

Eldon Street Holdings Limited – In Administration

**Joint Administrators' progress
report for the period 9 December
2016 to 8 June 2017**

5 July 2017

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the 17th progress report prepared by the Joint Administrators (the "Administrators") of Eldon Street Holdings Limited ("Eldon Street" 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 developments in the six months to 8 June 2017 (the "reporting period").

Objectives of the Administration

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

The specific aims of this Administration were to:

- protect and control Eldon Street's assets; and
- maximise value for Eldon Street from its real estate interests, intercompany debtors and shareholdings in Eldon Street's subsidiaries.

Outcome for creditors

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

On 6 February 2017, £5.4m was distributed by way of a sixth interim dividend of 1.25p in the £. As a result, £150.7m has now been distributed to the Company's unsecured creditors, equating to a cumulative dividend of 33.42p in the pound.

The Administrators anticipate that a seventh interim distribution will be made during autumn 2017, although the precise timing and quantum remain uncertain.

Future reports

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

Signed:



GE Bruce
Joint Administrator
Eldon Street Holdings Limited

AV Lomas, SA Pearson, DA Howell, GE Bruce and JG Parr were appointed as Joint Administrators of Eldon Street Holdings Limited to manage its affairs, business and property as agents without personal liability. The Joint Administrators 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/insolvencypractitioner-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 to date

Overview

Eldon Street was incorporated as a holding company for a number of the Lehman Brothers group real estate investments.

On appointment, the key categories of assets owned by the Company were intercompany receivables and direct equity investments in subsidiaries. Eldon Street's subsidiaries hold real estate assets.

Administrators' actions to date

Since their appointment, the Administrators have taken steps to realise Eldon Street's key assets, details of which are set out below.

Intercompany debtors

Creditors will recall that on 24 October 2011, the Company acting by its Administrators (in conjunction with other UK affiliates) entered into a settlement agreement (the "Agreement") with Lehman Brothers Holdings Inc. ("LBHI") and certain other affiliates previously subject to Chapter 11 proceedings in the USA in respect of intercompany claims. The Agreement culminated in plans of reorganisation, which became effective on 6 March 2012.

Pursuant to the Agreement, Eldon Street had claims against LBHI agreed at \$611.35m and \$28.56m for its direct and guarantee claims, respectively.

Two further interim dividends of \$6.7m and \$0.3m were received from LBHI in the reporting period, in respect of Eldon Street's direct and guarantee claims, respectively. To date, Eldon Street has received dividends from LBHI totalling \$215.6m.

Future dividend receipts are anticipated from LBHI on a six monthly basis.

Solvent subsidiaries

As reported previously, in February 2015, five of Eldon Street's 10 solvent subsidiaries were placed into Members' Voluntary Liquidation ("MVL"), with a further two solvent subsidiaries being placed into MVL in January 2016. Total funds received from solvent subsidiaries are equivalent to £19.9m.

Subsequently, the original five solvent subsidiaries were dissolved on 20 November 2016, with the remaining two subsidiaries dissolved on 19 April 2017.

A further two subsidiaries were due to be placed into MVL by April 2017. However, unexpected matters in relation to third parties have arisen during the reporting period, which have caused a delay in moving this process forward. The Administrators are working closely with the independent directors appointed to the remaining solvent Eldon Street subsidiaries to seek a resolution of these matters.

The Administrators are still considering the most efficient approach with regard to winding up the affairs of the final solvent subsidiary to maximise the return to its own creditors. Strategy will at least in part be influenced by the timing of the MVLs of the two entities referred to above.

The Company continues to make payments on behalf of solvent subsidiaries, which have no readily available cash. Such payments are only being made where the Administrators expect recoveries from the subsidiaries to significantly exceed the costs being borne. As reported previously, the Administrators have taken steps to transfer the joint venture investments into a single subsidiary to mitigate ongoing costs.

Eldon Street also holds funds on behalf of some of the solvent subsidiaries, which do not hold independent bank accounts. These funds have been disclosed in the receipts and payments account as 'Funds held on trust'. It is anticipated that these funds will be distributed in specie to Eldon Street in due course. No other significant receipts are expected from those entities.

Investigations

Nothing has come to the Administrators' attention during the reporting period to suggest that they need to do any more work in line with their duties under the Company Directors' Disqualification Act 1986 and Statement of Insolvency Practice 2 ("SIP2").

Outstanding matters

The Company remains in Administration to realise its assets, which are principally dividends due from its remaining solvent subsidiaries and LBHI.

Tax

The corporation tax return for the 2015 period has been submitted and HM Revenue & Customs ("HMRC") has until 31 July 2018 to enquire into the return. The corporation tax return for the period 2016 will be submitted before the 8 December 2017 year end.

Budget 2016

The 2017 Finance Bill published by the UK government on 20 March 2017, included legislation in respect of changes to the use of corporation tax loss relief that was expected to apply from April 2017. However, as a result of the general election having been called, the pre-election Finance Bill has been truncated and measures relating to corporation tax relief have been omitted. It will be a matter for the newly elected government to determine the extent to which the provisions envisaged in March 2017 will be applied in a new Finance Bill.

The Administrators will provide further commentary on the implications of this in future reports as and when there is more clarity from the UK government.

Section 3 Statutory and other information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 11056 of 2008
<i>Full name:</i>	Eldon Street Holdings Limited
<i>Trading name:</i>	Eldon Street Holdings Limited
<i>Registered number:</i>	04108165
<i>Registered address:</i>	7 More London Riverside, London, SE1 2RT, United Kingdom
<i>Date of the Administration appointment:</i>	9 December 2008
<i>Current Administrators' names and addresses:</i>	DA Howell, AV Lomas, JG Parr, SA Pearson and GE Bruce of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT.
<i>Appointer'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 Eldon Street's creditors as a whole than would be likely if Eldon Street was wound up (without first being in Administration).
<i>Division of the Administrators' responsibilities:</i>	In relation to paragraph 100(2) of schedule B1 to 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 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 five successive extensions to the Administration period to: 30 November 2010; 30 November 2011; 30 November 2013; 30 November 2015; and 30 November 2018.

Section 4 Financial information

Receipts and payments account

An account of the receipts and payments for the six months to 8 June 2017, and a cumulative total since commencement of the Administration, is set out in Section 5.

Key movements in the reporting period include:

- Dividends totalling \$7m received from LBHI;
- A payment of £178k plus VAT relating to Administrators' fees and disbursements; and
- A payment of behalf of subsidiaries of £32k plus VAT.

Administrators' expenses

As required by Statement of Insolvency Practice 9 ("SIP9"), set out in Section 6 is a statement of expenses incurred by the Administrators since their appointment, together with an estimate of future expenses.

Administrators' remuneration

In February 2009, the Administrators requested and received approval from Eldon Street's creditors 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:

(i) an analysis of the Administrators' time costs for the period 1 December 2016 to 31 May 2017, together with cumulative time costs from the date of the Administrators' appointment; and

(ii) a summary of the Administrators' time costs for the period 1 December 2016 to 31 May 2017 including the key categories of 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.

As at 8 June 2017, the Administrators had drawn remuneration of £3.1m plus VAT in respect of time costs incurred to 28 February 2017.

Time costs for the six months to 31 May 2017 total £162,807 plus VAT, which represents 427 hours at an average hourly rate of £381.

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 the Administrators' fees.

Category 1 disbursements comprise payments to third parties, for example in relation to travel costs and insolvency office holders' insurance.

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

The Administrators incurred Category 1 disbursements of £5 in the six months from 1 December 2016. These have not yet been paid. No Category 2 disbursements were incurred or paid.

Creditors' rights

Creditors have the right to ask for information and challenge an administrator's fees if they believe that they are too high. You can find an explanatory note 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 free of charge by contacting Lehman.affiliates@uk.pwc.com.

Section 5 Receipts and payments account for the period ended 8 June 2017

Notes	8 Jun 2017	As at 8 Jun 2017	Movement	8 Dec 2016	As at 8 Dec 2016	8 Jun 2017	Movement	8 Dec 2016	As at 8 Dec 2016
	GBP	GBP	GBP	GBP	GBP	USD	USD	USD	USD
Receipts									
1	2,215,365	2,215,365	-	-	-	-	-	-	-
2	11,800,000	11,800,000	-	-	-	-	-	-	-
3	17,198,977	17,198,977	-	300,000	-	-	-	-	-
	2,030,597	2,030,597	-	-	208,616,333	6,098,599	-	208,616,333	820,487
	688,140	688,140	14,801	673,335	2,733	734	-	1,999	-
	280,000	280,000	-	-	-	-	-	-	-
	2,933,341	2,933,341	-	-	-	-	-	-	-
	414,124	414,124	-	-	-	-	-	-	-
	1,000,000	1,000,000	-	-	-	-	-	-	-
	1,644	1,644	-	-	-	-	-	-	-
	8,865,407	8,865,407	-	1,011,814	-	-	-	-	-
4	47,327,601	47,327,601	14,801	5,214,907	2,15,017,463	6,999,033	208,616,332	31,451,100	32,274,387
Payments									
	52	52	-	51	561	84	477	264	-
	11,440	11,440	-	-	-	-	-	-	-
	816,888	816,888	24,061	-	-	-	-	-	-
	764,792	764,792	23,455	-	-	-	-	-	-
	13,414	13,414	3,000	-	-	-	-	-	-
	8,855,499	8,855,499	-	630,000	-	-	-	-	-
	11,800,000	11,800,000	-	-	-	-	-	-	-
	209,146	209,146	-	20,914	-	-	-	-	-
	763,989	763,989	32,243	20,728	-	-	-	-	-
	95,905	95,905	-	-	-	-	-	-	-
	400	400	-	-	-	-	-	-	-
	41,741	41,741	-	-	-	-	-	-	-
	66,198	66,198	11,008	-	-	-	-	-	-
	3,141,676	3,141,676	177,860	-	-	-	-	-	-
	3,130,283	3,130,283	177,860	-	-	-	-	-	-
	1,596	1,596	-	-	-	-	-	-	-
	20	20	-	-	-	-	-	-	-
	861,011	861,011	45,633	814,378	-	-	-	-	-
	27,746,553	27,746,553	318,200	659,779	5,61	84	477	264	-
	142,563,776	142,563,776	5,645,746	21,523	21,523	-	-	-	-
	(1,644)	(1,644)	(1,644)	(4,576,651)	(41,411,824)	(6,000,228)	(208,616,333)	(32,274,387)	-
	162,343,180	162,343,180	5,222,227	(530,000)	3,165,280	(1,179)	(1,179)	(1,179)	-
Loan Distributions									
	55,374,360	55,374,360	-	-	-	-	-	-	-
	27,590,888	27,590,888	-	-	-	-	-	-	-
	30,783,699	30,783,699	-	-	-	-	-	-	-
	24,232,382	24,232,382	-	-	-	-	-	-	-
	4,006,955	4,006,955	-	-	-	-	-	-	-
	4,414,371	4,414,371	-	-	-	-	-	-	-
	14,848,935	14,848,935	(72,081)	630,000	4,734	(1,179)	2,015	-	-
Cash balances									
	916,810	916,810	25,791	630,000	1,714	(1,179)	2,015	-	-
	13,092,123	13,092,123	(7,877)	14,000,000	-	-	-	-	-
	14,848,935	14,848,935	(72,081)	14,848,935	1,734	(1,179)	2,015	-	-

Notes:

(1) All of the Company's assets are unchanged, there being no secured creditors.

(2) Includes distributions received by Edison Street from its subsidiaries either in settlement of creditor balances or by way of a surplus due to the Company in its capacity as a shareholder.

(3) An adjustment has been made to the prior period in order to reallocate distributions received from subsidiaries previously shown as intercompany, debtor receipts.

(4) The estimated to realise values of assets shown in the directors' statement of affairs do not represent a meaningful comparison with the current position and are therefore excluded.

(5) In prior periods 'Office Costs' were aggregated. This category of costs has been split to separate 'Employee Costs' and 'Serviced Office Provision' to show employee wages and associated costs, respectively.

(6) Payments on behalf of subsidiaries include audit fees and professional costs.

(7) A reclassification has been made to the prior period in order to reallocate 'Payments on behalf of subsidiaries' previously categorised as 'Category 2 disbursements' in error.

(8) Due to the nature of the Company's former business, it is not entitled to recover input VAT on its costs.

(9) A sixth interim dividend of 1.25 pence in the £ was declared and paid to all unsecured creditors.

(10) The Company's GBP and USD accounts are interest-bearing. The EUR and SEK accounts are not interest-bearing.

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

(12) Total cash at 8 June 2017 based on exchange rates at 8 June 2017 was £14,820,275.

Section 6 Expenses

The table below provides details of the Administrators' expenses. Expenses are defined as amounts payable by the Administrators from the estate; they include the Administrators' fees but exclude distributions to creditors. The table also excludes payments made on behalf of subsidiaries and any potential tax liabilities that may be payable as an Administration expense. Tax amounts becoming due will depend on the position at the end of the accounting period and the impact of any tax reform.

The table should be read in conjunction with the receipts and payments account in Section 5, which shows expenses actually paid during the period and the total paid to date.

In estimating future expenses, assumptions have been made relevant to the annual run rate and length of the current period of extension, where appropriate.

	Brought forward from preceding period £k	Paid in the period £k	Cumulative £k	Incurred and not paid £k	Estimated future £k	Anticipated total £k
Legal fees	742	23	765	-	350	1,115
Pension related legal costs	209	-	209	-	-	209
Employee wages and associated costs	802	28	830	-	200	1,030
Administrators' remuneration and disbursements	3,018	178	3,196	57	1,100	4,353
Insurance	314	-	314	-	100	414
Statutory costs	55	11	66	-	36	102
Other supplier costs e.g. bank charges	140	-	140	-	50	190
Irrecoverable VAT	816	45	861	11	344	1,216
Total	6,096	285	6,381	68	2,180	8,629

Section 7 Joint Administrators' time costs for the period 1 December 2016 to 31 May 2017

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate/Support Staff		Total	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and treasury	1.50	1,182	36.25	16,103	11.20	3,300	42.75	10,089	91.70	30,674
Strategy and planning	6.55	5,217	46.25	22,942	6.55	1,915	4.00	944	63.35	31,018
Asset realisations	-	-	1.00	668	-	-	-	-	1.00	668
Creditors and distributions	6.30	5,408	8.05	3,574	9.75	2,642	33.20	7,835	57.30	19,459
Statutory and other compliance	7.45	5,871	19.80	8,966	24.55	6,673	73.95	17,452	125.75	38,962
Tax and VAT	8.50	8,756	7.60	5,054	66.50	27,027	5.65	1,189	88.25	42,026
Total for the period 1 December 2016 to 31 May 2017	30.30	26,434	118.95	57,307	118.55	41,557	159.55	37,509	427.35	162,807
Average hourly rate for the six month period to 31 May 2017										381
Cumulative total to 31 May 2017										3,188,351

Current charge out rates	Business Recovery Services		Specialist	
	Max £/hr From 1 July 2015	Max £/hr From 1 July 2015	Max £/hr From 1 July 2015	Max £/hr From 1 July 2015
Grade				
Partner	899	1,262	1,108	932
Director	788	1,108	680	505
Senior Manager	527	680	235	
Manager	444			
Senior Associate	371			
Associate/Support Staff	236			

The Administrators' remuneration has been fixed by reference to the time properly given by the Administrators and their staff in attending to matters arising in the Administration. The minimum unit for time charged by the Administrators and 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 rates per hour.

Per the agreement with Lehman Brothers International (Europe) ("LBIE")s creditors' committee, the LBIE charge-out rates were held unchanged from 1 July 2012 to 30 June 2015. An increase of 3% in charge-out rates is effective from 1 July 2015 to 30 June 2017, and in line with other Group affiliates controlled by PricewaterhouseCoopers LLPs office holders, this approach is also used for Eldon Street.

Summary of the Joint Administrators' time costs for the period 1 December 2016 to 31 May 2017

Accounting and treasury - £30,674

An essential function for the 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. In the reporting period, interest of c.£16.9k has been generated.

Activities include:

- Reconciliation of bank accounts;
- Provision of information for the purposes of statutory reporting;
- Arranging receipts and payments and coding of movements;
- Monitoring flow of funds into bank accounts;
- Managing funds in various institutions in order to mitigate risk;
- Verifying creditor payment details and processing sixth dividend payments;
- Dealing with funds on the money markets and inputting deals; and
- Dealing with funds held on behalf of subsidiaries and management of receipts and payments.

Strategy and planning - £31,018

The Administrators and their staff continue to invest time in the planning and delivery of their strategy for the progression of the Administration. The Administrators consider that their actions support their objective of achieving a better result for the Company's creditors as a whole than would be likely if the Company were wound up (without first being in Administration) and anticipate that the Company will be dissolved after conclusion of the Administration.

Activities include:

- Review of the strategy for the Administration in relation to various matters and regular team meetings to consider case progression;
- Review of assets in subsidiary companies and discussions regarding how these can be best managed in order to achieve closure of the subsidiary estates;
- Liaison with the independent directors of two of the remaining three solvent subsidiaries regarding matters arising in relation to third parties and the impact on the timing of placing those entities into MVL;
- Discussions with stakeholders in regards to this strategy;
- Distribution strategy and planning;
- Review of financial information including updating the estimated outcome statement; and
- Updating strategy documents.

Asset realisations - £668

The Administrators continue to invest time realising assets for the benefit of creditors.

Activities include:

- Managing receipts of dividends received.

Creditors and distributions - £19,459

Activities include:

- Preparing and advertising notice of intended dividend for the sixth distribution;

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- Calculation the sixth interim dividend to unsecured creditors;
 - Updating the estimated outcome statement;
 - Maintaining creditor schedules; and
 - Responding to creditor queries.

These activities are in accordance with the Administrators' statutory duties.

Statutory and compliance - £38,962

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

- Preparation of Administrators' 16th progress report, including circulating progress report to creditors;
- Statutory filings at Companies House and Court;
- Preparation of receipts and payments account for reports to creditors;
- Preparation of detailed remuneration summary;
- Undertaking the Administrators' six monthly case review summary;
- Maintaining case files, website and database;
- Review of impact of new requirement to maintain a register of people with significant control; and
- Consideration of the Administrators' SIP2 obligations.

Tax and VAT - £42,026

The following tasks were undertaken in accordance with the Administrators' statutory obligations or internal compliance. In addition, certain tasks were undertaken for the benefit of creditors.

- Consideration of strategy with the tax team;
- Preparation of post-appointment tax computations;
- VAT reconciliation and preparation of VAT returns to account for the Company's output tax;
- Senior Accounting Officer work;
- Discussions regarding tax provision;
- Analysis of the tax implications of subsidiary distributions;
- Review and submission of the tax computations for 2015; and
- Commencing preparation of tax accounts for 2016.

Section 8 Estimated future costs and other matters

The Administrators continue to actively progress all matters pertaining to the estate. This includes liaising with the liquidators and independent directors of Eldon Street's solvent subsidiaries and collecting distributions from these entities and LBHI.

The Administrators estimate that their future time costs to complete the Administration will be c.£1.1m, broadly analysed as follows:

	£k
Accounting and treasury	120
Strategy and planning	450
Asset realisations	100
Creditors and distributions	120
Statutory and other compliance	120
Tax and VAT	150
Disbursements	<u>40</u>
	<u>1,100</u>

The above figures assume that:

- the Administration will continue to 30 November 2018, when a further extension would be required;
- time costs relating to compliance and maintenance of the case will be incurred at a similar rate to the reporting period; and
- there will be at least two further distributions to creditors.

In addition, the nature of the work and benefit for creditors and / or whether it needs to be undertaken for statutory or regulatory reasons will be as outlined in Section 7 with regards to activity for the six months to 31 March 2017.

During the next six months the Administrators will continue to comply with their statutory obligations as Administrators and officers of tax, and deal with the remaining solvent subsidiaries.

Relationships

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

Details of subcontracted work

Certain centralised services are undertaken on behalf of Eldon Street by employees retained by LBIE and LB SF Warehouse Limited; this includes the provision of certain tax and VAT services and key staff resource, of which the indirect benefit to the Company's creditors is through cost savings from the centralisation of services. The costs of such services are recharged to Eldon Street on a time costs basis. In the reporting period, Eldon Street has paid c.£28k in relation to the services detailed below.

Service provided	Name of firm / organisation	Reason selected	Basis of fees
Tax Services	LBIE	Prior/Industry knowledge	Time costs
Portfolio Management	LB SF Warehouse Limited	Prior/Industry knowledge	Time costs

Legal firms

The Administrators have instructed the following professionals to assist with various legal matters arising in the Administration. In addition, the directors of the subsidiaries have instructed Reed Smith LLP.

The selection of individual legal firms is determined by the jurisdiction and nature of the advice being sought, and whether a conflict exists.

Service provided	Name of firm / organisation	Reason selected	Basis of fees
Legal services	Linklaters LLP	Industry knowledge	Time costs
Legal services	Reed Smith LLP	Industry knowledge	Time costs

All professional firms instructed by the Administrators are required to provide a narrative explanation in support of invoices. All invoices are reviewed before being approved for payment. The Administrators are satisfied that the level of legal costs are appropriate.