

Company Registration No 1978621

JEFFERIES INTERNATIONAL LIMITED

Directors' Report and Financial Statements

31 December 2006



DIRECTORS' REPORT AND FINANCIAL STATEMENTS

TABLE OF CONTENTS

	<i>Page No</i>
Directors' Report	1 - 3
Statement of Directors' Responsibilities	4
Independent Auditors' Report to the Members of Jefferies International Limited	5 - 6
Profit and Loss Account	7
Statement of Total Recognised Gains and Losses	8
Balance Sheet	9
Notes to the Financial Statements	10 - 30

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2006

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The company has continued to trade as a stockbroker, a dealer in equities and debt instruments and a provider of corporate finance advisory services, and has acted as a representative office for its American parent company, and fellow subsidiary undertakings

Jefferies International Limited is regulated by The Financial Services Authority. During the year the company has continued to expand in its existing business areas. Equity and Convertible Bond Trading and Sales activities were enhanced by the expansion of the London Equity Finance desk and a new desk for Emerging Markets has been established. Investment Banking continued to enhance its existing Technology, Aerospace and Defense, Exploration & Production and Debt Restructuring sector expertise with new hires and established new teams to cover Oil Services & Maritime and Financial Sponsors. To support these initiatives the company, already a member of The London Stock Exchange, became a member of Euronext, The Dubai International Financial Exchange and the Oslo Stock Exchange in 2006.

The company has continued to operate a branch in Paris and also established a branch in Dubai during the year, which is regulated by the Dubai Financial Services Authority.

In order to ensure that capital adequacy requirements were suitably maintained during this expansion the company issued an additional 9,130,728 shares at £1 each during 2006.

The directors are not aware of any significant developments or factors which will have a major impact on the continued success of the business.

The table below sets out the key results for the year. The statutory Profit and Loss Account for the year is set out on page 7.

	2006	2005 (restated)
	£000	£000
Turnover	77,734	45,655
Profit for the financial year	5,373	1,326
Shareholders' funds	43,838	29,204

The increase in profit and turnover during 2006 reflects the continued expansion of the business as explained above. The directors do not recommend the payment of a dividend for the year ended 31 December 2006 (2005: £nil). The company had a successful year and has recorded a profit for the financial year of £5,373,000 (2005 restated profit of £1,326,000) which will be transferred to reserves.

RISKS AND UNCERTAINTIES

The company acknowledges the risks it faces in undertaking its business and seeks to understand, assess and mitigate those risks in such a way that the financial impact is managed in accordance with the overall risk appetite of the group.

The principal trading risks of the company are discussed in note 27 of the financial statements. Other risks are considered below.

DIRECTORS' REPORT (CONTINUED)

- The company operates in a competitive market environment and the continued success of the business is based on its staff, their knowledge and understanding of the market and meeting client requirements. The company looks to retain and recruit staff through the offering of a competitive and comprehensive compensation and benefits package that is regularly reviewed in light of market changes.
- In line with the rest of the Jefferies Group the business of the company falls under the group business recovery plan. The overall purpose of the plan is to ensure that the organisation is ready to manage the effects of an emergency on its business operations. These plans not only facilitate a recovery in the event of a major catastrophe, they also assist the organisation in dealing with local disasters such as power outages, fires, floods or technology based failures.

DIRECTORS AND DIRECTORS' INTERESTS

The directors who held office during the year were as follows

R B Handler	Chairman – resigned 27 November 2006
J L Conroy	
E B Gale	
J F Graham	
S Hiestand	
A J Hope	
B Huber	
C A Siegel	

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

All directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

CREDITOR PAYMENT POLICY

The company agrees payment terms and conditions with individual suppliers, once agreed it is the policy to abide by the terms of payment.

CHARITABLE DONATIONS

Charitable donations amounting to £2,983 (2005 £2,962) were made by the company during the financial year.

DISCLOSURE OF INFORMATION TO AUDITORS

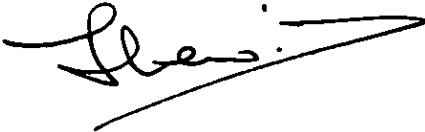
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

DIRECTORS' REPORT (CONTINUED)

AUDITORS

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the board

A handwritten signature in black ink, appearing to read 'J. Lewis', with a long horizontal stroke extending to the right.

Janet M Lewis
Company Secretary

Bracken House
1 Friday Street
London EC4M 9JA
30 March 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF JEFFERIES INTERNATIONAL LIMITED

We have audited the financial statements of Jefferies International Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 4, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF JEFFERIES INTERNATIONAL LIMITED (CONTINUED)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985,
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG AUDIT PLC
Chartered Accountants
Registered Auditor

8 Salisbury Square
London EC4Y 8BB
United Kingdom
30 March 2007

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2006

	<i>Note</i>	2006 £000	2005 (restated) £000
Turnover	2	77,734	45,655
Administrative expenses		(66,270)	(43,398)
Other operating income		<u>1,694</u>	<u>1,114</u>
Operating profit		13,158	3,371
Interest receivable and similar income		647	95
Interest payable and similar charges	3	<u>(5,912)</u>	<u>(1,790)</u>
Profit on ordinary activities before taxation	4	7,893	1,676
Tax on profit on ordinary activities	9	<u>(2,520)</u>	<u>(350)</u>
Profit for the financial year	21	<u>5,373</u>	<u>1,326</u>

The notes on pages 10 to 30 form part of these financial statements

The turnover and operating profit of the company are derived entirely from continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES*for the year ended 31 December 2006*

	2006	2005
	£000	(restated) £000
Profit for the financial year	5,373	1,326
Foreign exchange differences	<u>4</u>	<u>(8)</u>
Total recognised gains and losses relating to the financial year	5,377	<u>1,318</u>
Prior year adjustment (as explained in note 22)	<u>983</u>	
Total gains and losses recognised since last annual report	<u>6,360</u>	

BALANCE SHEET

at 31 December 2006

	Note	2006		2005 (restated)	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	10		4,877		4,290
Investments	11		<u>8,211</u>		<u>6,769</u>
			13,088		11,059
Current Assets					
Cash at bank and in hand		11,485		15,114	
Trading assets	13	431,464		272,183	
Debtors					
Amounts falling due within one year	12	28,438		11,401	
Amounts falling due after more than one year	12	<u>1,499</u>		<u>569</u>	
		472,886		299,267	
Creditors amounts falling due within one year					
Trading liabilities	14	(273,212)		(156,637)	
Other creditors	15	<u>(154,755)</u>		<u>(112,164)</u>	
		(427,967)		(268,801)	
Net current assets			<u>44,919</u>		<u>30,466</u>
Total assets less current liabilities			58,007		41,525
Creditors amounts falling due after one year	16		(13,099)		(11,609)
Provisions for liabilities and charges	18		<u>(1,070)</u>		<u>(712)</u>
Net assets			<u>43,838</u>		<u>29,204</u>
Capital and reserves					
Called up share capital	20		25,979		16,848
Share premium account	21		2,162		2,162
Capital contribution reserve	21		309		183
Other reserves	21		400		442
Profit and loss account	21		<u>14,988</u>		<u>9,569</u>
Shareholders' funds	22		<u>43,838</u>		<u>29,204</u>

These financial statements were approved by the board of directors on 30 March 2007 and were signed on its behalf by


J L Conroy
DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

In these financial statements the following new UK GAAP standards have been adopted for the first time

- FRS 20 "Share-based payments",
- FRS 25 "Financial instruments presentation and disclosure", and
- FRS 26 "Financial instruments measurement"

The adoption of FRS 20 has resulted in changes in accounting policy for share-based payment transactions, and the comparative figures have been restated accordingly. Please refer to note 26 for an explanation of the financial impact of FRS 20.

The impact of the adoption of FRS 25 and FRS 26 is set out in note 26. Whilst there has been no financial impact arising from the adoption of FRS 26, note 26 (b) provides an explanation of the non-financial effect.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, except for trading assets and liabilities, as noted below. The company is exempt by virtue of s228 of Companies Act 1985 from the requirement to prepare group accounts. As permitted by Financial Reporting Standard 1, no cash flow statement is presented in these accounts as the company is a wholly owned subsidiary of Jefferies Group, Inc., which presents such a statement in its own published consolidated financial statements. In addition, advantage has been taken of the exemption available under Financial Reporting Standard 8 not to disclose details of transactions or balances with Jefferies Group, Inc. or any other group or associated undertakings, as the consolidated accounts of Jefferies Group, Inc. in which the company is included are publicly available.

Net trading income

The company's net trading income includes movements in the fair value of financial instruments and trading profits and losses, including dividends and coupons, earned from dealing and principal trading in marketable investments.

Commission income

Commission income and fees are derived from sales activities and are accounted for on the trade date of the related transaction.

Investment banking fees

Where corporate finance fees are confirmed as receivable under the terms of the contract, the full contracted value is recognised in the period in which the transaction is successfully completed.

Interest and expense recognition

Interest income and expense presented in the profit and loss account includes interest on financial assets and liabilities and short and long term funding. Interest income and expense on all trading assets and liabilities are presented together with all other changes in fair value of trading assets and liabilities in net trading income.

1 Accounting policies (continued)

Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the company acquires or incurs principally for the purpose of selling or repurchasing in the near term, held as part of a portfolio that is managed together for short-term profit making, or is a derivative. All trading assets and liabilities are classified as held for trading purposes under FRS 26.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to the profit and loss account. All changes in the fair value are recognised as part of net trading income in the profit or loss account. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

Derivatives

Derivatives are held for trading purposes and arise from proprietary trading activities. These are carried at fair value in the balance sheet with changes in realised and unrealised gains and losses recorded in the profit and loss account.

Securities borrowed or lent

Deposits paid for securities borrowed and deposits received for securities lent are recorded at the amount of cash paid or received. These transactions are typically collateralized by cash or marketable securities.

For securities lending transactions, the company receives cash or securities as collateral in an amount generally in excess of the market value of securities lent. The company monitors the market value of securities borrowed and securities lent on a daily basis and additional collateral is obtained as necessary.

Derecognition

The company derecognises a financial asset when the contractual rights to the cash flow from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the company is recognised as a separate asset or liability. The company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Offsetting

The company only offsets financial assets and liabilities and presents the net amount in the balance sheet where it

- currently has a legally enforceable right to set off the recognised amounts, and
- intends either to settle on a net basis, or to realise the asset and liability simultaneously.

In many instances the company's net position on multiple transactions with the same counterparty are legally protected by Master Netting Agreements. Such agreements ensure that the net position is settled in the event of default of either counterparty and effectively limit credit risk on gross exposures.

1 Accounting policies (continued)

Fair value measurement

From 1 January 2006 financial instruments are accounted for on a trade date basis and fair valued through the profit and loss account. The fair values of financial assets and financial liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. The fair value of exchange traded derivatives is obtained from observable market prices. The fair value of over-the-counter (OTC) derivatives is determined by valuation models where the input parameters are validated by observable market data.

In 2005 the movement in the fair value of financial instruments was taken to the profit and loss account. This was not in accordance with Schedule 4 to the Companies Act 1985 which requires that such assets be stated at the lower of cost and net realisable value, or that if revalued any revaluation differences be taken to revaluation reserve. The directors considered that these requirements would fail to give a true and fair view of the profit for the year of a company that holds readily marketable investments as current assets since their marketability enables decisions to be taken continually about whether to hold or sell those assets, and hence the economic measure of performance in any period is properly made by reference to market values. It is not practicable to quantify the effect on the financial statements of these departures since information on original cost, being of no continuing relevance to the business, is not readily available.

Fixed assets and depreciation

Fixed assets are depreciated on the following basis -

- 1 Leasehold improvements - over the life of the lease
- 2 Fixtures, fittings and equipment - straight line basis over estimated useful economic life 3-10 years

Fixed asset investments and shares in subsidiary undertakings

Fixed asset investments and shares in subsidiary undertakings are recorded at cost less any provisions for impairment in value.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred due to timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Foreign currencies

- i Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the year-end. The results of overseas branches are translated into sterling at the average rates of exchange for the year.
- ii Exchange differences arising from translation of the result for the year from the average rate to the exchange rate ruling at the year-end are accounted for in reserves.
- iii Other exchange differences are recognised in the profit and loss account.

Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in independently administered funds. The amounts charged to the profit and loss account represent the contribution payable in respect of the accounting period.

Leased assets

Operating lease rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

1 Accounting policies (continued)

Provision for onerous leases

The company provides for its onerous obligations under operating leases where the property is vacant and a sub-let has not occurred or where the rental income from a sub-let is less than the head lease. A provision is made for the net cash outflow that is expected to arise under the lease.

Share-based payments

The share awards programme allows employees of the company to acquire shares in the ultimate parent company, Jefferies Group, Inc. As the shares in the stock awards programme are granted by the parent, these are treated as equity settled transactions.

The fair value of the share awards granted after 7 November 2002, and those not yet vested at the effective date of FRS 20, is recognised as an employee compensation expense. The compensation expense of these is determined by reference to the fair value of the share awards on grant date and amortised through the service period to vesting.

Shares awarded to an employee on commencement of employment, where the employee must complete a specified period of service before vesting, are amortised over the period to vesting.

Where share awards are made after year end in respect of services rendered in the year under review, and these awards vest in a future period, the awards are amortised to the profit and loss account over the vesting period, and costs are recognised in the year under review to the extent that it relates to the relevant year. Once the grant date has been established, the fair value of the grant is finalised and the relevant amount to be recognised is applied to the year under review.

The compensation expense charged to the profit and loss account is credited to the capital contribution reserve over the vesting period and, to the extent that a charge is made, credited to an intercompany account, thereby reducing the capital contribution reserve. The share award may be forfeited if an employee ceases to be employed by the company before the end of the vesting period. If the award of shares is forfeited during the vesting period, the life to date charge is reversed to the profit and loss account at the time of forfeiture.

2 Turnover

	2006	2005 (restated)
	£000	£000
Net trading and commission income	11,139	15,705
Investment banking fees	36,639	13,146
Service fee income	26,648	14,676
Other income	3,308	2,128
	<u>77,734</u>	<u>45,655</u>

3 Interest payable and similar charges

	2006	2005 (restated)
	£000	£000
Interest payable to group undertakings	<u>(5,912)</u>	<u>(1,790)</u>

4 Profit on ordinary activities before taxation

	2006 £000	2005 £000
Profit on ordinary activities before taxation is stated after charging		
Auditors' remuneration for the audit of the company's accounts	162	87
Depreciation of tangible fixed assets	1,412	1,074
Operating lease rentals	3,244	3,451
Loss on disposal of tangible fixed assets	<u>-</u>	<u>23</u>

Of the auditors' remuneration for audit services, £22,930 related to the prior year (2005 £4,080) Remuneration of the company's auditors for the provision of pension audit services to the company during the year was £5,750 (2005 £4,750)

Remuneration for other services to the company during the year include fees for regulatory reporting of £32,000 (2005 £25,000), fees for work related to Sarbanes-Oxley of £27,200 (2005 £32,200), quarterly review fees of £25,000 (2005 £12,000) and the provision of taxation services of £55,500 (2005 £54,200)

5 Remuneration of directors

The highest paid director received emoluments of £735,750 (2005 restated £425,000) and £12,672 in contributions (2005 £12,564) were made to a pension scheme on his behalf

The emoluments of the directors (including the chairman and highest paid director) were as follows

	2006 £000	2005 (restated) £000
Emoluments	2,078	1,497
Pension Contributions	<u>38</u>	<u>37</u>
	<u>2,116</u>	<u>1,534</u>

Contributions to money purchase pension schemes were made on behalf of 3 directors (2005 3) in 2006

All directors benefited from qualifying third party indemnity provisions

6 Directors' loans

The following directors had interest free loan agreements, with Jefferies International Limited, during the financial year:

	Liability 31 December 2006	Maximum liability during the financial year	Liability 1 January 2006
	£	£	£
J F Graham	<u>-</u>	<u>3,748</u>	<u>3,748</u>

Each loan was repayable in equal monthly instalments over a maximum term of 12 months

7 Staff numbers and costs

The average number of employees (including directors) during the year was 230 (2005 169) The split of these was as follows

	2006	2005
Front office staff	163	112
Administration staff	67	57
	<u>230</u>	<u>169</u>

The aggregate payroll costs were as follows

	2006	2005 (restated)
	£000	£000
Wages and salaries	33,243	21,102
Social security costs	4,723	2,853
Other pension costs	1,067	801
	<u>39,033</u>	<u>24,756</u>

8 Pension costs

The company operates a defined contribution pension scheme The assets of the scheme are held separately from those of the company in independently administered funds The amount charged against profits includes contributions payable by the company to the fund amounting to £1,067,000 (2005 £801,000) There were no contributions payable (2005 £nil) at the year end

9 Taxation

	2006	2005 (restated)
	£000	£000
UK corporation tax at 30% on the profit for the year	(3,776)	(871)
Adjustment to UK corporation tax in respect of prior years	(132)	213
Double tax relief	47	48
	<u>(3,861)</u>	<u>(610)</u>
Overseas tax	<u>(47)</u>	<u>(48)</u>
Total current tax	(3,908)	(658)
Deferred tax (note 19)	<u>1,388</u>	<u>308</u>
Tax on profit on ordinary activities	<u>(2,520)</u>	<u>(350)</u>

9 Taxation (continued)

Tax reconciliation

	2006	2005 (restated)
	£000	£000
Profit on ordinary activities before taxation	7,893	1,676
Tax on profit on ordinary activities before taxation at the standard rate of corporation tax in the United Kingdom of 30% (2005 30%)	(2,368)	(503)
Adjustments in respect of prior years	(132)	213
Disallowed expenses	(196)	(108)
Restricted stock expense	(576)	(298)
Provision for tax credits receivable	(440)	-
Other	(196)	38
Total current tax	<u>(3,908)</u>	<u>(658)</u>

10 Tangible fixed assets

	Leasehold Improvements £000	Fixtures & Fittings £000	Total £000
Cost			
As at 1 January 2006	5,283	2,875	8,158
Additions	770	1,229	1,999
Disposals	-	(2)	(2)
As at 31 December 2006	6,053	4,102	10,155
Depreciation			
As at 1 January 2006	2,060	1,808	3,868
Disposals	-	(2)	(2)
Charge for the period	722	690	1,412
As at 31 December 2006	2,782	2,496	5,278
Net Book Value			
As at 31 December 2006	<u>3,271</u>	<u>1,606</u>	<u>4,877</u>
As at 31 December 2005	<u>3,223</u>	<u>1,067</u>	<u>4,290</u>

11 Fixed asset investments

	2006 £000	2005 £000
Shares in subsidiary undertakings		
As at 1 January	6,740	6,740
Additions	1,442	-
As at 31 December	8,182	6,740
Other fixed asset investments		
As at 1 January	29	28
Additions	-	1
As at 31 December	29	29

During the year Jefferies International Limited increased its investment in Jefferies (Japan) Limited by £1,442,300 to increase the company's capital in preparation for membership of the Tokyo Stock Exchange

The company has investments in the following subsidiaries

Name of undertaking	Description of shares held	Proportion of value of issued shares held by the group and company	Principal activity
Jefferies (Switzerland) Limited	Ordinary SF 1,000 Shares	100%	Introducing Broker
Jefferies (Japan) Limited	Ordinary £1 Shares	100%	Broker / Dealer
Jefferies International (Nominees) Limited	Ordinary £1 Shares	100%	Nominee Company
Jefferies International (Nominees) Client Account Limited	Ordinary £1 Shares	100%	Nominee Company

Apart from Jefferies (Switzerland) Limited which is registered in Switzerland, all subsidiaries are registered in England and Wales

12 Debtors

	2006 £000	2005 (restated) £000
Amounts falling due within one year		
Amounts owed by group undertakings	14,375	7,319
Other debtors	12,135	2,296
Prepayments and accrued income	1,271	1,602
Deferred taxation (note 19)	657	184
	28,438	11,401

12 Debtors (continued)

	2006	2005 (restated)
	£000	£000
Amounts falling due after more than one year		
Prepayments and accrued income	15	-
Deferred taxation (note 19)	<u>1,484</u>	<u>569</u>
	<u>1,499</u>	<u>569</u>

13 Trading assets

	2006	2005 (restated)
	£000	£000
Equity shares	37,437	42,771
Debt securities	48,760	29,861
Derivatives	6,028	-
Securities borrowed collateral	177,862	74,172
Securities awaiting settlement	160,840	124,541
Other trade receivables	<u>537</u>	<u>838</u>
	<u>431,464</u>	<u>272,183</u>

14 Trading liabilities

	2006	2005 (restated)
	£000	£000
Equity shares – short positions	31,510	41,438
Debt securities – short positions	21,131	6,690
Derivatives	7,494	224
Securities lent collateral	72,824	-
Securities awaiting settlement	137,707	107,283
Other trade payables	<u>2,546</u>	<u>1,002</u>
	<u>273,212</u>	<u>156,637</u>

15 Creditors: amounts falling due within one year

	2006	2005 (restated)
	£000	£000
Bank overdraft	22,237	25,000
Amounts owed to group undertakings	111,795	70,725
Other creditors including taxation and social security		
- Corporation tax	3,076	457
- Other taxes	411	33
- Social security	2,338	1,883
- Other creditors	317	802
- Accruals and deferred income	14,581	13,264
	<u>154,755</u>	<u>112,164</u>

16 Creditors: amounts falling due after one year

	2006	2005
	£000	£000
Amount due to parent undertaking		
- Subordinated loan	13,000	11,609
Other creditors including taxation and social security		
- Social security	99	-
	<u>13,099</u>	<u>11,609</u>

The subordinated loan is undated and is repayable at par 2 years from the lender issuing notice to the borrower. Interest is charged at a fixed rate of 5.5% per annum.

17 Collateral

	2006	2005
	£000	£000
Cash collateral paid for securities borrowed	177,862	74,172
Cash collateral received for securities lent	(72,824)	-
Net cash collateral	<u>105,038</u>	<u>74,172</u>
Non cash collateral pledged for securities borrowed	11,789	-
Non cash collateral received for securities lent	(9,251)	-
Net non cash collateral	<u>2,538</u>	<u>-</u>

18 Provisions for liabilities and charges

	Onerous lease provision £000	Dilapidations provision £000	Total £000
As at 1 January 2006	712	-	712
Charged to the profit and loss account	411	333	744
Utilised during the year	<u>(386)</u>	<u>-</u>	<u>(386)</u>
As at 31 December 2006	<u>737</u>	<u>333</u>	<u>1,070</u>

Onerous lease provision

The provision relates to an onerous lease on property maturing in 2012, which is no longer occupied by the company

Dilapidations provision

The provision relates to costs that will have to be incurred in 2007 in ensuring a property is presented back to the landlord as contractually required

19 Deferred taxation asset

	£000
As at 31 December 2005 as previously reported	1,321
Prior year adjustment – FRS 20	<u>(568)</u>
As at 31 December 2005 as restated	753
Profit and loss account	<u>1,388</u>
As at 31 December 2006	<u>2,141</u>

Deferred tax comprises

	2006 £000	2005 (restated) £000
Amounts falling due within one year		
Dilapidations provision not yet deductible for tax	100	-
Unrelieved tax losses	146	-
Share awards not yet deductible for tax	<u>411</u>	<u>184</u>
	<u>657</u>	<u>184</u>
Amounts falling due after more than one year		
Depreciation charged in excess of capital allowances	(122)	(106)
Social security not yet deductible for tax	30	-
Share awards not yet deductible for tax	<u>1,576</u>	<u>675</u>
	<u>1,484</u>	<u>569</u>

20 Called up share capital

	2006 £	2005 £
Authorised		
Ordinary shares of £1 each	<u>26,330,000</u>	<u>17,200,000</u>
Allotted, called up and fully paid		
Ordinary shares of £1 each	<u>25,978,771</u>	<u>16,848,043</u>

An additional 9,130,728 shares were issued at £1 each during 2006 to increase the company's capital for trading purposes

21 Share premium account and reserves

Share premium account	£000
As at 1 January 2006 and at 31 December 2006	<u>2,162</u>
Capital contribution reserve	£000
As at 31 December 2005 as previously reported	-
Prior year adjustment – FRS 20	<u>183</u>
As at 31 December 2005 as restated	<u>183</u>
Movement for the financial year	<u>126</u>
As at 31 December 2006	<u>309</u>
Other reserves	£000
As at 1 January 2006	442
Foreign exchange differences	<u>(42)</u>
As at 31 December 2006	<u>400</u>
Profit and loss account	£000
As at 31 December 2005 as previously reported	8,586
Prior year adjustment – FRS 20	<u>983</u>
As at 31 December 2005 as restated	<u>9,569</u>
Profit for the financial year	<u>5,373</u>
Foreign exchange differences	<u>46</u>
As at 31 December 2006	<u>14,988</u>

22 Reconciliation of movements of shareholders' funds

	2006	2005 (restated)
	£000	£000
Opening shareholders' funds as previously reported	28,038	25,885
Prior year adjustment – FRS 20	1,166	916
	<u>29,204</u>	<u>26,801</u>
Profit for the financial year	5,373	1,326
Foreign exchange differences	4	(8)
Movement on capital contribution reserve	126	85
Issue of ordinary shares	9,131	1,000
	<u>43,838</u>	<u>29,204</u>
Closing shareholders' funds		

Prior year adjustment

The adoption of FRS 20 has resulted in a decrease in staff costs of £384,000 in 2005. The decrease was due to the company's previous policy of expensing the costs associated with restricted stock granted as part of a bonus in the year to which the bonus was due. The adoption of FRS 20 has also resulted in an increase of £916,000 to the opening 2005 reserves. Note 26 sets out the impact of FRS 20 to the 2005 results and balance sheet. Had the standard not been adopted in 2006, the impact on staff costs for the year would have been an increase of £651,000.

23 Commitments under operating leases

	2006		2005	
	Land & buildings	Other	Land & buildings	Other
	£000	£000	£000	£000
Operating leases which expire				
Within one year	165	22	77	-
In two to five years	1,232	37	1,154	52
After five years	2,231	-	2,205	-
	<u>3,628</u>	<u>59</u>	<u>3,436</u>	<u>52</u>

24 Capital expenditure commitments

Capital expenditure authorized and contracted but not provided in the financial statements amounts to £nil (2005 £129,000)

25 Share-based payments

During 2006 £3,615,000 was charged to the profit and loss account in respect of equity-settled share-based payment transactions (2005 restated £1,899,000) This expense was based on the fair value of the share based payment transactions when contracted All of the expense arose under employee share awards made within the Jefferies' reward structures

Jefferies Incentive Compensation Plan

Under the Jefferies Incentive Compensation Plan, there are three areas of compensation These are Restricted Stock Awards, the Employee Stock Purchase Plan and Restricted Stock Units The aim of the plan is to provide employees with a proprietary interest in the growth and performance of the group so to better align the interests of the employees with the interest of the Jefferies Group, Inc shareholders

a) Restricted Stock Awards ('RSA')

RSAs are made to eligible employees for recruitment and retention purposes The awards vest and become non-forfeitable at a future date determined at the time of the grant of the award All unvested share awards are forfeited upon the cessation of an individual's employment, with all related charges reversed to the profit and loss account

b) Employee Stock Purchase Plan ('ESPP')

The ESPP allows eligible employees to make contributions up to US\$21,250 per annum and apply such amounts to the purchase of Jefferies Group, Inc shares These contributions are deducted from the employees' net payroll The aim of the plan is to align the interests of all employees to the creation of shareholder value The plan operated in two sessions a year from 1 January to 30 June, and 1 July to 31 December

c) Restricted Stock Units ('RSU')

RSUs are made to eligible employees for recruitment or retention purposes An approved proportion of the awards become non-forfeitable on future anniversaries of grant date over the vesting period RSUs are forfeitable upon cessation of an individual's employment for those awards not held past the predetermined grant date anniversary All unvested share awards are forfeited upon the cessation of an individual's employment, with all related charges reversed to the profit and loss account

The Jefferies Incentive Compensation Plan awards outstanding are as follows

RSA	2006 Number	2005 Number
Outstanding at 1 January	496,845	358,118
Additional awards granted during the year	194,813	153,852
Vested and released to employees during the year	(109,182)	(15,125)
Forfeited by employees during the year	<u>(63,362)</u>	<u>-</u>
Outstanding at 31 December	<u>519,114</u>	<u>496,845</u>

25 Share-based payments (continued)

ESPP

	2006 Number	2005 Number
Outstanding at 1 January	703	-
Additional awards granted during the year	<u>5,605</u>	<u>703</u>
Outstanding at 31 December	<u>6,308</u>	<u>703</u>

RSU

	2006 Number	2005 Number
Outstanding at 1 January	325,942	86,000
Additional awards granted during the year	207,660	239,942
Vested and released to employees during the year	(37,482)	-
Forfeited by employees during the year	<u>(22,796)</u>	<u>-</u>
Outstanding at 31 December	<u>473,324</u>	<u>325,942</u>

The fair value of the restricted stock as at the date of grant is determined by the closing price of the Jefferies Group, Inc. shares as listed on the New York Stock Exchange. No adjustment to fair value has been made in respect of expected dividends. There are no other features of the share awards granted that were incorporated into the measurement of fair value.

There were no modifications to the share awards arrangement during the year.

The weighted average fair value of RSAs granted for 2006 was \$28.43 (2005: \$23.88).

The weighted average fair value of shares granted under the ESPP during 2006 was \$26.61 (2005: \$19.21).

The weighted average fair value of RSUs granted for 2006 was \$27.93 (2005: \$21.78).

26 Impact of new accounting standards

(a) Explanation of transition to FRS 20

As stated in note 1, the company is adopting FRS 20 'Share-based payments' for the first time

The tables on pages 26 and 27 disclose the adjustments that have been made in accordance with the provisions of FRS 20 to each of the line items in the company's Profit and Loss Account and Balance Sheet and other significant related disclosure items as previously reported for the year ended 31 December 2005

(b) Explanation of adoption of FRS 25 and FRS 26

In adopting FRS 25 and FRS 26 the company has elected to take advantage of the transition option whereby the impact is not reflected in the 2005 comparatives

However, where possible, the 2005 comparatives have been reclassified to help ensure a meaningful comparison to the 2006 financial statements. The tables on pages 26 and 27 illustrate the impact of the reclassifications

The 2005 comparatives have been reclassified in the following way to provide comparability to the 2006 accounts

- Investment assets and liabilities have been reclassified into trading assets and trading liabilities respectively,
- Debtors have been reclassified into trading assets and debtors as appropriate. Within these reclassifications intercompany balances have been allocated to trading assets where appropriate,
- Creditors in amounts falling due within one year have been reclassified into trading liabilities and creditors as appropriate. Within these reclassifications intercompany balances have been allocated to trading liabilities where appropriate,
- There has been no change to the classification of creditor balances falling due after more than one year and no change to capital and reserves, and
- Interest receivable from group undertakings and interest payable to group undertakings have been reclassified into net trading income where appropriate

26 Impact of new accounting standards (continued)**Effect on the company's profit and loss account for the year ended 31 December 2005**

	2005 (as previously reported) £000	Effect of FRS 20 £000	Effect of FRS 25/26 £000	2005 (as restated) £000
Turnover	50,697	-	(5,042)	45,655
Administrative expenses	(43,782)	384	-	(43,398)
Other operating income	<u>1,114</u>	<u>-</u>	<u>-</u>	<u>1,114</u>
Operating profit	8,029	384	(5,042)	3,371
Interest receivable and similar income	20,912	-	(20,817)	95
Interest payable and similar charges	<u>(27,649)</u>	<u>-</u>	<u>25,859</u>	<u>(1,790)</u>
Profit on ordinary activities before taxation	1,292	384	-	1,676
Tax on profit on ordinary activities	<u>(131)</u>	<u>(219)</u>	<u>-</u>	<u>(350)</u>
Profit for the financial year	<u>1,161</u>	<u>165</u>	<u>-</u>	<u>1,326</u>

26 Impact of new accounting standards (continued)

Effect on the company's balance sheet at 31 December 2005

	2005 (as previously reported) £000	Effect of FRS 20 £000	Effect of FRS 25/26 £000	2005 (as restated) £000
Fixed assets				
Tangible assets	4,290	-	-	4,290
Investments	6,769	-	-	6,769
	<u>11,059</u>	<u>-</u>	<u>-</u>	<u>11,059</u>
Current assets				
Cash at bank and in hand	15,114	-	-	15,114
Trading assets	72,632	-	199,551	272,183
Debtors				
- Amounts falling due in less than one year	212,090	597	(201,286)	11,401
- Amounts falling due in more than one year	-	569	-	569
	<u>299,836</u>	<u>1,166</u>	<u>(1,735)</u>	<u>299,267</u>
Creditors: amounts falling due within one year				
Trading liabilities	(48,352)	-	(108,285)	(156,637)
Other creditors	(222,184)	-	110,020	(112,164)
	<u>(270,536)</u>	<u>-</u>	<u>1,735</u>	<u>(268,801)</u>
Net current assets	29,300	1,166	-	30,466
Creditors: amounts falling due after one year	(11,609)	-	-	(11,609)
Provisions for liabilities and charges	(712)	-	-	(712)
Net assets	<u>28,038</u>	<u>1,166</u>	<u>-</u>	<u>29,204</u>
Capital and reserves				
Called up share capital	16,848	-	-	16,848
Share premium account	2,162	-	-	2,162
Capital contribution reserve	-	183	-	183
Other reserves	442	-	-	442
Profit and loss account	8,586	983	-	9,569
Shareholders' funds	<u>28,038</u>	<u>1,166</u>	<u>-</u>	<u>29,204</u>

27 Business and risk management policies

The company maintains positions in financial instruments for trading or arbitrage purposes and to hedge positions in the books. Furthermore the company also acts as a stockbroker and agent for its customers in the purchase and sale of securities.

The company's approach to managing its key financial risks is described below

- Market risk is the risk of loss from adverse changes in instrument values and/or earnings fluctuations arising from changes in market factors such as interest rates, exchange rates, and equity and commodity prices

The market risk appetite of the company remains relatively limited, in terms of the size and nature of positions held, and this is monitored via a review of the positions held versus the established limits. In addition, as Jefferies' Group management in the US deem it appropriate that the local market risk function contributes to US risk management reporting, a value at risk model is reviewed locally for this purpose.

To the fullest extent possible, the market risk infrastructure and process is common across the group, thus reflecting the integrated nature of the Jefferies market risk management function. As the London business continues to grow, this approach will be subject to ongoing review.

- Credit risk is the risk of loss due to adverse changes in a counterparty's credit worthiness or its ability or willingness to meet its financial obligations under the terms and conditions of a financial contract. The credit risk appetite of the company remains relatively limited and comprises principally delivery verses payment settlement and collateralised stock borrowing and lending arrangements.
- Foreign currency risk arises from the company's functional currency being in pounds sterling, but significant transactions are made in other currencies. In order to minimise the exposure to exchange rate fluctuations, currency risk is eliminated at the point the income or expense is recognised in the financial accounts by the exposure being sold in the spot currency market.

27 Business and risk management policies (continued)

- Liquidity risk is the risk of the company being unable to secure adequate funding to meet current obligations. The liquidity risk is deemed to be limited for the company as funding is provided by the group should it be required. The table below shows the liquidity analysis of assets and liabilities

	On demand £000	Due within 3 months	Due in 3-12 months £000	Due in two to five years £000	Due after five years £000	Total £000
Assets						
Tangible assets	-	-	-	-	4,877	4,877
Investments	-	-	-	-	8,211	8,211
Cash at bank and in hand	11,485	-	-	-	-	11,485
Trading assets	431,464	-	-	-	-	431,464
Debtors						
Amounts falling due within one year	28,438	-	-	-	-	28,438
Amounts falling due after more than one year	-	-	-	1,499	-	1,499
Total assets	471,387	-	-	1,499	13,088	485,974
Liabilities						
Trading liabilities	273,212	-	-	-	-	273,212
Other creditors	154,755	-	-	-	-	154,755
Creditors amounts falling due after one year	-	-	-	99	13,000	13,099
Provisions for liabilities and charges	1,070	-	-	-	-	1,070
Total liabilities	429,037	-	-	99	13,000	442,136
Net assets	42,350	-	-	1,400	88	43,838

27 Business and risk management policies (continued)

- The company's interest rate risk arises from interest bearing liabilities. The table below shows the effective rate of interest at the balance sheet date

	Effective interest rate	On demand/ repricing within 1 year	Repricing between one and two years	Repricing between two to five years	Repricing after five years	Total
	£000	£000	£000	£000	£000	£000
Assets						
Tangible assets	n/a	-	-	-	4,877	4,877
Investments	n/a	-	-	-	8,211	8,211
Cash at bank and in hand	n/a	11,485	-	-	-	11,485
Trading assets	n/a	431,464	-	-	-	431,464
Debtors						
Amounts falling due within one year	n/a	28,438	-	-	-	28,438
Amounts falling due after more than one year	5.5%	-	-	1,499	-	1,499
Total assets		471,387	-	1,499	13,088	485,974
Liabilities						
Trading liabilities	n/a	273,212	-	-	-	273,212
Other creditors	5.5%	154,755	-	-	-	154,755
Creditors amounts falling due after one year	5.5%	-	-	99	13,000	13,099
Provisions for liabilities and charges	n/a	1,070	-	-	-	1,070
Total liabilities		429,037	-	99	13,000	442,136
Net assets		42,350	-	1,400	88	43,838

28 Immediate and ultimate holding company

The smallest group in which results of the company are consolidated is Jefferies International (Holdings) Limited which is incorporated in England & Wales. The ultimate holding company is Jefferies Group, Inc., which is incorporated in the United States of America. Group accounts are available from 520 Madison Avenue, New York, New York 10022. This company also heads the largest group in which these results are incorporated.