Company Registration No 1978621

JEFFERIES INTERNATIONAL LIMITED

Directors' Report and Financial Statements

31 December 2008

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

TABLE OF CONTENTS

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2008.

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. A new Mortgage Trading group was established, and additional hires were made in Research and Equity Sales. Investment Banking continued to enhance its existing Technology, Aerospace and Defence, Energy, Maritime, Media, Healthcare and Financials sector expertise with new hires to cover Consumer Products and Industrials.

The company has continued to operate branches in Paris and Frankfurt and has closed down operations in its Dubai branch during the year.

In order to ensure that capital adequacy requirements were suitably maintained during this expansion the company issued an additional 56,425,380 shares at £1 each during 2008.

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.

	2008 **£000**	2007 £000
Turnover	**103,889**	103,720
(Loss) / profit for the financial year	**(81,500)**	3,397
Shareholders' funds	**59,280**	84,773

The directors do not recommend the payment of a dividend for the year ended 31 December 2008 (*2007*: £nil). The company has recorded a loss for the financial year of £81,500,000 (*2007*: profit of £3,397,000). Whilst total income remained consistent at 2007 levels, the increase in head count during the year caused an uplift in the total underlying cost base. Revenues per head therefore decreased, with the company experiencing revenue declines in Asian and European convertibles trading, Japanese equity trading, country funds and high yield trading, and investment banking. During 2008, a one-off charge of £25,623,000 was recorded in the profit and loss account that related to additional share award expense which arose from a modification of the Jefferies share awards arrangement.

DIRECTORS' REPORT (CONTINUED)

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 24 of the financial statements. Other risks are considered below:

- 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.

- Whilst in the current economic environment there is inherent uncertainty about the level of future revenue streams the directors have a reasonable expectation that there is both the intent and adequate resources, both in terms of liquidity and regulatory capital, for the company to continue in operational existence for the foreseeable future. This assessment is made taking into account the continuing support of the company's parent. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

DIRECTORS AND DIRECTORS' INTERESTS

The directors who held office during the year were as follows:

J F Graham
J J van Wijngaarden
D W Weaver

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.

DIRECTORS' REPORT (CONTINUED)

EMPLOYER POLICY

Jefferies International Limited endeavours to keep employees informed about the progress of the businesses within the Jefferies group and encourages them to make known their views. The text of public announcements is made available to employees simultaneously with its release to the press and shareholders, and communication with employees occurs on a daily basis via release of a group-wide e-mail update, and in addition, there are regular updates from senior management in the US on how the Jefferies group is doing internationally.

The interest of staff in the Jefferies group's performance is achieved through the Employee Stock Purchase Plan, in which staff at all levels are able to participate, and through share awards for senior employees as part of their end of year compensation.

It is the policy and practice of the company to provide equal employment opportunities for all employees and applicants. The company does not unlawfully discriminate on the basis of sex, race, religion, age, nationality, ethnic origin, marital status, disability or sexual orientation. Any such discrimination by an employee or worker of the company will be treated as gross misconduct and could lead to dismissal. The company complies at all times with employment law and best practice in the countries in which it is represented.

CHARITABLE DONATIONS

Charitable donations amounting to £10,648 (*2007*: £45,467) 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.

By order of the board

J J van Wijngaarden
Director

Vintners Place
68 Upper Thames Street
London EC4V 3BJ
27 April 2009

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 2008 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 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- 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
27 April 2009

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2008

	Note	**2008**	2007
		£000	£000
Turnover	*2*	**103,889**	103,720
Administrative expenses		**(209,577)**	(97,525)
Other operating income		**2,123**	1,757
Operating (loss) / profit		**(103,565)**	7,952
Income from fixed asset investments		**-**	5,669
(Loss) / profit on ordinary activities before interest and taxation		**(103,565)**	13,621
Interest receivable and similar income		**905**	753
Interest payable and similar charges	*3*	**(6,584)**	(9,754)
(Loss) / profit on ordinary activities before taxation	*4*	**(109,244)**	4,620
Tax on (loss) / profit on ordinary activities	*8*	**27,744**	(1,223)
(Loss) / profit for the financial year	*20*	**(81,500)**	3,397

The notes on pages 10 to 26 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 2008

	2008	2007
	£000	£000
(Loss) / profit for the financial year	**(81,500)**	3,397
Foreign exchange differences	(429)	(78)
Total recognised gains and losses relating to the financial year	**(81,929)**	3,319

The notes on pages 10 to 26 form part of these financial statements.

BALANCE SHEET

at 31 December 2008

	Note	2008		2007	
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	9		**16,679**		17,467
Investments	10		**8,211**		8,211
			24,890		25,678
Current Assets					
Cash at bank and in hand		**71,726**		45,007	
Trading assets	12	**161,955**		302,952	
Debtors					
Amounts falling due within one year	11	**508,728**		836,411	
Amounts falling due after more than one year	11	**20,415**		4,401	
		762,824		1,188,771	
Creditors: amounts falling due within one year					
Trading liabilities	13	**(147,366)**		(238,678)	
Other creditors	14	**(549,578)**		(874,895)	
		(696,944)		(1,113,573)	
Net current assets			**65,880**		75,198
Total assets less current liabilities			**90,770**		100,876
Creditors: amounts falling due after one year	15		**(26,799)**		(15,652)
Provisions for liabilities and charges	17		**(4,691)**		(451)
Net assets			**59,280**		84,773
Capital and reserves					
Called up share capital	19		**119,928**		63,502
Share premium account	20		**2,162**		2,162
Capital contribution reserve	20		**412**		402
Translation reserve	20		**(513)**		(84)
Other reserves	20		**400**		400
Profit and loss account	20		**(63,109)**		18,391
Shareholders' funds	21		**59,280**		84,773

These financial statements were approved by the board of directors on 27 April 2009 and were signed on its behalf by:

D W Weaver
DIRECTOR

NOTES TO THE FINANCIAL STATEMENT
for the year ended 31 December 2008

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.

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 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. Also, as permitted by Financial Reporting Standard 29, no disclosures relating to financial instruments as required by the standard are presented in these accounts as the company is a wholly owned subsidiary of Jefferies International (Holdings) Limited, which presents such disclosures in its own published consolidated financial statements.

The financial statements are prepared on a going concern basis taking into account the continuing support from the company's parent. The risks and uncertainties facing the company are discussed in the Directors' Report. Taking these factors into account the directors are satisfied of the intent and ability of the parent company to provide support to the company and consequently present these financial statements on a going concern basis.

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.

Service fee income

Service fee income comprises intercompany transfer pricing arrangements between related business entities and is calculated and recognised on an accruals basis.

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 Financial Reporting Standard 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

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

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 is 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.

Fair value measurement

Since 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.

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 of 3-10 years.

1 Accounting policies (continued)

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.

Forgivable Loans

Forgivable loans provided to an employee, where the employee must complete a specified period of service before the loan is forgiven, are amortised over the loan period until the loan is finally forgiven. The total amount of the loan is amortised to the profit and loss account, with costs being recognised in the year under review to the extent that it relates to that year.

The loan must be repaid if an employee ceases to be employed by the company before the loan is forgiven. If the loan is to be repaid, the life to date charge is reversed to the profit and loss account upon cessation of employment.

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 Financial Reporting Standard 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.

Provision for onerous leases

The company provides for 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.

1 Accounting policies (continued)

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 share awards granted is recognised as an employee compensation expense. The amount of compensation expense is determined by reference to the fair value of the share awards on grant date and amortised over the period to which the award relates.

Share awards granted to an employee on commencement of employment are expensed immediately at the point of grant.

Where share awards are granted during the year or after the year end in respect of services rendered in the year under review, the awards are amortised to the profit and loss account, and the costs recognised, in that year.

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 they breach the forfeiture provisions of that award. 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

	2008	2007
	£000	£000
Net trading and commission income	**62,719**	38,258
Investment banking fees	**34,203**	35,833
Service fee income	**3,855**	25,981
Other income	**3,112**	3,648
	103,889	103,720

3 Interest payable and similar charges

	2008	2007
	£000	£000
Interest payable to group undertakings	**(5,291)**	(7,485)
Bank loan interest	**(46)**	(332)
Other interest payable	**(1,247)**	(1,937)
	(6,584)	(9,754)

4 (Loss) / profit on ordinary activities before taxation

	2008 £000	2007 £000
(Loss) / profit on ordinary activities before taxation is stated after charging		
Auditors' remuneration for the statutory audit of the company's accounts	**230**	198
Auditors' remuneration in relation to the regulatory audit	**10**	10
Auditors' remuneration for taxation services	**104**	124
Auditors' remuneration for pension audit	**5**	1
Depreciation of tangible fixed assets	**3,285**	3,596
Operating lease rentals	**5,406**	6,061
Loss on disposal of tangible fixed assets	**12**	139

Of the auditors' remuneration for audit services, £5,267 related to the prior year (*2007*: £2,000).

Remuneration of the company's auditors for the provision of work related to Sarbanes-Oxley of £27,083 (*2007*: £30,000) and quarterly review fees of £28,700 (*2007*: £24,000) were borne by Jefferies & Company, Inc.

5 Remuneration of directors

The highest paid director received emoluments of £1,968,526 (*2007*: £1,319,632) and £4,704 in contributions (*2007*: £nil) were made to a pension scheme on his behalf.

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

	2008 £000	2007 £000
Emoluments	**3,416**	3,612
Pension Contributions	**32**	44
	3,448	3,656

Contributions to money purchase pension schemes were made on behalf of 3 directors (*2007*: 4) in 2008.

All directors benefited from qualifying third party indemnity provisions.

6 Staff numbers and costs

The average number of employees (including directors) during the year was 372 (*2007*: 293): The split of these was as follows:

	2008	2007
Front office staff	**251**	204
Administration staff	**121**	89
	372	293

The aggregate payroll costs were as follows:

	2008 **£000**	2007 £000
Wages and salaries	**116,595**	48,275
Social security costs	**13,513**	5,707
Other pension costs	**1,672**	1,506
	131,780	55,488

7 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 £1,672,000 (*2007:* £1,506,000). There were no contributions payable (*2007*: £nil) at the year end.

8 Taxation

	2008 £000	2007 £000
UK corporation tax at 28.5% (*2007*: 30%) on the (loss) / profit for the year	**711**	(2,309)
Adjustment to UK corporation tax in respect of prior years	**2,930**	(160)
Double tax relief	**-**	(21)
	3,641	(2,490)
Overseas tax	**-**	21
Total current tax	**3,641**	(2,469)
Deferred tax (note 18):		
– origination and reversal of timing differences	**24,426**	1,474
– effect of reduction in tax rate	**(323)**	(228)
Tax on (loss) / profit on ordinary activities	**27,744**	(1,223)

Tax reconciliation

	2008 £000	2007 £000
(Loss) / profit on ordinary activities before taxation	**(109,244)**	4,620
Tax on (loss) / profit on ordinary activities before taxation at the standard rate of corporation tax in the United Kingdom of 28.5% (*2007*: 30%)	**31,135**	(1,386)
Adjustment to tax charge in respect of dividend received from subsidiary	**-**	(578)
Adjustments in respect of prior years	**2,930**	(160)
Disallowed expenses	**(1,288)**	(532)
Restricted stock expense	**(13,657)**	(1,805)
Foreign tax credit	**-**	1,926
Losses included in deferred tax asset	**(14,351)**	-
Losses included in carry back claim	**(1,955)**	-
Capital allowances for the year in excess of depreciation	**962**	-
Other	**(135)**	66
Total current tax	**3,641**	(2,469)

9 Tangible fixed assets

	Leasehold Improvements £000	Fixtures & Fittings £000	Total £000
Cost			
As at 1 January 2008	15,364	7,240	22,604
Additions	1,006	1,503	2,509
Transfers	18	48	66
Disposals	(6)	(16)	(22)
As at 31 December 2008	16,382	8,775	25,157
Depreciation			
As at 1 January 2008	2,510	2,627	5,137
Transfers	18	48	66
Disposals	(2)	(8)	(10)
Charge for the period	1,247	2,038	3,285
As at 31 December 2008	3,773	4,705	8,478
Net Book Value			
As at 31 December 2008	12,609	4,070	16,679
As at 31 December 2007	12,854	4,613	17,467

10 Fixed asset investments

	2008 £000	2007 £000
Shares in subsidiary undertakings		
As at 1 January and at 31 December	8,182	8,182
Other fixed asset investments		
As at 1 January and at 31 December	29	29

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.

11 Debtors

	2008 £000	2007 £000
Amounts falling due within one year:		
Amounts owed by group undertakings	**20,855**	18,326
Securities borrowed collateral	**211,565**	473,032
Securities awaiting settlement	**190,515**	315,441
Other trade receivables	**66,938**	4,540
Other debtors	**8,419**	23,551
Prepayments and accrued income	**1,889**	1,024
Deferred taxation (note 18)	**8,547**	497
	508,728	836,411

	2008 £000	2007 £000
Amounts falling due after more than one year:		
Prepayments and accrued income	**10**	49
Deferred taxation (note 18)	**20,405**	4,352
	20,415	4,401

12 Trading assets

	2008 £000	2007 £000
Equity shares	**80,360**	197,423
Debt securities	**81,483**	90,685
Derivatives	**112**	14,844
	161,955	302,952

13 Trading liabilities

	2008 £000	2007 £000
Equity shares – short positions	**82,687**	195,981
Debt securities – short positions	**64,168**	34,746
Derivatives	**511**	7,951
	147,366	238,678

14 Creditors: amounts falling due within one year

	2008 £000	2007 £000
Bank loans and overdrafts	**11,126**	48,851
Amounts owed to group undertakings	**188,264**	144,843
Securities lent collateral	**113,295**	343,239
Securities awaiting settlement	**183,049**	302,455
Other trade payables	**3,900**	5,577
Other creditors including taxation and social security:		
- Corporation tax	**-**	959
- Other taxes	**31**	19
- Social security	**7,493**	3,140
- Other creditors	**6,101**	2,622
- Accruals and deferred income	**36,319**	23,190
	549,578	874,895

15 Creditors: amounts falling due after one year

	2008 £000	2007 £000
Amount due to parent undertaking:		
- Subordinated loan	**20,975**	15,428
Other creditors including taxation and social security:		
- Social security	**4,022**	224
- Accruals and deferred income	**1,802**	-
	26,799	15,652

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.

16 Collateral

	2008 £000	2007 £000
Cash collateral paid for securities borrowed	**211,565**	473,032
Cash collateral received for securities lent	**(113,295)**	(343,239)
Net cash collateral	**98,270**	129,793
Non cash collateral pledged for securities borrowed	**40,579**	213,575
Non cash collateral received for securities lent	**(33,977)**	(147,670)
Net non cash collateral	**6,602**	65,905

17 Provisions for liabilities and charges

	Onerous lease provision £000	Dilapidations provision £000	Reorganisation provision £000	Total £000
As at 1 January 2008	301	150	-	451
Charged to the profit and loss account	2,121	-	2,384	4,505
Utilised during the year	(265)	-	-	(265)
As at 31 December 2008	2,157	150	2,384	4,691

Onerous lease provision

The provision relates to onerous leases on property maturing in 2009 and 2012, both of which are no longer occupied by the company.

Dilapidations provision

The remaining provision relates to costs that will have to be incurred in 2012 in ensuring a property is presented back to the landlord as contractually required at the end of the lease.

Reorganisation provision

The provision relates to redundancy costs that will be incurred in 2009 as the company undergoes a minor reorganisation of its activities.

18 Deferred taxation asset

	£000
As at 1 January 2008	4,849
Profit and loss account	24,103
As at 31 December 2008	**28,952**

Deferred tax comprises:

	2008 £000	2007 £000
Amounts falling due within one year:		
Unrelieved tax losses	5,919	34
Retention bonus payment charged in excess of amortisation	-	(22)
Social security not yet deductible for tax	297	-
Share award expenses not yet deductible for tax	2,331	485
	8,547	497

	2008 £000	2007 £000
Amounts falling due after more than one year:		
Depreciation charged in excess of capital allowances	(533)	(237)
Unrelieved tax losses	9,906	1,462
Social security not yet deductible for tax	1,126	63
Share award expenses not yet deductible for tax	9,906	3,064
	20,405	4,352

19 Called up share capital

	2008 £	2007 £
Authorised		
Ordinary shares of £1 each	**120,299,567**	63,874,187
Allotted, called up and fully paid		
Ordinary shares of £1 each	**119,927,868**	63,502,488

An additional 56,425,380 shares were issued at £1 each during 2008 to increase the company's capital for trading purposes.

20 Share premium account and reserves

Share premium account

	£000
As at 1 January 2008 and at 31 December 2008	**2,162**

Capital contribution reserve

	£000
As at 1 January 2008	**402**
Movement for the financial year	**10**
As at 31 December 2008	**412**

Translation reserve

	£000
As at 1 January 2008	**(84)**
Foreign exchange differences	**(429)**
As at 31 December 2008	**(513)**

Other reserves

	£000
As at 1 January and at 31 December 2008	**400**

Profit and loss account

	£000
As at 1 January 2008	**18,391**
(Loss) for the financial year	**(81,500)**
As at 31 December 2008	**(63,109)**

21 Reconciliation of movements of shareholders' funds

	2008 £000	2007 £000
Opening shareholders' funds	**84,773**	43,838
(Loss) / profit for the financial year	**(81,500)**	3,397
Foreign exchange differences	**(429)**	(79)
Movement on capital contribution reserve	**10**	93
Issue of ordinary shares	**56,426**	37,524
Closing shareholders' funds	**59,280**	84,773

22 Commitments under operating leases

	2008		2007	
Operating leases which expire:	**Land & buildings £000**	**Other £000**	Land & buildings £000	Other £000
Within one year	**291**	**-**	161	22
In two to five years	**2,577**	**226**	385	198
After five years	**2,751**	**-**	5,011	-
	5,619	**226**	5,557	220

23 Share-based payments

During 2008 £44,775,354 was charged to the profit and loss account in respect of equity-settled share-based payment transactions (*2007*: £8,476,384). 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 compensation purposes. The awards vest at a future date determined at the time of the grant of the award. Unvested share awards are retained upon the cessation of an individual's employment, unless they are forfeited as a result of the forfeiture provisions of those awards. In the event of forfeiture all related charges are reversed to the profit and loss account.

23 Share-based payments (continued)

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 monthly sessions during the year with employee commitment being restricted to the month in question.

c) Restricted Stock Units ('RSU')

RSUs are made to eligible employees for recruitment and compensation purposes. An approved proportion of the awards become non-forfeitable on future anniversaries of grant date over the vesting period. RSUs not held past the predetermined grant date anniversary are retained, unless they are forfeited as a result of the forfeiture provisions of those awards. In the event of forfeiture all related charges are reversed to the profit and loss account.

The Jefferies Incentive Compensation Plan awards outstanding are as follows:

RSA

	2008 Number	2007 Number
Outstanding at 1 January	**2,339,105**	519,114
Additional awards granted during the year	**1,775,304**	2,073,903
Vested and distributed during the year	**(192,115)**	(171,004)
Forfeited during the year	**(418,981)**	(82,908)
Outstanding at 31 December	**3,503,313**	2,339,105

ESPP

	2008 Number	2007 Number
Outstanding at 1 January	**-**	6,308
Additional awards granted during the year	**196**	2,130
Vested and distributed during the year	**(196)**	(8,438)
Outstanding at 31 December	**-**	-

RSU

	2008 Number	2007 Number
Outstanding at 1 January	**841,983**	529,754
Additional awards granted during the year	**132,290**	363,338
Vested and distributed during the year	**(4,505)**	(32,995)
Forfeited during the year	**(27,204)**	(18,114)
Outstanding at 31 December	**942,564**	841,983

23 Share-based payments (continued)

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.

The share awards arrangement was modified during the year. Jefferies has amended all outstanding stock-based compensation awards of employees, such that employees are no longer required to provide service in exchange for the rights to the award. Instead, the awards become subject only to a non-compete provision which, being a non-vesting condition, does not impact on the employee's entitlement to the award as it is no longer conditional on future service or performance conditions. The modification to the service period requirements as stated above resulted in an additional £25,622,641 being amortised to the profit and loss account for the year ended 31 December 2008.

The weighted average fair value of RSAs granted for 2008 was $15.48 (*2007*: $22.10).

The weighted average fair value of shares granted under the ESPP during 2008 was $16.95 (*2007*: $27.09).

The weighted average fair value of RSUs granted for 2008 was $16.64 (*2007*: $26.65).

24 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 securites.

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 U.S. deem it appropriate that the local market risk function contributes to U.S. 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 versus 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 managed at the point the income or expense is recognised in the financial accounts by the exposure being sold in the spot currency market.

24 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	Due within 3 months	Due in 3-12 months	Due in two to five years	Due after five years	Total
	£000		£000	£000	£000	£000
Assets						
Tangible assets	-	-	-	-	16,679	16,679
Investments	-	-	-	-	8,211	8,211
Cash at bank and in hand	71,726	-	-	-	-	71,726
Trading assets	161,955	-	-	-	-	161,955
Debtors						
Securities borrowed collateral	211,565					211,565
Other amounts falling due within one year	297,163	-	-	-	-	297,163
Amounts falling due after more than one year	-	-	-	20,415	-	20,415
Total assets	742,409	-	-	20,415	24,890	787,714
Liabilities						
Trading liabilities	147,366	-	-	-	-	147,366
Securities lent collateral	113,295					113,295
Other creditors	436,283	-	-	-	-	436,283
Creditors: amounts falling due after one year	-	-	-	4,766	22,033	26,799
Provisions for liabilities and charges	4,691	-	-	-	-	4,691
Total liabilities	701,635	-	-	4,766	22,033	728,434
Net assets	40,774	-	-	15,649	2,857	59,280

24 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	-	-	-	16,679	16,679
Investments	n/a	-	-	-	8,211	8,211
Cash at bank and in hand	n/a	71,726	-	-	-	71,726
Trading assets	n/a	161,955	-	-	-	161,955
Debtors						
Securities borrowed collateral	0.25%	211,565				211,565
Other amounts falling due within one year	n/a	297,163	-	-	-	297,163
Amounts falling due after more than one year	n/a	-	8,862	11,553	-	20,415
Total assets		742,409	8,862	11,553	24,890	787,714
Liabilities						
Trading liabilities	n/a	147,366	-	-	-	147,366
Securities lent collateral	0.25%	113,295				113,295
Other creditors	n/a	436,283	-	-	-	436,283
Creditors: amounts falling due after one year	5.5%	-	1,507	3,259	22,033	26,799
Provisions for liabilities and charges	n/a	4,691	-	-	-	4,691
Total liabilities		701,635	1,507	3,259	22,033	728,434
Net assets		40,774	7,355	8,294	2,857	59,280

25 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.