b>Business Recovery Services</b>	<b>Specialist</b>	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 maximum unit for time charged by the Joint Administrators and their staff is 0.05 of an hour.  * 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 give 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.
<b>Grade</b>	<b>Max £/hr</b>	<b>Max £/hr</b>	
Partner	838	1,069	
Director	665	970	
Senior manager	512	905	
Manager	431	571	
Senior Associate	360	278	
Associate/Support Staff	229	212	

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# ***Narrative of the Joint Administrators' time costs for the period 1 July 2013 to 31 December 2013***

## **Accounting and Treasury - £21,407**

- Preparation of receipts and payments accounts for statutory reporting;
- Preparation of receipts and payments vouchers;
- Managing investments on the money market;
- Mitigating risk on investments;
- Reconciliation of bank accounts; and
- Monitoring flow of funds into the bank accounts.

## **Asset Realisations - £144**

- Reviewing intercompany position against affiliate companies.

## **Creditors - £912**

- Reviewing claims submitted; and
- Dealing with creditor queries.

## **Statutory and Reporting - £19,635**

- Preparation of Administrators' ninth progress report;
- Circulation of progress report to creditors;
- Statutory filings at Companies House and Court;
- Preparation of detailed remuneration summary;
- Liaising with Administrators on statutory issues;
- Managing information available on website; and
- Maintaining case records and database.

## **Strategy and Planning - £540,778**

- Reviewing and agreeing the strategy for the Joint Venture in respect of the claims against LBIE;
- Meetings and correspondence with tax and legal advisors, Elliott and KS, in respect of the Joint Venture;
- Extensive correspondence with relevant parties regarding negotiations and finalisation of the Joint Venture;
- Dealing with the Waterfall application;
- Setting, reviewing and discussing strategy regarding the claims against LBIE;
- Discussions regarding strategy for the wider Administration and updating of strategy documentation;
- Reviewing financial information; and
- Participating in discussions to resolve the pension issue.

## **Tax and VAT- £ 770,782**

- A significant amount of tax analysis was undertaken in this regard in respect of LBHI2's tax position both as vendor as a participant in the Joint Venture structure. This included:
  - Preparing initial tax analysis in respect of the disposal and the proposed Joint Venture structure including input from specialists covering corporate tax, VAT and Stamp Duty;
  - Attending meetings with tax and legal representatives of other parties to the Joint Venture to refine the structure so as to mitigate any tax leakage in LBHI2 within the context of the commercial agreement between the parties;

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- Instructing and consulting with Tax Counsel on technical matters and tax risks arising from the initial analysis prepared internally to obtain further comfort;
  - Preparing for the Joint Administrators of LBHI2 and its legal advisers a report on the key tax issues arising from the proposed Joint Venture structure;
  - Obtaining Luxembourg tax advice in connection with the proposed Joint Venture structure;
  - Reviewing legal documents prepared by the legal advisers to all parties to the transactions; and
  - Attending various calls and meetings with the various principals and their tax and legal advisers in connection with the proposed transactions and Joint Venture agreement.
- 
- Tax planning for group companies;
  - Dealing with tax and VAT queries; and
  - Preparing tax computations.

### **LBL recharges – £953**

- This is an apportionment of the costs incurred by Lehman Brothers Limited associated with the administration companies.

