
Lehman Brothers (PTG) Limited – in Administration

Joint Administrators' progress
report for the period 6 November
2018 to 5 May 2019

30 May 2019

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Reliance on data:

We caution creditors against using data in this report as a basis for estimating the value of their claims or their likely eventual entitlement to payment.

Lehman Brothers (PTG) Limited, the Administrators, their firm, its members, partners, staff and advisers accept no liability to any party for any reliance placed upon this report.

Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the 21st progress report prepared by the Joint Administrators (the "Administrators") of Lehman Brothers (PTG) Limited (in Administration) ("LB PTG" 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 5 May 2019 (the "reporting period").

Objectives of the Administration

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

The specific aims of this Administration are to:

- Realise all assets, including cash and interest in real estate, on a managed basis;
- Mitigate so far as possible and agree in principle the claims of all creditors; and
- Continue to manage the investments in LB PTG's subsidiaries to maximise returns to creditors.

Outcome for creditors

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

Total cash distributions of c.£96.3m have been paid to date, equating to a cumulative dividend of 52.7 pence in the pound. Further details can be found in Section 2.

The Administrators expect to make further interim cash distributions, during the administration, although the exact quantum and timings are yet to be determined.

Future reports

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

Signed:



GE Bruce
Joint Administrator
Lehman Brothers (PTG) Limited

EJ Macnamara, R Downs, DA Howell and GE Bruce were appointed as Joint Administrators of Lehman Brothers (PTG) Limited to manage its affairs, business and property as agents without personal liability. EJ Macnamara, R Downs, DA Howell and GE Bruce 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/insolvency-practitioner-code-of-ethics>.*

The Joint Administrators may act as controllers of personal data as defined by UK data protection law depending upon the specific processing activities undertaken. PricewaterhouseCoopers LLP may act as a processor on the instructions of the Joint Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrators' appointment. Further details are available in the privacy statement on the PwC.co.uk website or by contacting the Joint Administrators.

Section 2 Joint Administrators' actions to date

Overview

LB PTG was initially funded by Lehman Brothers Holdings Inc. ("LBHI") with the objective of investing in real estate companies within the Lehman Brothers group, principally Eldon Street Holdings Limited ("ESH") and Thayer Properties Limited.

Creditors will recall that the Company's assets fell into three primary categories:

- (i) Debtor balances due from LB PTG's immediate group as well as the wider Lehman Brothers group;
- (ii) Directly owned interests in commercial real estate; and
- (iii) Investments in subsidiary companies

Administrators' actions to date

Details of the Administrators' steps to realise LB PTG's key assets are set out below.

Debtor realisations

Distributions from UK subsidiaries

LB PTG's principal remaining asset is its £210.6m claim against ESH. In the reporting period, no distributions were received in respect of this claim.

Further recoveries from ESH are contingent upon the following chain of recoveries.

- ESH's ability to make future distributions will be dependent upon its recovery of additional statutory interest from Lehman Brothers Holdings plc ("LBH").
- LBH's future payments will depend on the extent to which it receives further distributions from LB Holdings Intermediate 2 Limited ("LBHI2"). This will be dictated by the outcome of the

Subordinated Debt litigation which is being heard in November 2019.

- Ultimately, LBHI2's future returns will depend upon the final outcome in LBIE's administration and LBHI2's share in the Wentworth joint venture.
- Further details regarding the Subordinated Debt litigation and the Wentworth joint venture can be found at the following link:

- <https://www.pwc.co.uk/services/businessrecovery/administrations/non-lbie-companies/lbhi2-limited-in-administration.html>

These complexities within the Lehman structure make it difficult to estimate LB PTG's eventual recovery from its claim against ESH. As a consequence, the Administrators are unable to provide an indication of the timing and quantum, if any, of future distributions to creditors.

Overseas subsidiary investments

LB PTG owns 51% of an Italian subsidiary known as Initium SRL ("Initium"). Initium is currently in insolvency proceedings, with the liquidator still realising Initium's portfolio of real estate assets.

LB PTG has received no further distributions in the reporting period from Initium although some limited further realisations are anticipated.

Distributions to creditors

Cash distributions to creditors to date total £96.3m, equating to a cumulative dividend of 52.7 pence in the pound. Further distributions are contingent on recoveries from ESH and Initium, the timing and quantum of which remain uncertain.

Corporation Tax

All corporation tax returns up to and including the year ended 5 November 2016 have been agreed by HM Revenue & Customs (“HMRC”). The return for the year ended 5 November 2017 has been submitted to HMRC.

The Finance (No. 2) Act 2017, which includes changes to corporation tax loss relief and interest deductibility, received Royal Assent on 16 November 2017. These new rules are likely to affect the availability of losses for group relief purposes. The changes regarding interest expense restriction and carry forward loss restriction mean that there is a greater possibility of future tax liability.

The Joint Administrators have met their obligations under the Senior Accounting Officer legislation and have complied with their obligation to publish the Lehman group Tax Strategy. In addition the Joint Administrators have adhered to the UK and US Foreign Account Tax Compliance Act and Common Reporting Standards and have considered their obligations under the Corporate Criminal Offence rules.

Administrators’ investigations and actions

Nothing has come to the Administrators’ attention in the course of the Administration or during the reporting period to suggest that any further work is required in accordance with the Administrators’ duties under the Company Directors’ Disqualification Act 1986 and Statement of Insolvency Practice No 2.

Section 3 Statutory and other information

Court details for the Administration: High Court of Justice, Chancery Division, Companies Court - case 9851 of 2008

Full name: Lehman Brothers (PTG) Limited

Trading name: Lehman Brothers (PTG) Limited

Registered number: 04108157

Registered address: 7 More London Riverside, London, SE1 2RT, United Kingdom

Date of the Administration appointment: 6 November 2008

Administrators' names and addresses: EJ Macnamara, R Downs, DA Howell and GE Bruce of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT

Appointer's/Applicator's names and addresses: The directors of the Company, 7 More London Riverside, London, SE1 2RT

Objective being pursued by the Administrators: Achieving a better result for LB PTG's creditors as a whole than would be likely if LB PTG 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 or one or more of the Joint Administrators

Details of any extensions of the initial period of appointment: The High Court of Justice has granted six successive extensions to the Administration period to: 30 November 2010; 30 November 2011; 30 November 2013; 30 November 2015; 30 November 2017; and to 30 November 2019.

Section 4 Financial information

Receipts and payments account

An account of the receipts and payments for the six months to 5 May 2019 and a cumulative total since commencement of the Administration is set out in Section 5.

Administrators' expenses

As outlined in the previous reports, Statement of Insolvency Practice 9 ("SIP9") was revised with effect from 1 December 2015.

As required by 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 January 2009, the Administrators requested and received consent from LB PTG'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 October 2018 to 31 March 2019, together with the cumulative time costs from the date of the Administrators' appointment; and

(ii) a summary of the Administrators' time costs for the period 1 October 2018 to 31 March 2019, including the key categories of work undertaken, details of the work undertaken and a description of why the work was necessary, including if it was undertaken because it was required by statute.

Time costs for period 1 October 2018 to 31 March 2019 total £88k plus VAT, which represents 190 hours at an average hourly rate of £464.

As at 5 May 2019, the Administrators have drawn remuneration of c.£2.3m plus VAT in respect of time costs incurred to 28 February 2019

Disbursements

Category 1 disbursements comprise payments to third parties, for example in relation to travel costs, statutory advertising and insolvency office holders' insurance. The Administrators are not required to seek approval to draw Category 1 disbursements.

Category 2 disbursements are for shared or allocated services provided by our own firm, including room hire, document storage, photocopying, and communication facilities. These must be directly incurred on the case, subject to a reasonable method of calculation and allocation and approved by the same party who approves our fees.

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

No disbursements were incurred or paid in the six months to 31 March 2019.

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 by contacting Lehman.affiliates@uk.pwc.com.

Section 5 Receipts and payments account

	Notes	GBP Movements in Period	EUR Movements in Period	USD Movements in Period
		05-May-19	05-Nov-18	05-May-19
Receipts	1			
Distributions received		96,254,088	96,253,991	1,106,032
Asset realisations		-	-	3,745,180
Loan from group company	30	-	30	-
Sale of tax losses		51,284	51,284	-
VAT refunds repaid to Lehman Brothers Limited		-	-	-
Corporation tax refund		-	-	-
Net tax function costs recharged		249,930	249,930	-
Assets held on trust		399	399	-
Interest received gross		102,898	94,334	-
Total receipts		96,658,629	96,649,968	4,851,212
Payments				
Legal fees		191,163	191,163	-
Professional fees		34,991	34,991	-
Employee wages and associated costs	2	339,719	338,855	-
Joint Administrators' remuneration		2,336,651	2,255,987	-
Joint Administrators' category 1 disbursements		3,406	3,406	-
Payment for group relief		342,723	342,723	-
Statutory advertising		93,968	93,968	-
Insurance		87,150	87,150	-
Pension related legal costs		97,522	97,522	-
Payment on account to HMRC for potential corporation tax liability	3	300,000	300,000	-
IT costs		5,741	5,741	-
VAT irrecoverable	4	477,145	459,967	-
Bank charges		-	-	5
Total payments		4,310,179	4,211,473	5
Intracompany transfers				
Receipt		4,010,127	3,718,840	-
Payment		-	-	(4,850,207)
Total receipts less total payments		96,358,577	96,157,335	1,000 (342,427)
Distributions to unsecured creditors				
1st dividend of 7.50p in the £, declared 29 October 2013		(13,717,755)	(13,717,755)	-
2nd dividend of 10.42p in the £, declared 5 September 2014		(19,058,521)	(19,058,521)	-
3rd dividend of 7.52p in the £, declared 11 March 2015		(13,756,814)	(13,756,814)	-
4th dividend of 6.60p in the £, declared 10 March 2016		(12,071,616)	(12,071,616)	-
5th dividend of 2.55p in the £, declared 9 September 2016	5	(1,524,019)	(1,524,019)	(4,163,345)
6th dividend of 3.488p in the £, declared 16 March 2017		(6,378,989)	(6,378,989)	-
7th dividend of 6.903p in the £, declared 11 September 2017		(12,625,933)	(12,625,933)	-
8th dividend of 5.470p in the £, declared 21 March 2018		(10,005,625)	(10,005,625)	-
9th dividend of 2.246p in the £ declared 14 September 2018		(4,107,349)	(4,107,349)	-
Total distributions		(93,246,621)	(93,246,621)	(4,163,345)
Cash in hand / (movement in year)		3,111,956	2,910,714	1,000 (342,427)
Cash balances				
HSBC	6	3,111,956	2,910,714	1,000 (342,427)
Money market		-	-	-
Total cash	7, 8	3,111,956	2,910,714	1,000 (342,427)

Notes

- All of the Company's assets are uncharged, there being no secured creditors.
- Quarterly recharge to Lehman Brothers International (Europe) for providing Tax services, benefiting creditors through cost savings from the centralisation of services.
- Payment on account to HMRC in respect of the potential corporation tax liability arising from (i) subsidiary Grace Hotels final distribution and (ii) held over gain triggered by distributions from ESH.
- Due to the nature of the Company's former business, it is not entitled to recover input VAT on its costs.
- The fifth interim dividend of 2.55 pence in the pound was paid to unsecured creditors with the payment made from funds held in Sterling (£1.5m) and US Dollars (\$4.2m).
- GBP and USD funds are held in an interest bearing account. EUR accounts are non interest bearing.
- 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.
- The total GBP equivalent cash in hand at the exchange rate on 5 May 2019 is £3,112,821.

Section 6 Expenses

The following table 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 any potential tax liabilities (other than VAT) that may be payable as an Administration expense, as amounts becoming due will depend on the position at the end of the tax 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 reporting period and to date.

In estimating future expenses, assumptions have been made relevant to the annual run rate and length of the current period of extension to the Administration, 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	192	-	192	-	720	912
Pension related legal costs	98	-	98	-	-	98
Employee wages and associated costs	338	1	339	-	100	439
Joint Administrators' remuneration and disbursements	2,259	81	2340	15	865	3,220
Other*	222	-	222	-	56	278
Irrecoverable VAT	459	17	476	3	328	807
Total	3,568	99	3,667	18	2,069	5,754

*Other costs include statutory advertising, insurance, IT costs and professional fees.

Section 7 Joint Administrators' time costs for the period 1 October 2018 to 31 March 2019

Classification of work	Partner / Director		Senior Manager / Manager		Senior Associate		Associate / Support Staff		Total	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	-	-	35.10	17,565	23.15	8,377	6.95	1,444	65.20	27,386
Creditors	-	-	0.30	177	-	-	-	-	0.30	177
Statutory and Compliance	3.25	2,665	28.55	15,100	42.85	12,603	-	-	74.65	30,368
Strategy and Planning	4.40	3,838	22.40	12,301	0.85	344	-	-	27.65	16,483
Tax and VAT	4.10	5,098	7.95	6,063	3.90	1,238	6.05	1,341	22.00	13,740
Total for six months ended 31 March 2019	11.75	11,601	94.30	51,206	70.75	22,562	13.00	2,785	189.80	88,154
Average hourly rate for the six month period to 31 March 2019										464
Cumulative total to 31 March 2019										2,344,141

Notes:	Current charge out rates	Business Recovery Services	Specialists
		£/hr	£/hr
	Grade	From 1 July 2017	From 1 July 2017
(1) The cumulative total refers to the time costs incurred to 31 March 2019, of which £2,336,651 has been paid.	Partner	935	1,312 - 1,445
(2) Time costs are net of VAT.	Director	820	1,039 - 1,325
	Senior Manager	465 - 590	638 - 1,020
	Manager	365 - 510	583 - 735
	Senior Associate	200 - 425	310 - 545
	Associate/Support Staff	95 - 265	160 - 290

Summary of the Joint Administrators' time costs for the period 1 October 2018 to 31 March 2019

Accounting and treasury - £27,386

This is 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.

Activities include:

- Provision of information for the purposes of statutory reporting;
- Arrangement of receipts and payments of funds and coding of movements;
- Monitoring flow of funds into the bank accounts; and
- Reconciliation of bank accounts.

Creditors - £177

In accordance with their duties, the Administrators have responded to creditors' requests for information where applicable.

Activities include:

- Maintaining and updating the schedule of creditors' claims received and adjudicated;
- Updating the creditor database as necessary due to assignments of creditor claims; and
- Consideration of future distributions to unsecured creditors.

Statutory and compliance - £30,368

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

- Preparation and circulation of the Administrators' 20th progress report to creditors;
- Preparation of a receipts and payments account, detailed remuneration and future expenses summaries for the progress report;
- Statutory filings at Companies House and the Court;
- Managing and updating communications on LB PTG's dedicated website;
- Preparation of the Administrators' internal six monthly case review in accordance with professional requirements;
- Maintaining case files/ records and the LB PTG database; and
- Dealing with other ad-hoc compliance and statutory issues.

Strategy and planning - £16,483

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

Activities include:

- Consideration of strategy including planning of future distributions to maximise the outcome for LB PTG's creditors and updating strategy documents;
- Discussion with stakeholders in regards to this strategy;
- Ongoing review and maintenance of financial information, including an estimated outcome statement;
- Ongoing review of the remaining assets in subsidiary companies and managing these in order to achieve closure of the subsidiary estates;
- Regular case team meetings to manage case progression; and
- Liaison with specialist internal teams.

Tax and VAT – £13,740

The following tasks were undertaken for VAT and tax compliance purposes:

- Reconciliation, preparation and submission of the quarterly VAT returns;
- Dealing with corporation tax and VAT queries;
- Preparation and submission of the 2017 corporation tax return
- Review of tax provision pre-distribution;
- Compliance with the Administrators' responsibilities under the Tax Strategy and Corporate Criminal Offence legislation;
- Review CIR status for PTG under new tax legislation; and
- Attending quarterly meetings with the Administrators team.

Section 8 Estimated future time costs and other matters

The Administrators continue to actively seek the most efficient strategy for realising and distributing the remaining assets to the Company's creditors. LB PTG's principal remaining asset is its £210.6m claim against ESH, and the complexities affecting LB PTG's recovery from ESH have been outlined earlier in the report. In the meantime, the Administrators continue to progress all other matters in relation to the estate.

The Administrators currently estimate that their future time costs and disbursements to complete the Administration will be c. £865k, broadly analysed as follows:

Classification of work	£'000
Accounting and treasury	110
Creditors	165
Statutory and other compliance	290
Strategy and Planning	220
Tax and VAT	80
Total	865

The above figures assume that:

- The Administration will be extended for a further period;
- Time costs relating to compliance and maintenance of the case will be incurred at a similar rate to that incurred in the reporting period; and
- There will be further distributions to unsecured creditors.

The type of the work and whether it is to the benefit of creditors and / or whether it needs to be undertaken for statutory or regulatory reasons will be as outlined in Section 7 in regard to activity for the six months to 31 March 2019.

The Administrators will continue to realise the Company's assets, the quantum and timing of which are uncertain due to the debts being held in complex estates, to facilitate further distributions to creditors. This work is likely to extend beyond 30 November 2019, which is the date to which the Court has extended the Administration.

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 LB PTG by employees retained by LBIE. These include the provision of certain Tax and VAT services and key staff resource. The costs of such services are invoiced directly and shown as "Employee wages and associated costs" (include wages, annual bonus and serviced office costs) on the receipts and payments account in Section 5.

Service provided	Name of firm / organisation	Reason selected	Basis of fees
Tax Services	<i>LBIE</i>	<i>Industry knowledge</i>	<i>Time costs</i>
Investment Management	<i>MCD SRL</i>	<i>Industry / Prior Knowledge</i>	<i>Time costs</i>
Portfolio Management	<i>LB SF Warehouse Limited</i>	<i>Industry / Prior Knowledge</i>	<i>Time costs</i>

Legal and professional firms

The Administrators have instructed the following legal professionals on this case. 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:	<i>Linklaters LLP</i>	<i>Industry knowledge</i>	<i>Time costs</i>

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 and professional costs are appropriate.