
Lehman Brothers Limited – In Administration

Joint Administrators' progress
report for the period 15 September
2016 to 14 March 2017

7 April 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 Lehman Brothers Limited ("LBL" or the "Company") under Rule 2.47(3)(a) of the Insolvency Rules 1986 ("IR86").

This report provides an update on the work that the Administrators have undertaken, with particular focus on the progress between 15 September and 14 March 2017 (the "reporting period").

Objectives of the Administration

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

The specific aims of this Administration have included:

- Realise all assets of LBL, where value may exist;
- Provide ongoing employee and infrastructure support to the other Group companies that are in Administration in exchange for appropriate reimbursement;
- Mitigate, so far as possible, any further liabilities against LBL by the transfer or termination of contracts; and
- Adjudicate the claims of creditors and pay distributions to creditors with admitted claims.

Creditors' Committee

The Administrators regularly meet with the Creditors' Committee (the "Committee") to explain how key aspects of the Administration are being dealt with and to consult with the Committee on critical issues.

To date, the Administrators have held 25 meetings with the Committee. The next meeting is yet to be formally confirmed, but at present is planned for May 2017.

During the reporting period, Heron Quays (HQ2) T1 Limited ceased to be a creditor of LBL and therefore its membership of the Committee terminated automatically.

LB Holdings Intermediate 2 Limited ("LBHI2") will shortly be appointed as a replacement with the agreement of the remaining Committee members.

LBHI2 is a major creditor of LBL and is also a party to the "Waterfall" proceedings (see below) in which the positions of LBHI2 and LBL are aligned on many (but not all) issues.

Outcome for unsecured creditors

Creditors will recall that the Administrators have paid a dividend of 100p in the £ to former employees on admitted preferential unsecured claims (comprising claims for unpaid wages and holiday pay). The Administrators have also declared and paid a first interim dividend of 1.66p in the £ to ordinary unsecured creditors.

Creditors who have not yet submitted a claim are asked to do so as soon as possible. Further information is available at:

<http://www.pwc.co.uk/services/business-recovery/administrations/lehman/lbl-in-administration.html>

The timing and quantum of any future dividend remain uncertain and are subject to complex, ongoing litigation termed the "Waterfall" proceedings. Further information regarding the "Waterfall" proceedings is provided in Section 2.2.

Potential Settlement of Waterfall III

Progress has been made in the negotiation of commercial terms upon which matters addressed by the Waterfall III proceedings might be settled. Further information is provided in Section 2.2.

Extension of the Administration

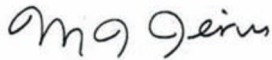
On 4 November 2016, the Court granted the Administrators' application for an extension to the Administration by a further four years to 30 November 2020.

The extension does not prevent the Administrators from bringing the Administration to an end at such earlier time as the objectives of the Administration have been achieved.

Future reports

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

Signed:



MJA Jervis
Joint Administrator
Lehman Brothers Limited

MJA Jervis and Z Hussain were appointed as Joint Administrators of Lehman Brothers Limited to manage its affairs, business and property as agents without personal liability. MJA Jervis and Z Hussain 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

Creditors will be aware that before the Administration, LBL held most of the UK service and employee contracts on behalf of the Lehman Brothers Group of companies (the "Group"), and provided all HR, IT, property, accounting and other services for the Group in the UK and Europe.

Following the Administrators' appointment, LBL continued to provide services to the other UK based Lehman Brothers Companies that are in Administration (the "Lehman Administration Companies"). On 31 May 2013, the Administrators agreed with Lehman Brothers International (Europe) ("LBIE") and other Lehman Administration Companies to transfer to LBIE the then continuing services and the 400 retained employees.

Throughout the Administration the Administrators have utilised specialist teams from their firm PricewaterhouseCoopers LLP ("PwC"), who have worked with retained LBL and latterly LBIE employees to ensure that LBL's operations are properly coordinated and the objectives of the Administration are met.

As at the date of the Administration, LBL's primary assets included inter-company receivables, tax refunds, IT assets and fixtures & fittings. The management and realisation of these assets have been undertaken by separate workstream teams (e.g. the Intercompany team) to maximise the outcome for LBL's creditors as a whole. In the period, teams have been maintained as necessary to support the Waterfall litigation process.

Key progress from 15 September 2016 to 14 March 2017 includes:

- Completing the recovery of LBL's claim against Lehman Brothers Luxemburg Investment S.A.R.L ("LBLIS");
- Ongoing participation in the "Waterfall" proceedings, progress on which is explained in more detail below and upon which the outcome for creditors is materially dependent;
- Reaching a settlement with the landlord of LBL's leasehold interest in the Group's former premises at 25 Bank Street, Canary Wharf ("25 Bank Street");
- Continued adjudication of claims of unsecured non-preferential creditors and payment of further catch-up dividends totalling £11.4k;

- Corresponding with the remaining 16 Employment Tribunal claimants to bring these to a conclusion;
- Liaising with LBIE and Lehman Brothers Europe Limited ("LBEL"), in respect of inter-company balances;
- Continued pursuit and recovery of amounts due to LBL from other Group companies.

Receipts and payments account

The receipts and payments account at Section 7 shows cash held increasing by £23.8m to £390.4m in the reporting period. Key movements include:

- Intercompany debtor recoveries of c. £36.3m;
- VAT of c. £6.9m recovered in LBL's capacity as the representative member of the VAT group;
- Administrators' fees and legal costs of £12.6m; and
- Accounting to other Lehman Administration Companies for VAT refunds of c. £6.4m.

As set out in earlier Progress Reports, all of the Company's assets are uncharged, there being no secured creditors.

The receipts and payments account does not show estimated to realise values from the directors' statement of affairs as this would not provide a meaningful comparison with actual asset recoveries. Given the nature of the Company's assets and ongoing realisations, the Administrators are not in a position to provide an estimate of the final outcome for creditors.

Statement of expenses

A statement of expenses incurred in the reporting period and an estimate of future expenses is set out at Section 8.

Investigations and actions

No matters have come to the Administrators' attention during the period under review to suggest that they need to do any further work pursuant to their duties under the Company Directors' Disqualification Act 1986 and Statement of Insolvency Practice No.2.

2.1 Intercompany balances

Overview

As set out in previous reports, the global nature of the Lehman business, with highly integrated trading and non-trading relationships across the Group, led to a complex series of intercompany positions at the date of Administration. These included 289 debtor and creditor balances between LBL and the rest of the Group, representing at book value £1.2bn of receivables and £0.7bn of payables. Of these, c. £1.1bn (>90%) of receivables relate to five relationships. In addition, LBL held guarantees from Lehman Brothers Holdings Inc (“LBHI”) in respect of claims against some other Group companies.

As a service company, LBL recharged to other group companies the costs it incurred in the provision of services. In excess of 95% of such costs were charged to either LBIE or LBEL.

Progress

The Intercompany team has continued to make progress in the agreement and recovery of a number of significant receivable balances such that these amounts can ultimately be made available to LBL’s unsecured creditors.

The Administrators are still seeking to finalise, where possible, adjustments to the balance sheet. Discussions with the Administrators of LBIE and LBEL have continued in this respect alongside wider discussions on the potential settlement of Waterfall III (see Section 2.2 below), which address amongst other matters the scope of recharges by LBL.

The Waterfall III proceedings continue and it is not yet possible to indicate the final account balance between LBL and LBIE.

For similar reasons, the final balance between LBL and LBEL is also uncertain.

To date, LBEL has paid dividends totalling 100p in the £ to its unsecured creditors, whose claims have been admitted.

LBEL is likely to pay a surplus to its shareholder, Lehman Brothers Holdings Plc (“LBH Plc”). The amount of any such surplus depends on a number of factors including the inter-company balance with LBL.

LBL is the largest creditor of LBH Plc by value, with an admitted claim of £709m.

LBLIS

- LBL has now finalised the position with LBLIS in relation to LBL’s claim of \$225m. \$43m was received in the reporting period, resulting in a full recovery of the debt plus interest of c. \$10m. A reimbursement of £380k was also received for costs borne by LBL on behalf of LBLIS.

Other material developments include:

- As creditors are aware, a Plan of Reorganisation of LBHI and the other Affiliates in US Chapter 11 proceedings became effective on 6 March 2012. To date, LBL has received distributions totalling £80.2m (\$118.3m). Distributions of \$5.1m were received in the reporting period. The total recovery from these claims remains uncertain, but further distributions are anticipated on a six monthly basis;
- In November 2016, Lehman Brothers Capital GmbH paid a first and final distribution of 95% of the outstanding debt which resulted in €748k being received into the estate; and
- A number of smaller recoveries have been received from group companies in a variety of jurisdictions, and further recoveries are anticipated.

The Intercompany team continues to proactively progress approximately 20 other Group balances where there remains a reasonable prospect of future realisations.

2.2 Waterfall proceedings

The “Waterfall” proceedings insofar as they relate to LBL address (1) LBL’s potential liability as the registered holder of one share in LBIE, an unlimited company, and (2) the recharges made by LBL to other Group companies in respect of costs incurred. The outcome of the “Waterfall” proceedings will to a large extent determine the total amount of claims admitted in LBL’s estate, and therefore the dividend that might ultimately be paid to LBL’s creditors.

“Waterfall I” application

As previously reported, the Administrators applied to the High Court jointly with the Administrators of LBIE and LBHI2 (the majority shareholder of LBIE) for directions in relation to the potential liability of LBL and LBHI2 in respect of shares held in LBIE, an unlimited company, and in relation to subordinated debt owed by LBIE to LBHI2 (the “Waterfall I” application).

In March 2014, the Waterfall I judgment was handed down.

The judgment addressed a number of questions. In particular, it was held that when LBIE has gone into Liquidation, but not before, the shareholders of LBIE may be subject to calls to provide funds to enable LBIE to pay additional sums, including statutory interest, “non provable debts” such as foreign exchange losses, and subordinated debts. LBIE remains in Administration and has not gone into Liquidation. However, it was further decided that even though it is not in Liquidation, LBIE may make a contingent claim against its shareholders in respect of amounts that it would (if in Liquidation) call on its shareholders to pay.

The Administrators of LBL, LBIE and LBHI2, and LBHI, were given leave to appeal some parts of the judgment. The appeal was heard over five days at the end of March 2015 and judgment was handed down on 14 May 2015. The appeal judgment upheld key elements of the judgment at first instance. The Supreme Court subsequently granted LBL, LBHI2 and LBIE leave to appeal. The Supreme Court appeal was heard in October 2016 and the judgment is still awaited.

As previously reported, LBIE has submitted a claim for £10.4bn in the estate of LBL. This is formed of three components as follows:

1. A pension debt of £119m (in respect of the claim made by the Trustees of the Lehman Brothers Pension Fund under s.75 of the Pensions Act 2004, purportedly assigned to LBIE);
2. An inter-company claim of £254m relating to the net balance asserted to arise from recharges

of costs by LBL (see Section 2.1 of this report); and

3. A contingent contribution claim of £10bn, for the estimated deficiency in LBIE’s estate including statutory interest, “non provable debts” such as foreign exchange losses, and subordinated debts.

No elements of LBIE’s claim have been admitted by LBL.

LBL acted at all times as a service company, and recharged all costs incurred in the provision of services. Accordingly, LBL has lodged proofs of debt in LBIE, LBEL and LBHI2 including recharges of LBIE’s contribution claim on the basis that the share in LBIE was registered in LBL’s name as a service to one or more of them and the contribution claim (if a liability of LBL) is a cost of providing services and therefore subject to recharge.

“Waterfall II” application

As previously reported, the Administrators of LBIE have made another application to the Court (the “Waterfall II” application) for directions in relation to a number of questions relating principally to the nature and quantum of LBIE’s liabilities.

Given the scope of the Waterfall II Application, the issues have been separated into three parts and a separate procedural timetable and trial for each part has been agreed. Parts A and B were heard in February and May 2015. The judgments for Parts A and B were handed down on 31 July 2015. The parties have been granted leave to appeal and the appeal of a number of issues decided in Parts A and B, and of some supplemental issues, has been listed for hearing in April 2017. Part C was heard in November 2015 and judgment handed down in October 2016. It is as yet not known whether there will be appeals of any of the judgment in Part C and of supplemental issues decided at the same time.

LBL is not party to the Waterfall II application, but its outcome may materially impact the potential liabilities of LBIE, and consequently may also impact the potential liability of LBL as the registered holder of a share in LBIE. The Administrators therefore continue to closely monitor this application and have reserved the right to apply to the Court to be joined, should it appear necessary to do so to ensure that all credible arguments that would operate so as to reduce any contribution claim by LBIE are put to the Court.

“Waterfall III” application

Waterfall III concerns the basis on which LBL held one share in LBIE, any consequential impact on the liability of LBL for any deficiency in LBIE, and the treatment of any such liability in LBL by reason of LBL’s role as a service company recharging its costs, the inter-relationship between LBL and LBHI2 (LBIE’s majority shareholder), and otherwise.

As previously reported, a case management hearing was held on 24 June 2016 with LBIE seeking a trial commencing in November 2016. This was resisted by LBL and a hearing was listed by the Court for February 2017.

A further hearing was held on 4 November 2016 on the application of the LBL Administrators to join LBH Plc to the proceedings as a potential shareholder.

At the same hearing the application was split into issues of law (‘Part A’) and of fact (‘Part B’) at the request of LBIE, LBHI2, LBEL and LBH Plc. This split was opposed by LBL on the grounds that the factual and legal issues are inextricably intertwined.

LBL’s principal position paper was filed with the Court on 30 September 2016. The paper laid out the Administrators’ stance on the issues relevant to the proceedings informed by review team analysis, statutory and other records, initial witness interviews and legal analysis undertaken.

Between November and December 2016 position paper responses were filed by LBIE, LBHI2, LBEL and LBH Plc. In response to these submissions, the LBL Administrators submitted a further position paper on 30 December 2016.

Shortly after the filing and exchange of skeleton arguments, the Part A trial took place in February 2017, over 8 days. Judgment has been reserved pending judgment by the Supreme Court of the appeals in Waterfall I.

Potential Settlement of Waterfall III

On 29 March 2017, LBIE issued an announcement regarding a proposed settlement of the Waterfall III proceedings.

On the same day the LBL Administrators published their own announcement confirming that progress had been made in negotiation of commercial terms upon which matters addressed by the Waterfall III proceedings might be settled. The proposed commercial terms are considered likely to be beneficial for LBL’s creditors and LBL’s Administrators continue to engage actively in

negotiation of the proposed settlement.

The Waterfall III proceedings have not been stayed pending agreement of any settlement and therefore the LBL Administrators continue to prepare actively for the trial of the Waterfall III Part B issues, listed to be heard in September 2017.

The proposed settlement is subject to the judgment to be handed down by the Supreme Court in the Waterfall I proceedings, to final documentation being agreed between the relevant parties, and to any directions that are needed from the High Court being made. It is therefore premature to comment in detail upon the proposed settlement and the potential financial impact for LBL’s creditors.

The LBIE announcement is available at the following website: <http://www.pwc.co.uk/lehman>.

2.3 Creditor claims and dividend prospects

Preferential creditors

As creditors are aware from previous reports, a dividend of 100p in the £ has been paid to preferential creditors whose claims have been admitted. Approximately 95% of expected claims by value have now been agreed and paid. The Administrators continue to deal with new preferential claims as and when they are submitted.

Unsecured creditors

Claims agreement

Unsecured claims as at 14 March 2017 can be summarised as follows*:

	£m
Received	208.9
Less: Admitted	(172.4)
Less: Rejected	(15.6)
Balance under review	20.9

* Excludes claims from LBIE, LBEL and LBHI2 contingent upon the outcome of Waterfall III. See "claim reserves and dividend prospects" below.

Any creditor who has yet to submit their claim should do so as soon as possible. Further information is available at:

<http://www.pwc.co.uk/services/business-recovery/administrations/lehman/lbl-in-administration.html>

Claims and supporting documentation can be submitted via email to lbl.enquiries@uk.pwc.com

Claims under review

Work to assess the validity of nine claims totalling £20.9m has continued with one claim for c. £3.4m having been resolved shortly after the end of the reporting period.

Employee claims

The Administrators' steps to address the claims of a small number of unsecured employee creditors are ongoing.

The Administrators have also invited 16 former employees with outstanding Employment Tribunal ("ET") claims to withdraw their ET claims and submit

proofs in the Administration instead so that their claims can be adjudicated for dividend purposes.

Catch up dividends

It is the Administrators' policy to make periodic catch up dividend payments to creditors as and when claims are agreed. During the reporting period, additional catch-up dividends of £11.4k were paid. The level of newly adjudicated claims will be kept under review and catch up dividends paid at such a time as it is economically viable to do so.

25 Bank Street claim

As previously reported, the landlord of 25 Bank Street appealed the Administrators' rejection of its claim, which was substantial and complex. The Court hearing was scheduled for February 2017. The parties have agreed a settlement to resolve the proceedings; the terms of which are confidential.

Claim reserves and dividend prospects

The Administrators continue to reserve for claims totalling £11.1bn, including inter-company claims from LBIE, LBHI2 and LBEL. The quantum and timing of future dividends remain uncertain and are materially dependent upon the issues discussed in Section 2.2 and this section.

Issues and priorities

The Administrators' priorities in relation to creditor claims not affected by the Waterfall litigation for the next six months are to:

- Review, adjudicate and pay preferential claims of former employees as these are received; and
- Continue to review and adjudicate outstanding unsecured claims, including dealing with any new claims received, and paying catch up dividends on agreed claims.

2.4 Tax planning and compliance

Overview

Prior to entering Administration, LBL coordinated the group corporate tax, VAT and PAYE affairs. Since Administration, this role has diminished but LBL continues to act as representative member of the Lehman VAT group and coordinates the historic Group loss allocation for corporation tax purposes.

Progress

Specific progress in the reporting period includes:

Corporation Tax

- Preparation the 2015 and 2016 tax returns.
- Providing tax advice and support in relation to the Waterfall III application.
- Compliance with the Administrators' responsibilities under Senior Accounting Officer ("SAO") legislation.
- Adherence to the UK and US Foreign Account Tax Compliance Act ("FATCA") and Common Reporting Standards ("CRS").

VAT

- All group VAT returns have been submitted up to, and including, the quarter ended November 2016.
- LBL has received repayments from HM Revenue & Customs ("HMRC") for the August and November 2016 quarters totalling £1.56m.

PAYE and other employment taxes

- As at the date of the Administrators' October 2016 report, the Trustees of the Lehman Brothers Employment Benefit Trust ("EBT") had contacted the remaining five former Lehman employee beneficiaries to finalise open issues and seek a settlement with HMRC of the EBT PAYE liabilities. To date, none of the employee beneficiaries have taken up the HMRC offer of settlement.

Future work

Over the next six months, the tax team's work will include:

- Finalising and submitting the corporate tax return to 31 May 2015 and 31 May 2016;
- Drafting the group relief agreement for 2015;
- Finalising the intercompany reconciliation process;
- Liaising with HMRC to finalise its unsecured claim;
- Providing tax advice and support in relation to the Waterfall III application;
- Complying with SAO, FATCA and CRS as required; and
- Preparation of the VAT return for the quarter ended February 2017.

Section 3 Statutory and other information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - Case 7945 of 2008
<i>Full name:</i>	Lehman Brothers Limited
<i>Trading name:</i>	Lehman Brothers Limited
<i>Registered number:</i>	846922
<i>Registered address:</i>	7 More London Riverside, London, SE1 2RT
<i>Date of the Administration appointment:</i>	15 September 2008
<i>Administrators' names and addresses:</i>	MJA Jervis and Z Hussain, of PricewaterhouseCoopers LLP, 7 More London Riverside, SE1 2RT
<i>Changes in Administrator:</i>	Z Hussain replaced D Schwarzman, AV Lomas, S Pearson and G Parr on 1 June 2016
<i>Appointer's / applicants' name and address:</i>	High Court of Justice, Chancery Division, Companies Court on the application of the directors of the Company, 25 Bank Street, London, E14 5LE.
<i>Division of the Administrators' responsibilities:</i>	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 Court has granted five successive extensions to the Administration to: 30 November 2011; 30 November 2013; 30 November 2014; 30 November 2016; and 30 November 2020.
<i>Estimated dividend for unsecured creditors:</i>	<p>An Order was granted giving the Joint Administrators leave to pay distributions to (non-preferential) unsecured creditors of LBL.</p> <p>The Joint Administrators declared and paid a first interim dividend of 1.66p in the £ to the unsecured creditors on 15 December 2014. The timing and quantum of any future dividends are currently uncertain.</p>

Section 4 Joint Administrators’ remuneration and other matters

Background

In this case, the Committee is responsible for agreeing the basis and quantum of the Administrators’ remuneration.

The Insolvency Rules (“IR86”)

By way of context, the manner in which the Administrators’ remuneration is determined and approved is set out in Rules 2.106 to 2.109 IR86.

There are two alternative fee bases under IR86, either:

- A percentage of the value of the property with which the administrator has to deal; or
- By reference to the time properly given by the administrator and his staff in attending to matters arising in the administration.

IR86 also provides 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 administrator;
- The effectiveness with which the administrator appears to be carrying out, or to have carried out, their duties; and
- The value and nature of the property which the administrator has to deal with.

Statement of Insolvency Practice No. 9 (“SIP9”)

In addition to IR86, SIP9, issued by the Joint Insolvency Committee, provides guidance to insolvency practitioners in relation to the disclosure of payments to insolvency office holders and their associates.

The purpose of SIP9 is to set out the principles and key compliance standards with which insolvency practitioners are required to comply with regard to the provision of information to creditors and other interested parties who have a financial interest in the level of office holders’ remuneration, disbursements and expenses paid from an insolvent estate.

In accordance with SIP9, which was revised with effect from 1 December 2015, Section 5 shows a summary of the work undertaken by the Administrators in the reporting period and, to the extent that is not prejudicial to the interests of the Company, the expected future work the Administrators are to carry out to achieve the purpose of the Administration is shown in Section 2.

Creditors have the right to ask for information and challenge the Administrators’ fees if they believe that they are too high. Creditors 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>

A copy, free of charge, can be obtained from the Administrators.

Resolutions of the Creditors’ Committee

Given the fundamental uncertainties about the value of the property with which the Administrators have to deal, the Committee resolved that the Administrators’ remuneration be based on the ‘time properly given’ basis – i.e. an hourly billing basis.

The Committee also resolved that the Administrators may draw 75% of their time costs on account to assist with the smoothing of working capital. All such costs are subject to detailed reporting to the Committee and the extent to which the Administrators can draw remuneration is subject to its approval.

Costs incurred and approved to date

To 14 March 2017, the Administrators have drawn fees of £32.0m, including £0.7m of disbursements (exclusive of VAT) in accordance with the Committee resolution and approvals. These fees are shown in the receipts and payments account at Section 7. During the reporting period, the Administrators drew fees of £4.3m on account of their time costs.

The time cost charges incurred in the period 1 September 2016 to 28 February 2017 are £3.29m.

An analysis of the total hours and cost incurred by grade of staff can be found at Section 5.

Hourly rates

The following table summarises the hourly rate ranges charged per hour for the grades of staff who have already worked on the Administration during the reporting period:

Grade	Min Rate (£)	Max Rate (£)
Partner	781	1,119
Director	336	1,108
Senior Manager	318	932
Manager	281	632
Senior Associate	166	416
Associate	56	236

Payments to associates

LBIE costs of £15.4k were paid for work done in facilitating access by LBL to information held in the UK Lehman archive.

Costs incurred by PricewaterhouseCoopers LLP (US) for advice on US tax matters in relation to the Waterfall III application are included in the analysis of the Administrators time costs at Section 5. These costs are subject to and drawn in line with the approval of the Committee.

Subcontractors

No work was subcontracted by the Administrators in the reporting period.

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.

Legal and other professional firms

A summary of legal advisors instructed by the Administrators can be found at Section 6. The Administrators are satisfied that the level of legal and professional costs are appropriate.

Disbursements

The Administrators do not need approval to draw expenses or disbursements unless they are for shared or allocated services provided by their own firm, including room hire, document storage, photocopying, communication facilities. These "Category 2" disbursements must be directly incurred on the case, subject to a reasonable method of calculation and allocation and approved by the same party who approves their fees.

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

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

The following disbursements were incurred in the reporting period:

Description	Category 1 (£)	Category 2 (£)
Reimbursement of staff expenses	6,127	3,065
Posting and Printing	330	785
IT/ Licence costs		116,457
Total	6,457	120,307

Section 5 Analysis of the Joint Administrators' time costs

The table below summarises time spent by the Administrators and their staff in the six month period from 1 September 2016 to 28 February 2017.

Reporting Category	Partner		Director		Senior Manager		Manager		Senior Associate		Associate		Total	
	Hours	Cost £	Hours	Cost £	Hours	Cost £	Hours	Cost £	Hours	Cost £	Hours	Cost £	Hours	Cost £
Strategy and planning	44	38,817	-	-	107	56,547	52	22,866	13	4,934	75	17,747	291	140,911
Statutory and compliance	-	-	-	-	1	632	96	42,475	99	36,896	219	51,790	415	131,793
Accounting and Treasury	1	391	-	-	10	5,138	81	35,742	201	61,033	126	29,701	419	132,005
Tax and VAT	29	31,984	75	75,525	59	45,824	134	78,782	153	60,897	31	6,743	481	299,755
Intercompany	-	-	-	-	32	16,811	11	5,017	40	11,348	29	6,797	112	39,973
Litigation	314	278,955	232	141,156	914	462,353	1,192	556,528	1,837	651,824	697	99,542	5,186	2,190,358
Employee and creditor claims	112	100,239	18	13,947	104	54,782	176	73,966	184	59,540	229	50,615	823	353,089
Total	500	450,386	325	230,628	1,227	642,087	1,742	815,376	2,527	886,472	1,406	262,935	7,727	3,287,884
Average rate (£/Hour)		901		710		523		468		351		187		426

Summary of time costs incurred to 28 February 2017	Cost £
Cumulative time costs to 31 August 2016	28,227,023
Time costs incurred in the period 1 September 2016 to 28 February 2017	3,287,884
Total	31,514,907

Examples of work undertaken in the six month period to 28 February 2017, broken down by category are as follows:

Strategy and planning - £141k

This work relates to directing and coordinating the overall conduct of the Administration so that it is progressed in a timely and efficient manner for the benefit of the Company's creditors. Key activities include:

- Considering and directing the overall strategy for LBL, including engagement with stakeholders;
- Oversight of the claims' adjudication process;
- Directing LBL's engagement in the Waterfall I, II and III applications for directions;
- Interactions with LBIE's Administrators in relation to the pension claim, recharges and the contribution claim;
- Coordinating, directing and resourcing workstream activities;
- Oversight of reporting and accounting, including periodic meetings to monitor progress;
- Coordinating Waterfall III settlement discussions; and
- Oversight of funds management and investment strategy.

Statutory and compliance - £132k

Work the Administrators undertake in order to ensure compliance with statutory and regulatory requirements. Key activities include:

- Extending the period of the Administration, including attending Court hearing and and filing notice at Companies' House;

- Reporting to the Committee at meetings held on 21 October 2016 and 20 January 2017;
- Communications to and consultations with Committee members in relation to the Waterfall III proceedings and other matters;
- Preparing and issuing September progress report to unsecured creditors;
- Six monthly review of case progress;
- Releasing bonds for the former joint administrators in accordance with the order of the Court.
- Other statutory filings at Companies House and Court;
- Recording, monitoring and reporting of time spent by Administration case staff; and
- Reviewing and approving legal and other third party costs and invoices.

Accounting and treasury - £132k

Work reported in this category relates to LBL's accounting and treasury activities to maximise interest receipts, manage liquidity and minimise financial risk, preserving value for creditors. Key activities include:

- Investment, monitoring and control of LBL's free cash resources, including ensuring cash held at best rates only in approved banks and subject to frequently reviewed limits;
- Monitoring investment strategy and reviewing in response to changing market conditions;
- Reviewing liquidity and investment maturities to ensure sufficient cash to meet administrators' expenses;

- Periodic audit of treasury processes and procedures;
- Adherence to the UK and US Foreign Account Tax Compliance Act and Common Reporting Standards (“FATCA”);
- Preparing of periodic receipts and payments reports and information to support financial management and decision making;
- Periodic reconciliation of bank accounts to ledger;
- Providing input to VAT returns and distribution of VAT receipts to other Lehman Administration companies;
- Foreign exchange transfers on receipt of material foreign currency balances.

Tax and VAT - £300k

Work reported in this category includes compliance with tax legislation under the Administrators’ obligations as proper officers for tax, and planning to ensure the efficient realisation of assets for the benefit of the Company’s creditors as a whole. Work performed includes:

- Preparation and submission of VAT returns;
- Distribution of VAT receipts received as Representative Member to other Lehman estates and collecting VAT contributions;
- Preparation of accounting information to support tax computations;
- Preparation of tax returns;
- Administration of group tax losses to 31 May 2016;
- Liaising with HMRC regarding settlement of pre and post Administration PAYE liability;

- Discussions with HMRC concerning agreement of ITMAR/forgivable loan position going forward;
- Submission of monthly RTI returns for former employee dividend payments and tax adjustments;
- Tax input on review of unsecured claims where required;
- Tax input on potential settlement of Waterfall III; and
- Audit of VAT and tax returns, implementation and monitoring of risk and quality metrics.

For further information see Section 2.4.

Intercompany - £40k

This work relates to the agreement of intercompany balances and collection of receivables for the benefit of creditors. It excludes matters actually or potentially the subject of litigation. See Section 2.1 for further detail.

Litigation - £2.19m

Work reported in this category relates to the Waterfall issues, complex proceedings associated with LBL’s registered shareholding in LBIE and in respect of the recharge of costs to LBIE (and LBEL). A resolution of these issues is necessary to establish the extent to which further funds can be distributed to LBL’s creditors. For more information see Section 2.2. Work performed includes:

- Preparing and submitting to the Court a number of detailed position papers;
- Detailed review of LBIE, LBEL, LBHI2 and LBH Plc responses to LBL position papers with legal advisors and counsel;

- Preparing for and attending Case Management Conference in November and LBH Plc joinder hearing.
- Considering implications of division of legal ('Part A') and factual ('Part B') aspects of the trial with legal advisors and counsel;
- Ongoing consideration of litigation strategy, evidence and arguments with solicitors and Counsel and preparation for Part A hearing.
- Finalising internal recharge, shareholding and deferred tax analysis papers with input from review teams, legal advisors and specialist tax input from PwC US;
- Attending LBIE premises to extract information relevant to shareholding/recharge report from Lehman accounting systems, including liaising with relevant LBIE and Lehman personnel, seeking legal assistance where required;
- Further correspondence with LBIE regarding additional electronic documents held in Lehman UK archive, including confirmations on the completeness;
- Analysis of c. 5,000 further documents disclosed by LBIE, liaising with LBIE on further information to required to review documents; planning and resourcing review exercise;
- Coordinating and undertaking interviews with key individuals with input from legal advisors and review teams;
- Working with legal advisors, UK and US PwC tax teams to engage US tax expert;
- Substantial input from PwC UK and US tax teams on historic tax issues relevant to the previous restructuring of the Lehman group;
- Engagement of additional counsel to coordinate evidence work stream;
- Disclosure of soft copy documents and collating documents held outside the Lehman Archive to enable disclosure in hard copy;
- Correspondence with the Court, LBIE, LBEL, LBHI2 and LBH Plc regarding disclosure, evidence and trial formalities;
- Preparing for and attending pre-trial review hearing, filing witness statement and seeking an order from the Court on expert witness formalities and facts agreed by all parties;
- Working with legal advisors and counsel to prepare for Part A trial and attending Court hearing;
- Continued to engage with LBIE and other Waterfall III participants around the possibility and terms of settlement;
- Consideration of legal, tax and other considerations associated with potential settlement, outcome modelling and liaising with key stakeholders;
- Ongoing liaison with legal advisors/counsel in respect of Waterfall I and attending Supreme Court hearing; and
- Continued monitoring the Waterfall II application for directions by LBIE to ensure all credible arguments favourable to LBL are before the Court.

Employee and creditor claims - £353k

25 Bank Street claim – £242k

Work in relation to the litigation between LBL and its former landlord can be summarised as follows:

- Ongoing disclosure exercise involving the restoration, search and review of a large number of hard and soft copy documents from a wide variety of different sources;

- Pleadings exchanged setting out the parties' respective positions;
- Finalised and exchanged second round of witness statements;
- Completion and exchange of detailed expert reports;
- Worked closely with legal advisors and counsel to prepare for eight week trial originally scheduled for February 2017;
- Attending pre trial review hearing in December;
- Ongoing correspondence with landlord on the revised aspects of their claim and consultation with expert and legal advisors regarding same; and
- Settlement discussions and agreement of final terms to conclude the litigation without recourse to the Court.

General supplier creditor claims – £73k

- Adjudication of supplier claims and corresponding with creditors to obtain further information;
- Payment of a catch up dividend on newly admitted claims;
- Ongoing legal advice in respect of complex supplier claims;

- Dealing with a number of queries from claims aggregators and creditors who have assigned their claims;
- Co-ordinating the review of high value complex claims including seeking legal advice;
- Correspondence and dealings with Hong Kong pension authorities regarding an historic pension scheme, including liaising with PwC Hong Kong colleagues.

Employee claims - £38k

- Continued work to review and adjudicate employees' preferential and non-preferential unsecured claims;
- Ongoing engagement with creditors to resolve outstanding employment tribunal claims and discussions with lawyers to shape strategy to deal with these claims;
- Calculating catch up dividend payments to employee creditors.

See Section 2.3 for further information on the above workstreams.

Section 6 Legal and other professionals

Service provided	Name of firm / organisation	Reason selected	Basis of fees
<p>Legal services, including:</p> <ul style="list-style-type: none"> Local advice on overseas asset realisations Litigation advice and considerable input on matters including those central to the “Waterfall” proceedings. Legal input into the claims’ adjudication process where required and proceedings where the rejection of claims is appealed to Court. Advice on other ad-hoc matters, including the extension of the term of the Administration. 	<ul style="list-style-type: none"> Buis Burgi AG Dechert LLP DLA Diper UK LLP Linklaters LLP Mori Hamada and Masumoto 	<ul style="list-style-type: none"> Specialist knowledge and experience (in overseas jurisdictions, where applicable) 	<ul style="list-style-type: none"> Time cost basis. Time costs’ analyses are reviewed and approved prior to payment of invoices.
<ul style="list-style-type: none"> Expert witness services in respect of 25 Bank Street claim. 	<ul style="list-style-type: none"> Knight Frank LLP 	<ul style="list-style-type: none"> Specialist knowledge and experience with property valuation and disputes; 	<ul style="list-style-type: none"> Time cost basis. Time costs analyses are reviewed and approved prior to payment of invoices.

Section 7 Receipts and payments to 14 March 2017

Amount in millions	As at 14 Mar 2017				As at 14 Sep 2016		Movement
	GBP	EUR	USD	CHF	Total in GBP	Total in GBP	
Receipts							
Contribution from third parties ¹	141.9	0.6	11.3	-	149.6	149.6	-
Building recharge receipts	130.3	-	-	-	130.3	130.3	-
Payroll recharge receipts	502.0	0.1	57.1	-	538.4	538.4	-
Other (including realisations and payments for other companies) ²	299.2	3.9	208.3	0.2	435.2	399.3	35.9
Tax related receipts	709.1	-	-	-	709.1	702.2	6.9
VAT received on invoices	7.2	-	-	-	7.2	7.2	-
Total receipts for period	1,789.7	4.6	276.7	0.2	1,969.8	1,927.0	42.8
Payments							
Building and occupancy cost	(179.5)	(0.3)	(62.9)	-	(219.8)	(219.8)	-
Payroll and employee costs ³	(520.4)	(2.8)	(45.2)	-	(551.5)	(551.5)	-
Return of recharge surplus	(2.4)	-	-	-	(2.4)	(2.4)	-
Other costs and payments	(69.5)	(0.3)	(1.2)	-	(70.5)	(70.5)	-
Other advisors' costs	(1.3)	-	-	-	(1.3)	(1.3)	-
Legal fees	(30.9)	-	-	-	(30.9)	(22.2)	(8.7)
Administrators' fees ^{2, 4}	(32.0)	-	-	-	(32.0)	(28.1)	(3.9)
Return of Corporation Tax to group companies	(466.7)	-	-	-	(466.7)	(466.7)	-
VAT related payments	(188.6)	-	-	-	(188.6)	(182.2)	(6.4)
VAT paid on invoices	(13.1)	-	(1.4)	-	(14.0)	(11.6)	(2.4)
Intercompany transfer	(1.5)	-	-	-	(1.5)	(1.5)	-
Total payments for period	(1,505.9)	(3.4)	(110.7)	-	(1,579.2)	(1,557.8)	(21.4)
Inter-currency transfers							
Receipts from inter-currency transfers	140.8	2.7	57.8	-	179.8	168.9	10.9
Payments from inter-currency transfers	(31.1)	(3.9)	(222.8)	(0.2)	(176.3)	(167.8)	(8.5)
Net inter-currency transfers	109.7	(1.2)	(165.0)	(0.2)	3.5	1.1	2.4
Distributions							
Distribution to preferential creditors @ 100p/£ (declared 07/06/13)	(1.9)	-	-	-	(1.9)	(1.9)	-
Distribution to unsecured creditors @ 1.66p/£ (declared 15/12/14)	(1.8)	-	-	-	(1.8)	(1.8)	-
Total distributions	(3.7)	-	-	-	(3.7)	(3.7)	-
Net cash position	389.8	-	1.0	-	390.4	366.6	23.8
Bank balances							
Bank of England	-	-	-	-	-	-	-
HSBC ⁵	4.5	-	1.0	-	5.1	5.2	(0.1)
Money Market Funds	385.3	-	-	-	385.3	361.4	23.9
Net bank balance	389.8	-	1.0	-	390.4	366.6	23.8

Notes:

- 1) Includes elements of building & occupancy and payroll related recharges
- 2) Includes correcting reallocation of £0.4m in this period for costs recharge historically categorised as Administrators' fees
- 3) Payroll cost attributable to LBL
- 4) Includes Administrators' disbursements of £0.7m
- 5) Funds held in interest bearing accounts

Rates used for conversion are Financial Times rates fixed on 14 March 2012.

1 USD = 0.6366 GBP

1 EUR = 0.8322 GBP

1 CHF = 0.6874 GBP

The Administrators have not provided a current estimated outcome statement because this information is commercially sensitive and may be prejudicial to the Administration

Section 8 Statement of expenses

The following table provides details of Administration expenses. Expenses are amounts properly payable by the Administrators from the estate including fees, but excluding distributions to creditors. The table also excludes any potential tax liabilities payable as an Administration expense because amounts becoming due will depend on the position at the end of the tax accounting period.

The table should be read in conjunction with the receipts and payments account at Section 7, which shows expenses paid during the period and the total paid to date.

R&P category	Paid in previous periods (£m)	Paid in period (£m)	Incurred in period but not paid (£m)	Cumulative (£m)	Estimated future (£m) ¹	Estimated total (£m)
Building and occupancy costs	219.8	-	-	219.8	-	219.8
Payroll and employee costs	551.5	-	-	551.5	-	551.5
Return of recharge surplus	2.4	-	-	2.4	-	2.4
Other costs and payments	70.5	-	-	70.5	5.0	75.5
Other advisors' costs ²	1.3	-	-	1.3	Materially uncertain	Materially uncertain
Legal fees ²	22.2	8.7	1.0	31.9	Materially uncertain	Materially uncertain
Administrators' time costs ^{2,3}	27.6	4.3	0.4	32.3	Materially uncertain	Materially uncertain
Administrators' disbursements ²	0.5	0.2	0.1	0.8	Materially uncertain	Materially uncertain
Total ⁴	895.8	13.2	1.5	910.5	Materially uncertain	Materially uncertain

Notes:

- 1) Relates only to LBL costs. No provision has been made for costs borne by LBL and recharged to other Lehman estates.
- 2) These costs are highly contingent on the outcome of ongoing and prospective litigation, further information on which can be found at Section 2. As a result, it is not possible to provide a meaningful estimate of the total expense.
- 3) The Administrators estimate that those costs not dependent (except in duration) upon the progression of issues subject to litigation and that are currently required to maintain the routine aspects of the Administration are c. £700k per annum (c. £225k Strategy & Planning; c. £125k Statutory & Compliance; c. £100k Accounting & Treasury; c. £125k Tax & VAT; c. £125k Creditor claims).
- 4) Excludes VAT, which is partly recoverable.

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