

Company Registration No 3977886

JEFFERIES INTERNATIONAL (HOLDINGS) LIMITED

Directors' Report and Financial Statements

For the year ended 30 November 2011



DIRECTORS' REPORT AND FINANCIAL STATEMENTS

TABLE OF CONTENTS

	<i>Page</i>
Directors' Report	1-5
Statement of Directors' Responsibilities	6
Independent Auditor's Report to the Members of Jefferies International (Holdings) Limited	7-8
Consolidated Profit and Loss Account	9
Consolidated Statement of Total Recognised Gains and Losses	10
Consolidated Balance Sheet	11
Company Balance Sheet	12
Notes to the Financial Statements	13-49
Additional Information	50

Jefferies International (Holdings) Limited

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 November 2011

1. Principal activities

Jefferies International (Holdings) Limited "the Company" acts as an intermediate holding company for the European activities of Jefferies Group, Inc a US listed independent, full service global investment banking firm serving our clients for nearly fifty years

The "Group" comprises the Company and its subsidiaries. The subsidiaries are detailed in note 12. The principal operating subsidiaries within the Group are Jefferies International Limited "JIL" and Jefferies Bache Limited "JBL". The Group has continued to operate as a full service investment banking firm, including equities, fixed income, commodities and investment banking and the Group has acted, through its network of offices, as a representative for its US parent company (see note 34)

We provide companies with capital markets, merger and acquisition, restructuring and other financial advisory services. We provide investors with fundamental research and trade execution in equity, equity linked and fixed income securities. We also provide asset management services and products to institutions and other investors.

We have been pursuing a strategy of growth and diversification, whereby we have sought to increase our share of the business in each of the markets that we serve, whilst at the same time expanding the breadth of our activities in an effort to mitigate the cyclical nature of the financial markets in which we operate. Our growth plan is being achieved through internal growth supported by the ongoing addition of experienced personnel in targeted areas, as well as the acquisition from time to time of complementary businesses.

On 1 July 2011 the Company acquired Bache Commodities Limited, now re-named as Jefferies Bache Limited (JBL), as part of the Jefferies Group, Inc global acquisition of the Prudential Bache legal entities from Prudential Financial, Inc (see note 35)

JBL is a global commodity and financial futures broker dealer, offering clients sales, trading opportunities and global access to all major commodity markets, as well as structured products solutions in the commodities sector.

In 2011 the Company disposed of its investment in the Jefferies Asian based companies Jefferies Singapore Limited, Jefferies Hong Kong Limited and Jefferies India Private Limited (see note 12). In 2011 the Company's subsidiary JIL disposed of its investment in Jefferies (Japan) Limited. All four companies were sold at net asset value to a fellow Jefferies company as part of the wider strategic re-organisation of Jefferies Group, Inc.

In 2011 JIL opened a branch in Dubai to act primarily as agent in the wealth management business. JIL has continued to operate branches in Frankfurt, Paris and Milan. JBL continues to operate a branch in Hamburg.

A number of the Group's subsidiaries JIL, JBL and Jefferies Investment Management Limited are regulated by the Financial Services Authority (FSA) in the United Kingdom. The operations of the Group's branches in France, Germany, Italy, Dubai and subsidiary in Switzerland are regulated by the relevant authorities in those countries. JIL is a member of the London Stock Exchange, Euronext, Deutsche Boerse (Xetra platform), Oslo Bors, SIX Swiss Exchange, Borsa Italia, BATS Europe (MTF), Budapest Stock Exchange and Chi-X (MTF). JBL is a member of the London Metal Exchange, Eurex and ICE.

JIL currently operates in the primary sovereign debt markets, participating in debt issuance for the governments of the United Kingdom, Germany, the Netherlands, Portugal, Austria, Slovenia and Belgium. JIL is also a dealer for the European Financial Stability Fund (EFSF).

As at 30 November 2011, the Group had 947 employees representing approximately 24% of Jefferies Group, Inc's global workforce.

Jefferies International (Holdings) Limited

DIRECTORS' REPORT (continued)

2. Business review

The Group has recorded a consolidated profit for the financial year of £56,201,329 (2010 £932,483) which will be transferred to reserves. The financial performance compares a 12 month period to 30 November 2011 versus an 11 month period to 30 November 2010.

There have been three main drivers in the growth in profitability in 2011. Our Fixed Income business continues to make a significant contribution to the Group's profitability. The acquisition of JBL has added another profitable business to the Group. The disposal of the Asian subsidiaries created a gain on investment for the Group.

Other businesses, such as equities and investment banking, had satisfactory performances in the year, building market share while adopting a conservative strategy in what continues to be challenging market conditions.

The Board continues to invest in the business by acquiring both individuals and teams of high calibre finance professionals. The Board believes that with careful management the business will be able to maintain the current rate of measured expansion within the markets in which the Group operates.

The table below sets out the key results for the year. The statutory Consolidated Profit and Loss Account for the year is set out on page 9.

Group	12 months to 30 November 2011 £000	11 months to 30 November 2010 £000
Turnover	390,342	236,457
Profit for the financial period / year	56,201	932
Shareholders' funds	311,513	251,296

Key financial performance indicators

Gross margin	24%	8%
Return on capital employed (ROCE)	12%	4%
Current ratio	119%	106%

The return on capital employed ratio is calculated by dividing net operating profit by total assets less current liabilities.

3. Subsequent events

In February 2012 the Company's subsidiary, JIL, acquired the Hoare Govett business, a UK corporate equities broker, from Royal Bank of Scotland (see note 36).

4. Dividends

The directors do not recommend the payment of a dividend for the year ended 30 November 2011 (2010 £nil).

5. Going concern

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 Group to continue in operational existence for the foreseeable future. This assessment is made taking into account the continuing support of the Group's ultimate parent.

The Group's shareholder funds have increased from £251 million in 2010 to £312 million in 2011. The Group had non-segregated cash of £322.8 million as at 30 November 2011 (2010 £104.8 million). Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

Jefferies International (Holdings) Limited

DIRECTORS' REPORT (continued)

6. Financial risk management objectives and policies

The Company and the Group acknowledge the risks they face in undertaking their business and seek 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 Company and the Group

The principal trading risks of the Company and Group are discussed in note 31 of the financial statements. Other risks are considered below

- The Group 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 Group 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 and Group falls under the group business recovery plan. The overall purpose of the plan is to ensure that the organisation and Group are 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

7 Directors

The directors who held office during the year were as follows

		<u>Date of Appointment</u>
T G Barker	<i>(non-executive director)</i>	20 October 2011
H M Tucker	<i>(executive director)</i>	
D W Weaver	<i>(executive director)</i>	

The directors have no interest in the Company's shares. The executive directors participate in the ultimate parent Company Jefferies Group, Inc.'s share-based incentive schemes

The Company has qualifying third party indemnity provisions for the benefit of its directors which were renewed during the year and remain in force at the date of this report

8. Directors' views of the capital adequacy and liquidity

The directors are confident that the Group and the Company are adequately capitalised as at 30 November 2011 and have been adequately capitalised throughout the year ended 30 November 2011. At 30 November 2011, calculated in accordance with FSA rules, the Group Financial Resources Surplus was £444.1 million, Group Financial Resources being 258.1% of the Financial Resources Requirement

The directors are confident that adequate funding is available as and when required from Jefferies Group, Inc. after taking account of Jefferies Group, Inc.'s cash and funding position (see additional information on page 50)

9. Remuneration Policy

The Group's remuneration policy is designed to fairly compensate employees dependent on their individual performance and the performance of the Group as a whole. The remuneration policy sets out to achieve three principal objectives: (1) attract and retain talented employees, (2) encourage long-term service and loyalty, and (3) relative fairness without exposing the Group to excessive risk

The remuneration process is overseen by the Compensation Committee which is made up entirely of non-executive directors. The Compensation Committee reports directly to the Board of Jefferies Group, Inc. The Compensation Committee utilised the services of Mercer as its external compensation consultant in 2011

Jefferies International (Holdings) Limited

DIRECTORS' REPORT (continued)

9 Remuneration Policy (continued)

The compensation packages offered to the executive officers are made up of the following four components

- Base salary which provides the named officers with a predictable level of income to enable the executive to meet living expenses and financial commitments
- Annual bonus paid dependent on the achievement of pre-agreed performance objectives that are designed to align the individual's objectives with those of the Group
- Long-term stock awards serve to both align the interests of the executive officers with those of the shareholders and to promote long-term service to the Group
- Other benefits include pension, medical, dental, life and disability insurance

10. Creditor payment policy

The Group agrees payment terms and conditions with individual suppliers. Once agreed it is the policy to abide by the terms of payment.

11. Employer policy

The Group endeavours to keep employees informed about the progress of the businesses within the Jefferies Group and encourages them to make known their views. The texts of public announcements are made available to employees simultaneously with its release to the press and shareholders, and in addition, there are regular updates from senior management both in the US and in the UK on how the Group is performing internationally.

The interest of staff in the 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 Group to provide equal employment opportunities for all employees and applicants. The Group does not 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 Group will be treated as gross misconduct and could lead to dismissal.

The Group complies at all times with employment law and best practice in the countries in which it is represented.

12. Charitable and Political donations

Charitable donations amounting to £5,363 (2010: £143,651) were made by the Group during the financial year. The charitable donations in 2010 were primarily made in aid of the Haitian disaster relief effort. There were no political donations made within the financial year (2010: £nil).

13. Auditor

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's and Group's auditor is unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's and Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Jefferies International (Holdings) Limited
DIRECTORS' REPORT (continued)

13. Auditor (continued)

Deloitte LLP has indicated its willingness to continue in office and appropriate arrangements are being made for it to be reappointed as auditor in the absence of an Annual General Meeting

Approved by the Board and signed on its behalf by:



H M Tucker
Director

29 August 2012

Vintners Place
68 Upper Thames Street
London EC4V 3BJ

Jefferies International (Holdings) Limited

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
DIRECTORS' REPORT AND 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 they have elected to prepare the Group's and Company's financial statements in accordance with United Kingdom Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and 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 judgements and estimates that are reasonable and prudent,
- state whether applicable United Kingdom 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 Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JEFFERIES INTERNATIONAL (HOLDINGS) LIMITED

We have audited the financial statements of Jefferies International (Holdings) Limited for the year ended 30 November 2011 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and the Company's affairs as at 30 November 2011 and of the Group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

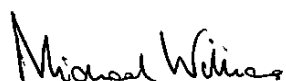
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JEFFERIES
INTERNATIONAL (HOLDINGS) LIMITED (continued)**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Michael Williams
Senior Statutory Auditor
For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom

29 August 2012

Jefferies International (Holdings) Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30 November 2011

	<i>Note</i>	12 months to 30 November 2011 £000	11 months to 30 November 2010 £000
Group turnover			
Existing operations		364,640	236,457
Acquisitions		25,702	-
	2	<u>390,342</u>	<u>236,457</u>
 Administrative expenses		 (297,134)	 (217,258)
Group operating profit			
Existing operations		85,653	19,199
Acquisitions		7,555	-
		<u>93,208</u>	<u>19,199</u>
 Impairment charge	10	 -	 (7,045)
Gain on disposal of investment	12	6,469	-
Interest receivable and similar income	3	1,304	1,231
Interest payable and similar charges	4	<u>(22,587)</u>	<u>(7,338)</u>
 Profit on ordinary activities before taxation	5	 78,394	 6,047
 Tax on profit on ordinary activities	9	 (22,193)	 (5,115)
 Profit for the financial year / period	28	 <u>56,201</u>	 <u>932</u>

The notes on pages 13 to 49 form part of these financial statements

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

As permitted under section 408 of the Companies Act 2006, the Company has not presented its Profit and Loss Account. The retained profit attributable to the Company for the year is £11,654,864 (2010 loss of £12,957,510)

Jefferies International (Holdings) Limited

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 30 November 2011

	<i>Note</i>	12 months to 30 November 2011 £000	11 months to 30 November 2010 £000
Retained profit for the financial year / period		56,201	932
Currency translation differences	28	3,582	2,112
Fair value movement on available for sale financial instruments	28	308	-
Actuarial gain recognised in pension scheme	28	268	-
Current tax credit on special pension contribution	28	1,829	-
Movement in deferred tax relating to pension liability	25	(2,059)	-
Other movement in pension reserve	28	137	-
Disposal of Asian subsidiaries	28	(49)	-
Total recognised gains relating to the financial year / period		60,217	3,044

The notes on pages 13 to 49 form part of these financial statements

Jefferies International (Holdings) Limited

CONSOLIDATED BALANCE SHEET

As at 30 November 2011

		2011	2010
			<i>Restated</i>
	<i>Note</i>	£000	£000
Fixed assets			
Intangible assets	10	26	42
Goodwill	10	3,397	6,545
Negative goodwill	10	(6,244)	-
Tangible assets	11	20,801	17,884
Investments – available for sale	14	3,048	1,252
Insurance assets	17	12,079	-
		<u>33,107</u>	<u>25,723</u>
Current assets			
Cash at bank and in hand		360,609	107,215
Trading assets	15	1 740,596	2,360,726
Physical commodities	18	12 409	-
Debtors			
Amounts falling due within one year	13	2 127,562	2 795,575
Amounts falling due after more than one year	13	28,650	27,969
		<u>4,269,826</u>	<u>5,291,485</u>
Creditors: amounts falling due within one year			
Trading liabilities	16	(1,164,912)	(2,633,560)
Other creditors	19	(2,384,845)	(2,352,292)
		<u>(3,549,757)</u>	<u>(4 985,852)</u>
Net current assets		<u>720,069</u>	<u>305,633</u>
Total assets less current liabilities		<u>753,176</u>	<u>331,356</u>
Creditors: amounts falling due after more than one year			
Pension liability	20	(428,417)	(78,576)
Pension liability	21	(12,484)	-
Provisions for liabilities and charges	24	(762)	(1,484)
Net assets		<u>311,513</u>	<u>251,296</u>
Capital reserves			
Called up share capital	26	267 201	267,201
Share premium account	28	14,610	14,610
Merger reserve	28	6 499	6,499
Capital contribution reserve	28	3,523	3,572
Translation reserve	28	10,274	6,692
Other reserves	28	13,669	13,361
Profit and loss account	28	(4,263)	(60,639)
Shareholders' funds	28	<u>311,513</u>	<u>251,296</u>

The notes on pages 13 to 49 form part of these financial statements. These financial statements were approved by the Board of Directors on 29 August 2012 and were signed on its behalf by



H M Tucker
Director

Jefferies International (Holdings) Limited

COMPANY BALANCE SHEET

As at 30 November 2011

	Note	2011 £000	2010 £000
Fixed assets			
Intangible assets	10	1,113	-
Investments	12	408,939	240,381
Current assets			
Cash at bank and in bed		1,626	-
Debtors	13	110,993	119,851
		112,619	119,851
Creditors: amounts falling due within one year			
Other creditors	19	(113,093)	(156,997)
Net current (liabilities) / assets		(474)	(37,146)
Total assets less current liabilities		409,578	203,235
Creditors: amounts falling due after one year	20	(194,688)	-
Net assets		214,890	203,235
Capital reserves			
Called up share capital	26	267,201	267,201
Share premium account	28	14,610	14,610
Capital contribution reserve	28	3,086	3,086
Profit and loss account	28	(70,007)	(81,662)
Shareholders' funds	28	214,890	203,235

The notes on pages 13 to 49 form part of these financial statements

These financial statements were approved by the Board of Directors on 29 August 2012 and were signed on its behalf by



H M Tucker
Director

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

1 ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are described below. They have been applied consistently throughout this year and the preceding period, with the exception of the change to the policy on clients' money which necessitated the adjustment of certain prior year balances for comparability purposes (see notes 19 and 32). The impact of this change has been to increase both cash at bank and creditors as at 30 November 2010 by £2,404,237. The balance representing the UK tax impact on currency translation differences included within the Consolidated Statement of Recognised Gains and Losses for the period ended 30 November 2010 has been adjusted to provide a consistent presentation with the current year.

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006, UK Generally Accepted Accounting Practice (UK GAAP) and under the historical cost convention, except for trading assets and liabilities, insurance asset, physical commodities and certain components of the investments – available for sale, as noted below.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 30 November each year. The comparative balances were for the 11 month period to 30 November 2010. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

Going concern

The financial statements are prepared on a going concern basis taking into account the continuing support from the Company's ultimate parent, Jefferies Group, Inc. The risks and uncertainties facing the Company are discussed in the Directors' Report and in note 31. The Group's shareholder funds have increased from £251 million in 2010 to £312 million in 2011. The Group had non-segregated cash of £322.8 million as at 30 November 2011 (2010: 104.8 million). Taking these factors into account the directors are satisfied of the intent and ability of the ultimate parent company to provide support to the Company and consequently present these financial statements on a going concern basis.

Cash flow statement

As permitted by Financial Reporting Standard ("FRS") 1 (revised 1996) paragraph 5a, no cash flow statement is presented in these accounts as the Group is wholly owned by Jefferies Group, Inc., which presents such a consolidated cash flow statement in its own published consolidated financial statements that are publicly available.

Net trading income

The Group'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.

Asset management fees

The asset management fees are derived from the management of clients' assets. The fees are recognised on an accruals basis and recorded to the Profit and Loss Account in the period earned provided they are receivable under the terms of the contract and collectability is reasonably assured.

Commission income

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

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

1 ACCOUNTING POLICIES (continued)

Service fee income

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

Investment banking fees

Advisory and underwriting fees are recognised on an accruals basis and recorded to the Profit and Loss Account in the period earned provided they are receivable under the terms of the contract and collectability is reasonably assured

Dividend income from subsidiaries

Income is recognised by the Company once the dividend is declared and approved by the Board of the subsidiary

Interest income 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

Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group 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

Financing transactions, stock borrowing and lending

The Group enters into repurchase and reverse repurchase agreements and securities borrowed and loaned transactions to accommodate customers and earn interest rate spreads, obtain securities for settlement and finance inventory positions

Repurchase and reverse repurchase agreements, accounted for as collateralised financing transactions, are recorded at their contractual amounts plus accrued interest. Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognised on, or derecognised from the Balance Sheet respectively, unless the risk and rewards of ownership are received or relinquished

To ensure that the market value of the underlying collateral remains sufficient, collateral is generally valued daily and the Group may require counterparties to deposit additional collateral or may return collateral pledged when appropriate

Substantially all repurchase and reverse repurchase activities are transacted under master netting agreements that give the Group the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty. The Group offsets certain repurchase and reverse repurchase agreement balances with the same counterparty on the Balance Sheet

Securities borrowed and loaned transactions are recorded at the amount of cash collateral advanced or received plus accrued interest. Securities borrowed transactions require the Group to provide the counterparty with collateral in the form of cash, letters of credit, or other securities. The Group receives collateral in the form of cash or other securities for securities loaned transactions

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

1 ACCOUNTING POLICIES (continued)

Financing transactions, stock borrowing and lending (continued)

On a daily basis, the Group monitors the market value of securities borrowed or loaned against the collateral value, and the Group may require counterparties to deposit additional collateral or may return collateral pledged, when appropriate. For securities borrowed and loaned transactions, the fees received or paid by the Group are recorded as interest revenue or expense.

Securities borrowed or loaned are not recognised on, or derecognised from, the Balance Sheet respectively, unless the risk and rewards of ownership are received or relinquished.

Investments – “available for sale”

Available for sale assets are non-derivative financial assets that are designated as available for sale. Available for sale securities are initially measured at fair value plus direct and incremental transaction costs, subsequently re-measured at fair value with changes therein recognised in a separate component of equity until the securities are either sold or impaired. For unquoted equity securities, whose value cannot be reliably measured, these are carried at cost. When sold, cumulative gains and losses previously recognised in equity are recognised in the profit and loss account as “gains less losses from financial investments”. At each balance sheet date, an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset or group of assets. If impaired, the cumulative loss is removed from equity and recognised in the Profit and Loss Account.

The value of seats held in commodity exchanges represents the fair value of exchange market memberships held by the Group in the London Metal Exchange.

Derivatives

Derivatives are held for both hedging and trading purposes and arise from customer and proprietary trading activities. All trading book positions held by the Group 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.

In accordance with UK GAAP all the Group's derivative trading positions are presented gross within trading assets and trading liabilities on the face of the Balance Sheet. Legally enforceable netting agreements and collateral held against those trading positions significantly reduce the net exposure of the Group to potential loss in the event of a counterparty default.

Derecognition

The Group 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 from 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 Group is recognised as a separate asset or liability. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Offsetting

The Group only offsets financial assets and liabilities presenting the net amount in the Balance Sheet when it

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

In many instances the Group'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 by either counterparty which effectively limits credit risk on gross exposures.

In accordance with UK GAAP the derivative trading positions are not netted and are presented on a gross basis within the Group's financial statements.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

1 ACCOUNTING POLICIES (continued)

Fair value measurement

The Group accounts for financial instruments on a trade date basis and they are 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. Other financial instruments' values are generally based on an assessment of each underlying investment, market data of any recent comparable transactions and incorporate assumptions regarding market outlook, amongst other factors.

Impairment

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. Where this evidence exists the assets are re-measured to reflect the present value of expected future cash flows. The difference between the carrying amount and the present value of expected future cash flows is recognised in the Profit and Loss Account for the period.

Fair Value Hierarchy

In determining the fair value of the financial instruments, we maximise the use of observable inputs and minimise the use of unobservable inputs by requiring that observable inputs are used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect our assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The Group applies a hierarchy to categorise the fair value measurements broken down into three levels based on the transparency of inputs as follows:

Level 1	Quoted prices are available in active markets for identical assets or liabilities as of the reporting date.
Level 2	Pricing inputs are other than quoted prices in active markets, which are either directly observable as of the reported date. The nature of these financial instruments include cash instruments for which quoted prices are available but traded less frequently, derivative instruments include whose fair value has been derived using a model where inputs to the model are directly observable in the market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observable.
Level 3	Instruments that have little or no pricing observability as at the reported date. These financial instruments are measured using management's best estimate of fair value, where the inputs into the determination of the fair value require significant management judgement or estimation.

Insurance Assets

Insurance assets relate to contracts that meet the definition of an insurance contract under FRS 26 'Financial Instruments – Recognition and measurement' and are outside of the scope of FRS25, FRS26 and FRS29. The insurer accepts the insurance risk from the Group and an asset is recognised for this benefit to offset the future liability of the pension scheme provided for the employees of Jefferies Bache Limited's German branch.

Gains and losses arising from changes in the insurance asset's fair value are included as a separate component of equity until the asset is realised, at which point the cumulative gain or loss is transferred to the Profit and Loss Account.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

1 ACCOUNTING POLICIES (continued)

Physical commodities

Stock is carried at fair value derived from market prices prevailing at the balance sheet date. Changes in the valuation of stock are recorded in the Profit and Loss Account. This is not in accordance with the requirements of SSAP 9 'Stocks and long-term contracts', which require stock to be valued at the lower of cost and net realisable value. However, the directors believe that because they adopt mark-to-market accounting for all other accounting as a trading business, the valuation of stock at fair value is required to show a true and fair view.

Fixed asset investments and shares in subsidiary undertakings

Fixed asset investments and shares in subsidiary undertakings, held by the Company, are recorded at cost less any provisions for impairment in value.

Fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

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

Goodwill

Goodwill may arise on the acquisition of subsidiaries, associated undertakings and joint ventures. It represents the difference between the cost of acquisition and the fair value of the net assets acquired. If the fair value of the net assets acquired exceeds the cost of acquisition then negative goodwill will be recognised on the Balance Sheet. In accordance with FRS 10, goodwill is capitalised as an intangible asset and amortised through the Profit and Loss Account over its expected useful economic life. The useful economic life of the goodwill is determined at the date of the acquisition in question. Goodwill is subject to impairment review in accordance with FRS 11, if there are events or changes in circumstances that indicate that the carrying amount may no longer be appropriate. The impairment review is carried out when necessary by comparing the present value of the expected future cash flows from an entity with the carrying value of its net assets including goodwill.

Intangible asset and amortisation

Intangible assets excluding goodwill are included at cost and amortised over equal annual instalments over a period of five years which is their estimated useful economic life. Provision is made for any impairment in asset 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 period under review to the extent that it relates to that period. The loan must be repaid if an employee ceases to be employed by the Group 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

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

1 ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on a non-discounted basis.

Foreign currencies

- The reporting currency of the Group and the Company is UK pound sterling. 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 and subsidiary undertakings are translated into sterling at the average rates of exchange for the year.
- Exchange differences arising from translation of the result for the period from the average rate to the exchange rate ruling at the year-end are accounted for in reserves.
- Other exchange differences are recognised in the profit and loss account.

Pension costs

The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. The cost of a defined contribution scheme is equal to the contributions paid into the scheme for the period.

The Group, through its subsidiary Jefferies Bache Limited, participated during the year in a defined benefit scheme in Germany. The assets of the scheme are measured at their market value at the balance sheet date. The liabilities are measured using the projected unit method with a discount rate equal to the rate of return on an AA rated corporate bond of equivalent term and currency. The extent to which the scheme's assets exceed its liabilities is shown as a surplus in the balance sheet to the extent that a surplus is recoverable by the Group. The extent to which the scheme's assets fall short of its liabilities is shown as a deficit in the Balance Sheet, net of the related deferred tax asset, to the extent that a deficit represents an obligation of the Group.

The following amounts have been charged to operating profit in the period:

- (i) The increase in the present value of scheme liabilities arising from employee service in the period,
- (ii) Gains and losses arising on settlements/curtailments in the period, and
- (iii) A credit representing the expected return on the scheme's assets and a charge relating to the increase in the present value of the scheme's liabilities are included in administrative expenses.

In addition, any increase in the present value of scheme liabilities resulting from benefit improvements is recognised over the period during which such improvements vest.

Actuarial gains and losses have been recognised in the Statement of Total Recognised Gains and Losses.

Additional details of the Group's pension arrangements have been provided in Note 8.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

I ACCOUNTING POLICIES (continued)

Share-based payments

The share awards programme allows employees of the Group 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.

Shares awarded to an employee on commencement of employment are amortised over the retention period from the grant date. 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 expensed to the Profit and Loss Account in that year, as the employee could be entitled to the full amount of the award without completing the vesting period.

The compensation expense charged to the Profit and Loss Account is credited to the reserves and, to the extent that a charge is made by the ultimate parent, credited to an intercompany account, thereby reducing the amount credited to reserves. A share award may be forfeited if an employee ceases to be employed by the Group 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.

Deferred compensation schemes

An Employee Benefit Trust and an Employee Financial Retirement Benefit Scheme have been set up by the Group's subsidiary, Jefferies International Limited. These trusts are managed by a board of trustees and are totally independent of the Group and Jefferies Group, Inc.

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 Group 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.

Segmental Reporting

The Group is exempt from complying with the Statement of Standard Accounting Practice (SSAP 25) on segmental reporting as the published financial statements of its parent company, Jefferies Group, Inc. meet the requirements as set out in that standard.

Clients' money

As required by the FSA, the Company has segregated bank and broker accounts set up for those clients that have opted to be under the client money rules. The cash within these accounts is maintained separate from that in the non-segregated bank accounts. Segregated balances are included on the Group's Consolidated Balance Sheet.

In prior years the Group did not include clients' money on the Consolidated Balance Sheet. In 2011 the Group has changed its accounting policy so that clients' money is now shown within the Consolidated Balance Sheet. The change is to ensure that the Group's accounting policies are consistent across all companies within the Group. Jefferies Bache Limited, the Group company with the most significant client money balances, has always shown clients' money on its balance sheet.

Details of the amount of segregated balances are disclosed in Note 32.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

2 Turnover

The Group's turnover represents commission on dealing, profit on trading in equities, commodities and debt instruments, asset management fee income, investment banking fees and amounts receivable from the provision of services to fellow subsidiary undertakings

	12 months to 30 November 2011 £000	11 months to 30 November 2010 £000
Net trading and commission income		
- Principal transactions	201,117	128,382
- Commissions	38,636	23,532
- Interest	4,177	(1,516)
Asset management fees	6,636	4,538
Service fee income	69,581	34,295
Investment banking fees	66,094	44,113
Other income	4,101	3,113
	<u>390,342</u>	<u>236,457</u>

3 Interest receivable and similar income

	12 months to 30 November 2011 £000	11 months to 30 November 2010 £000
Interest received on bank accounts	960	912
Other interest receivable	344	319
	<u>1,304</u>	<u>1,231</u>

4 Interest payable and similar charges

	12 months to 30 November 2011 £000	11 months to 30 November 2010 £000
Interest payable to group undertakings	(21,382)	(6,519)
Other interest payable	(1,205)	(819)
	<u>(22,587)</u>	<u>(7,338)</u>

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

5 Profit on ordinary activities before taxation

	12 months to 30 November 2011 £000	11 months to 30 November 2010 £000
Profit on ordinary activities before taxation is stated after charging		
Auditor's remuneration for the audit of the Company and Group's accounts	47	45
Auditor's remuneration for the audit of the Group's subsidiaries	801	488
Auditor's remuneration in relation to the regulatory audit	58	17
Auditor's remuneration for taxation services	37	43
Goodwill amortisation (note 10)	3,396	5,979
Negative goodwill amortisation (note 10)	(2,601)	-
Depreciation of tangible fixed assets (note 11)	4,451	3,818
Impairment of acquisition goodwill	-	7,045
Operating lease rentals	6,770	8,541
Provisions for liabilities and charges (note 24)	392	333
Currency revaluation (gain)	(1,111)	(43)

6 Remuneration of directors

The highest paid director received emoluments of £700,580 (2010 £1,175,510) and £11,368 in contributions (2010 £9,888) were made to a pension scheme on his behalf, for his services as a director to the Company and the Group for the year

The emoluments of the directors (including the chairman and highest paid director) for services as director to the Company and the Group for the year were as follows

	12 months to 30 November 2011 £000	11 months to 30 November 2010 £000
Emoluments	1,178	1,541
Pension contributions	24	17
	<u>1,202</u>	<u>1,558</u>

Contributions to money purchase pension schemes were made on behalf of 2 directors (2010 2) during the year. All directors benefited from qualifying third party indemnity provisions.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

7 Staff numbers and costs

The average number of employees (including directors) during the year was 822 (2010 649) The split of these was as follows

	12 months to 30 November 2011 Number	11 months to 30 November 2010 Number
Front office staff	551	428
Administration staff	271	221
	<u>822</u>	<u>649</u>

The aggregate payroll costs for the year (including directors) were as follows

	12 months to 30 November 2011 £000	11 months to 30 November 2010 £000
Wages and salaries	177,458	123,178
Social security costs	21,841	15,410
Other pension costs - UK	8,195	3,649
- Overseas	517	346
	<u>208,011</u>	<u>142,583</u>

8 Pension costs

(a) Defined Contribution scheme

The Group provides pension plans for employees in most locations The assets of the schemes are held separately from those of the Group in independently administered funds The amount charged against profits includes all defined contributions payable by the Group to the funds amounting to £5,889,082 (2010 £3,994,975) The pension contributions for November 2011, which amounted to £675,054 (2010 £409,214), were still to be paid over at the year end

(b) Bache & Associates Retirement Plan – German Defined Benefit Plan Disclosures under FRS 17

As part of the acquisition of Jefferies Bache Limited (see the Directors' Report) the Group acquired a defined benefit pension scheme set up for the employees of JBL's Hamburg branch The defined benefit plan is operated for all eligible employees The plan is reinsured by individual insurance contracts held in the name of the Group's subsidiary, Jefferies Bache Limited, with two multi-national insurers The net investment in these contracts has been recognised as a separate long-term insurance asset on the Balance Sheet All costs relating to the plan (including insurance premiums and other costs as computed by the insurer) are met in full by the Group

The plan provides a pension of 1% of accrued earnings up to EUR 102,258 plus 0.5% of pensionable earnings above the state social security ceiling Pensions in payment are reviewed triennially in accordance with German law The last formal valuation was performed as at 30 November 2011

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

8 Pension costs (continued)

(b) Bache & Associates Retirement Plan – German Defined Benefit Plan Disclosures under FRS 17 (continued)

Change in benefit obligation	2011 £000
Benefit obligation at 1 July 2011	(13,606)
Service cost	(9)
Interest cost	(276)
Actuarial gain / (loss)	268
Benefits paid	295
Exchange rate changes	719
Benefit obligation at end of year	(12,609)
Amounts recognised in the Balance Sheet	2011 £000
Present value of funded obligations	(12,609)
Deficit for funded plans	(12,609)
Related deferred tax assets	125
Net liability	(12,484)
<u>Amounts in the Balance Sheet</u>	
Liabilities	(12,484)
Assets used for PBO held outside of DB plan (see note 17)	12,079
Net liabilities	(405)
Components of pension expense	11 months to 30 November 2011 £000
Current service cost	9
Interest cost	276
Total pension expense recognised in the Profit and Loss Account	285
Statement of Total Recognised Gains and Losses (STRGL)	2011 £000
Actuarial gain immediately recognised	268
Total pension gain recognised in the STRGL	268
Cumulative amount of actuarial loss immediately recognised	268

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

8 Pension costs (continued)

(b) Bache & Associates Retirement Plan – German Defined Benefit Plan Disclosures under FRS 17 (continued)

Weighted average assumptions to determine benefit obligations 2011

Discount rate	5.60%
Rate of compensation increase	3.00%
Rate of price inflation	2.00%
Rate of pension increases	2.00%

Weighted average assumptions to determine net pension cost for year ended 2011

Discount rate	5.10%
Rate of price inflation	2.00%
Rate of pension increases	2.00%

Weighted average life expectancy for mortality tables used to determine benefit obligations 2011

	Years
Member age 65 (current life expectancy)	20.48
Member age 40 (life expectancy at age 65)	23.74

History data defined benefit obligations, assets and experience gains and losses

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Defined benefit obligation	(12,609)	(13,173)	(13,694)	(12,887)	(13,601)
Fair value of plan assets	-	-	-	-	-
Deficit	<u>(12,609)</u>	<u>(13,173)</u>	<u>(13,694)</u>	<u>(12,887)</u>	<u>(13,601)</u>
Experience gains/(losses) on plan liabilities					
Amount	139	203	217	267	439
Percentage of plan liabilities	1%	2%	2%	2%	3%

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

9 Taxation

	12 months to 30 November 2011 £000	11 months to 30 November 2010 £000
UK corporation tax at 26.67% (2010: 28%) on the profit for the year / period	(6,752)	(93)
Double tax relief	348	-
Adjustments in respect of prior years	646	15
Overseas tax	(1,070)	(2,254)
Total current tax	(6,828)	(2,332)
Deferred tax (note 25)		
- Origination and reversal of timing differences	(13,662)	(4,197)
- Adjustment to UK corporation tax in respect of prior years	(788)	2,278
- Effect of reduction in tax rate	(915)	(864)
Tax on profit on ordinary activities	(22,193)	(5,115)

Tax reconciliation

	12 months to 30 November 2011 £000	11 months to 30 November 2010 £000
Profit on ordinary activities before taxation	78,394	6,047
Tax on profit on ordinary activities before taxation at the standard rate of corporation tax in the United Kingdom of 26.67% (2010: 28%)	(20,908)	(1,694)
Non-taxable income and gains	3,220	-
Effect of tax rates within other jurisdictions	(22)	(281)
Goodwill amortisation and impairment charge	(228)	(3,646)
Adjustments in respect of prior periods	646	15
Disallowed expenses	(933)	(520)
Restricted stock expense	2,385	2,154
Losses utilised	8,297	3,450
Depreciation for the year / period exceeded by / (in excess of) capital allowances	432	(1,010)
Other timing differences	283	(800)
Total current tax	(6,828)	(2,332)

Further reductions to the main rate of corporation tax are proposed to reduce the rate by 1% per annum to 22% by 1 April 2014. The proposed changes to the rate had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

10 Intangible assets

Group	Positive Acquisition Goodwill £000	Negative Acquisition Goodwill £000	Software license £000	Total £000
Cost				
As at 1 December 2010	38,084	-	45	38,129
Additions in the year	<u>248</u>	<u>(8,845)</u>	<u>-</u>	<u>(8,597)</u>
As at 30 November 2011	38,332	(8,845)	45	29,532
Amortisation				
As at 1 December 2010	31,539	-	3	31,542
Charge for the year	<u>3,396</u>	<u>(2,601)</u>	<u>16</u>	<u>811</u>
As at 30 November 2011	34,935	(2,601)	19	32,353
Net Book Value				
As at 30 November 2011	<u>3,397</u>	<u>(6,244)</u>	<u>26</u>	<u>(2,821)</u>
As at 30 November 2010	<u>6,545</u>	<u>-</u>	<u>42</u>	<u>6,587</u>

In the year the Group acquired Jefferies Bache Limited at a "bargain" price which resulted in negative goodwill being recognised on the balance sheet (see note 35). The negative goodwill is being amortised over 17 months which is the period that management estimate that the assets will either be recovered or the benefit associated with those assets will be realised by the Group.

The brought forward goodwill relates to the unamortised goodwill arising from the acquisition of LongAcre Partners Limited in 2007. In 2010, an impairment charge of £7.05 million was recognised in the Group's Consolidated Profit and Loss Account in relation to historical acquisition goodwill balances.

Company	Purchase Goodwill £000
Cost	
As at 1 December 2010	-
Additions in the year	<u>1,577</u>
As at 30 November 2011	1,577
Amortisation	
As at 1 December 2010	-
Charge for the year	<u>464</u>
As at 30 November 2011	464
Net Book Value	
As at 30 November 2011	<u>1,113</u>
As at 30 November 2010	<u>-</u>

The purchase goodwill, on the Company's Balance Sheet, arises from directly incremental costs incurred in the acquisition of Jefferies Bache Limited.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

11 Tangible fixed assets

Group	Leasehold Improvements £000	Fixtures & Fittings £000	Total £000
Cost			
As at 1 December 2010	22,241	14,797	37,038
Acquisition of Jefferies Bache Limited	4,133	2,344	6,477
Additions	2,268	3,037	5,305
Exchange Adjustments	(17)	13	(4)
Transfer in from Affiliate	(655)	(1,125)	(1,780)
Disposals	(2,376)	(5,354)	(7,730)
As at 30 November 2011	25,594	13,712	39,306
Depreciation			
As at 1 December 2010	8,739	10,415	19,154
Acquisition of Jefferies Bache Limited	1,812	1,885	3,697
Charge for the year	2,086	2,365	4,451
Exchange Adjustments	(8)	-	(8)
Transfer in from Affiliate	(490)	(569)	(1,059)
Disposals	(2,376)	(5,354)	(7,730)
As at 30 November 2011	9,763	8,742	18,505
Net Book Value			
As at 30 November 2011	15,831	4,970	20,801
As at 30 November 2010	13,502	4,382	17,884

12 Fixed asset investments

Company	2011 £000	2010 £000
As at 1 December / 1 January	240,381	178,683
Additions	203,097	75,534
Disposals	(28,956)	-
Impairment charges	(5,583)	(13,836)
As at 30 November	408,939	240,381

In 2011 the Company disposed of its investments in Jefferies Singapore Limited, Jefferies Hong Kong Limited and Jefferies India Private Limited. All these subsidiaries were sold to a fellow Jefferies group company, Jefferies Asia Holdings Limited, at net asset value. The Group recognised a foreign exchange adjusted gain of £5.8 million on these disposals. The total gain on the Consolidated Balance Sheet includes a gain of £0.7 million relating to the sale of investment securities by LongAcre Partners Limited.

The impairment in fixed asset investment related to the Company's investment in Helix Associates Limited which is in the process of being liquidated.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

12 Fixed asset investments (continued)

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
<u>Subsidiary undertakings</u>			
Jefferies International Limited	Ordinary £1 Shares	100%	Broker / Dealer
Jefferies Bache Limited	Ordinary £1 Shares	100%	Broker / Dealer
Jefferies Investment Management Limited	Ordinary £1 Shares	100%	Investment Manager
Jefferies (Schweiz) AG*	Registered Shares	100%	Broker / Dealer / Asset Management
LongAcre Partners Limited	Ordinary £1 Shares	100%	Non-Trading
Jefferies Investment (Nominees) Limited*	Ordinary £1 Shares	100%	Nominee
Jefferies Investment (Nominees) Client Limited*	Ordinary £1 Shares	100%	Nominee
Helix Associates Limited	Ordinary £1 Shares	100%	In liquidation
Asymmetric Capital Management Limited	Ordinary £1 Shares	100%	Dissolved
Jefferies Randall & Dewey Limited	Ordinary £1 Shares	100%	Dissolved

Shares in the above were all held directly by Jefferies International (Holdings) Limited at the balance sheet date unless marked with an asterisk. All subsidiaries are registered in England and Wales apart from Jefferies (Schweiz) AG which is registered in Switzerland,

On 1 July 2011 the Group acquired Jefferies Bache Limited (formerly Bache Commodities Limited) as part of the Jefferies Group purchase of the Bache group from Prudential Financial, Inc (see note 35)

13 Debtors

Group	2011 £000	2010 £000
Amounts falling due within one year		
Amounts owed by group undertakings	176,082	34,529
Securities borrowed collateral	238,277	597,300
Securities awaiting settlement	648,700	1,310,136
Reverse re-purchase collateral	349,471	674,862
Other trade receivables	676,249	113,406
Other debtors	21,848	49,072
Prepayments and accrued income	12,733	4,754
Deferred taxation (note 25)	4,202	11,516
	<u>2,127,562</u>	<u>2,795,575</u>

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

13 Debtors (continued)

In the table, on the previous page, the other trade receivables include the following balances which are segregated under the FSA clients' money rules (see note 32)

- segregated amounts receivable from intermediate brokers of £275.3 million. Of this £249 million is due from an affiliated broker Jefferies Bache LLC, and
- segregated clearing house debtors of £154.9 million. Segregated clearing house debtors represent amounts held by clearing houses in separate accounts, on behalf of clients, as required by the rules of the FSA

Company	2011 £000	2010 £000
Amounts falling due within one year		
Amounts owed by group undertakings	108,971	117,608
Other trade receivables	-	1,240
Corporation tax	31	-
Other debtors	1,991	1,003
	<u>110,993</u>	<u>119,851</u>
Group	2011 £000	2010 £000
Amounts falling due after more than one year		
Employee loans	5,451	7,991
Retention bonuses	10,801	2,580
Other debtors	-	1,699
Prepayments and accrued income	52	138
Deferred taxation (note 25)	12,346	15,561
	<u>28,650</u>	<u>27,969</u>

14 Investments – available for sale

Group	2011 £000	2010 £000
As at 1 December / January	1,252	1,234
Foreign exchange movement	-	18
Additions	2,136	-
Disposals	(340)	-
As at 30 November	<u>3,048</u>	<u>1,252</u>

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

14 Investments – available for sale (continued)

Investments – available for sale represent unquoted equity securities at cost less impairment and ‘B’ shares in the London Metal Exchange held at fair value. The unquoted equities primarily comprise £250,000 £1 preference shares in Altius Associates Limited, 116,750 £1 preference shares in Altius Holdings Limited, £250,000 £1 shares in Engine Group Limited and £260,000 £1 shares in Eagle Rock Entertainment Limited. The ‘B’ shares in the London Metal Exchange were acquired by the Group in 2011 as part of the purchase of Jefferies Bache Limited. Ownership of London Metal Exchange ‘B’ shares is a condition of membership.

The disposals relate to securities investments held by Jefferies Singapore Limited which left the Group in 2011 and securities investments sold by LongAcre Partners Limited.

15 Trading assets

Group	2011 £000	2010 £000
Equity shares	116,603	174,144
Debt securities – Corporate	557,163	655,776
Debt securities – Government	712,157	1,423,604
Asset-backed securities	84,811	92,276
Derivatives	269,862	14,926
	<u>1,740,596</u>	<u>2,360,726</u>

16 Trading liabilities

Group	2011 £000	2010 £000
Equity shares	91,127	240,873
Debt securities – Corporate	153,338	444,056
Debt securities – Government	680,577	1,939,254
Derivatives	239,870	9,377
	<u>1,164,912</u>	<u>2,633,560</u>

17 Insurance assets

Group	2011 £000
German pension scheme insurance contracts (see note 8)	<u>12,079</u>

These amounts represent insurance policies held by Jefferies Bache Limited’s German branch to meet pension obligations to employees. These amounts are held at their fair value which has been deemed to be the insurance contract value. Changes in the fair value of Insurance Assets are recognised through the Statement of Total Recognised Gains and Losses.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

18 Physical commodities

Group	2011 £000
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Silver stock	12,409
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These amounts represent silver stock held as short-term assets by the Jefferies Bache Limited. Changes in fair value of Physical Commodities are recognised through the Profit and Loss Account.

19 Creditors amounts falling due within one year

Group	2011 £000	2010 Restated £000
Bank loans and overdrafts	1,295	40,297
Amounts owed to group undertakings	633,997	398,209
Securities lent collateral	237,100	472,357
Securities awaiting settlement	620,428	931,424
Re-purchase collateral	301,311	416,665
Other trade payables	487,719	6,991
Other creditors including taxation and social security		
- Corporation tax	4,270	3,107
- Social security	13,548	18,129
- Other creditors	44,423	9,426
- Accruals and deferred income	40,754	55,687
Total	2,384,845	2,352,292

Other trade payables include £472.3 million of segregated creditors representing client margins held on deposit, in separate accounts, with restricted access, as required by the rules of the FSA (see note 32).

The other trade payables balance as at 30 November 2010 has been restated to reflect the change in the accounting policy on clients' money (see Accounting Policies note 1, page 19).

Interest is charged on the bank loan and overdraft at the prevailing market rate.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

19 Creditors: amounts falling due within one year (continued)

Company	2011 £000	2010 £000
Amounts owed to group undertakings	105,597	156,895
Other creditors including taxation and social security		
- Social security	8	9
- Corporation tax	123	93
- Other creditors	7,303	-
- Accruals and deferred income	62	-
Total	113,093	156,997

20 Creditors: amounts falling due after more than one year

Group	2011 £000	2010 £000
Amount due to parent undertaking		
- Subordinated loan notes	427,139	77,112
Other creditors including taxation and social security		
- Accruals and deferred income	1,278	1,460
- Other creditors	-	4
	428,417	78,576

The subordinated loan notes are undated and are repayable at par two years from the lender issuing notice to the borrower. Interest is charged at a fixed rate of 9% per annum.

Company	2011 £000	2010 £000
Amount due from fellow group undertaking		
- Subordinated loan notes	194,688	-
	194,688	-

The subordinated loan notes are undated and are repayable at par two years from the lender issuing notice to the borrower. Interest is charged at a fixed rate of 9% per annum.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

21 Pension liability

Group	2011 £000
Germany Defined Benefit Plan	12,484
	<u>12,484</u>

Under the requirements of FRS 17, an actuarial valuation of the pension liabilities of the Group was undertaken as at 30 November 2011. The valuation quantifies the pension liabilities of the Group which have then been recognised on the Consolidated Balance Sheet.

22 Financial Instruments

The table below analyses the Group's financial instruments measured at fair value as at 30 November 2011, the level in the fair value hierarchy into which the fair value measurement is categorised. The carrying value of the financial instruments on the Group's Consolidated Balance Sheet is not materially different from the financial instruments' fair value. The Company did not hold any financial instruments at 30 November 2011 or 30 November 2010.

Group 30 November 2011	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<u>Trading Assets</u>				
Equity shares	106,512	8,769	1,322	116,603
Debt securities – Corporate	333	551,008	5,822	557,163
Debt securities – Government	496,781	215,376	-	712,157
Asset-backed securities	-	42,625	42,186	84,811
Derivatives (i)	1,583	272,237	-	273,820
Total Trading Assets	<u>605,209</u>	<u>1,090,015</u>	<u>49,330</u>	<u>1,744,554</u>
<u>Trading Liabilities</u>				
Equity shares	88,759	2,368	-	91,127
Debt securities – Corporate	-	153,338	-	153,338
Debt securities – Government	505,744	174,833	-	680,577
Derivatives (i)	2,500	228,603	-	231,103
Total Trading Liabilities	<u>597,003</u>	<u>559,142</u>	<u>-</u>	<u>1,156,145</u>

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

22 Financial Instruments (continued)

Group 30 November 2010	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<u>Trading Assets</u>				
Equity shares	167,785	2,288	4,071	174,144
Debt securities – Corporate	-	653,535	2,241	655,776
Debt securities – Government	1,048,139	375,465	-	1,423,604
Asset-backed securities	-	81,251	11,025	92,276
Derivatives	2,245	12,681	-	14,926
Total Trading Assets	1,218,169	1,125,220	17,337	2,360,726
<u>Trading Liabilities</u>				
Equity shares	234,124	6,749	-	240,873
Debt securities – Corporate	1,620	442,436	-	444,056
Debt securities – Government	1,420,306	518,948	-	1,939,254
Derivatives	95	9,282	-	9,377
Total Trading Liabilities	1,656,145	977,415	-	2,633,560

- (i) Included with the derivative assets and liabilities are futures, listed options and OTC transactions with affiliates that are included with Trade Debtors and Trade Creditors rather than within the Trading Assets and Trading Liabilities

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level 3 of the fair value hierarchy

Group 30 November 2011	Equity shares £'000	Debt securities - Corporate £'000	Debt securities – Gov't £'000	Asset backed securities £'000	Total £'000
Balance as at 1 December 2010	4,071	2,241	-	11,025	17,337
Total gains or losses					
In profit or (loss)	(44)	290	-	(3,196)	(2,950)
Purchases	5,443	17,468	-	58,522	81,433
Settlements	(5,997)	(16,235)	-	(30,576)	(52,808)
Transfers into Level 3	28	2,074	-	7,396	9,498
Transfers out of Level 3	(2,179)	(16)	-	(985)	(3,180)
Balance at 30 November 2011	1,322	5,822	-	42,186	49,330
Group 30 November 2010	Equity shares £'000	Debt securities - Corporate £'000	Debt securities – Gov't £'000	Asset backed securities £'000	Total £'000
Balance as at 1 January 2010	1,785	716	122	-	2,623
Total gains or losses					
In profit or (loss)	1,085	(85)	5	9	1,014
Purchases	45,606	2,082	-	11,016	58,704
Settlements	(45,815)	(309)	-	-	(46,124)
Transfers into Level 3	1,498	30	-	-	1,528
Transfers out of Level 3	(88)	(193)	(127)	-	(408)
Balance at 30 November 2010	4,071	2,241	-	11,025	17,337

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

23 Collateral

Group	2011 £000	2010 £000
Cash collateral paid for securities borrowed	238,277	597,300
Cash collateral received for securities lent	(237,100)	(472,357)
Cash collateral paid for reverse repurchase agreements	349,471	674,862
Cash collateral received for repurchase agreements	(301,311)	(416,665)
Net cash collateral	49,337	383,140
Non cash collateral pledged	108,833	142,979
Non cash collateral received	(13,923)	(31,241)
Net non-cash collateral	94,910	111,738

24 Provisions for liabilities and charges

Group	Onerous lease provision £000	Dilapidations provision £000	Legal provision £000	Severance Provision £000	Total £000
As at 1 December 2010	956	195	333	-	1,484
Charged to the profit and loss account	-	-	-	392	392
Utilised during the year	(736)	(45)	(333)	-	(1,114)
As at 30 November 2011	220	150	-	392	762

Onerous lease provision

The provision relates to an onerous lease on properties maturing in 2012, which is no longer occupied by a group undertaking

Dilapidations provision

The provision related to costs that are expected to be incurred in 2012 in ensuring a property is presented back to the landlord as contractually required at the end of the lease

Legal

The provision related to the estimated settlement cost of a legal case brought against the Group over a disputed contract

Severance provision

The provision relates to severance costs arising from current ongoing restructuring plans

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

25 Deferred taxation asset

Group	2011 £000
As at 1 December 2010	27,077
Transferred out on disposal of Asian entities	(244)
Charge to the Profit & Loss Account	(14,578)
Adjustments in respect of prior periods	(788)
Charge to the Statement of Recognised Gains and Losses	(2,059)
Transferred in on acquisition of Jefferies Bache Limited	7,140
As at 30 November 2011	16,548

Deferred tax comprises

Group	2011 £000	2010 £000
Amounts falling due within one year		
Depreciation charged in excess of capital allowances	458	-
Unrelieved tax losses	336	7,657
Share awards not yet deductible for tax	2,062	3,353
Special pension contributions	945	-
Other timing differences	401	506
	4,202	11,516

Group	2011 £000	2010 £000
Amounts falling due after more than one year		
Contributions into the Employee Benefit Trust and Employee Financial Retirement Benefit Scheme	1,105	454
Depreciation charged in excess of capital allowances	1,643	4,169
Share awards not yet deductible for tax	6,104	10,280
Special pension contributions	2,835	-
Other timing differences	659	658
	12,346	15,561

The Finance Act 2011 enacted a reduction in the UK corporation tax rate to 26% from April 2011. The Finance Act 2011 enacted an additional 1% reduction to the UK corporation tax rate to 25% with effect from April 2012. This rate reduction to 25% has had an impact on deferred tax balance as indicated above.

The Finance Act 2012 enacted further 1% reductions in the rate of UK corporation tax to 24% with effect from April 2012 and 23% from April 2013. As part of the Budget announcements on 21 March 2012, a further reduction to 22% from April 2014 was also announced. As these rate reductions were not substantively enacted as at 30 November 2011, the subsequent rate reductions have not been applied to the valuation of deferred tax assets and liabilities.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

26 Called up share capital

	2011 £000	2010 £000
Company and Group		
Allotted, called up and fully paid		
Ordinary shares of £1 each	<u>267,201</u>	<u>267,201</u>

27 Long-term loans

As at 30 November 2011 the Group's subsidiary, Jefferies Bache Limited (JBL), along with Jefferies Bache LLC and Jefferies Bache Financial Services, Inc had access to a committed senior secured revolving facility from a group of commercial banks in USD, GBP and Euros, in aggregate totalling £599.3 million (\$950 million), of which a maximum of £315.4 million (\$500 million) can be borrowed by JBL subject to the borrowing base conditions.

JBL periodically tests this facility to ensure it has the ability to draw upon external liquidity in the short-term. This facility was undrawn at the year end and JBL had no other external borrowings (2010 - £nil).

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

28 Reserves

Group	Share Capital £'000	Share premium £'000	Merger reserve £'000	Capital contribution £'000	Translation reserve £'000	Other reserves £'000	Profit and loss £'000	Total £'000
As at 1 December 2010	267,201	14,610	6,499	3,572	6,692	13,361	(60,639)	251,296
Foreign exchange differences relating to the translation of branch results	-	-	-	-	3,582	-	-	3,582
Fair value movement on available for sale financial instruments	-	-	-	-	-	308	-	308
Actuarial gain recognised on pension scheme	-	-	-	-	-	-	268	268
Current tax credit on special pension contribution	-	-	-	-	-	-	1,829	1,829
Movement in deferred tax relating to pension liability	-	-	-	-	-	-	(2,059)	(2,059)
Other movement in the pension reserve	-	-	-	-	-	-	137	137
Disposal of Asian subsidiaries	-	-	-	(49)	-	-	-	(49)
Profit for the year	-	-	-	-	-	-	56,201	56,201
As at 30 November 2011	267,201	14,610	6,499	3,523	10,274	13,669	(4,263)	311,513
As at 1 January 2010	230,528	14,610	6,499	3,323	4,580	10,999	(61,571)	208,968
Shares issued to parent company	36,673	-	-	-	-	-	-	36,673
Foreign exchange differences relating to the translation of branch results	-	-	-	-	2,112	-	-	2,112
Adjustment for LongAcre acquisition "earn-out" arrangement	-	-	-	249	-	-	-	249
Movement in other reserves	-	-	-	-	-	2,362	-	2,362
Profit for the financial period	-	-	-	-	-	-	932	932
As at 30 November 2010	267,201	14,610	6,499	3,572	6,692	13,361	(60,639)	251,296

Jefferies International (Holdings) Limited
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 November 2011

28 Reserves (continued)

Company	Share Capital £'000	Share premium £'000	Capital contribution £'000	Profit and loss £'000	Total £'000
As at 1 December 2010	267,201	14,610	3,086	(81,662)	203,235
Profit for the year	-	-	-	11,655	11,655
As at 30 November 2011	267,201	14,610	3,086	(70,007)	214,890
As at 1 January 2010	230,528	14,610	2,817	(68,704)	179,251
Shares issued to parent company	36,673	-	-	-	36,673
Adjustment for LongAcre acquisition "earn-out" arrangement	-	-	269	-	269
Profit for the financial period	-	-	-	(12,958)	(12,958)
As at 30 November 2010	267,201	14,610	3,086	(81,662)	203,235

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

29 Commitments under operating leases

Commitments under operating leases for the next financial year are as follows

Group	2011			2010		
	Land & buildings	Other	Total	Land & buildings	Other	Total
	£000	£000	£000	£000	£000	£000
Operating leases which expire						
Within one year	1,118	38	1,156	67	1	68
In two to five years	332	135	467	5,442	199	5,641
After five years	4,383	-	4,383	2,832	-	2,832
	<u>5,833</u>	<u>173</u>	<u>6,006</u>	<u>8,341</u>	<u>200</u>	<u>8,541</u>

30 Share-based payments

During the year £10,366,390 (2010 £9,252,412) was charged to the Profit and Loss Account in respect of equity-settled share-based payment transactions. 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.

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.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

30 Share-based payments (continued)

The Jefferies Incentive Compensation Plan awards outstanding are as follows

a) RSAs	2011 Number	2010 Number
Outstanding at 1 December / January	4,651,753	3,890,671
Transfer (out) / in from affiliate	(791,026)	28,649
Additional awards granted during the year / period	2,486,771	1,764,624
Vested and released to employees during the year / period	(1,093,636)	(948,500)
Forfeited by employees during the year / period	(80,926)	(83,691)
Outstanding at 30 November	5,172,936	4,651,753
a) ESPPs	2011 Number	2010 Number
Outstanding at 1 December / January	-	-
Additional awards granted during the year / period	98	74
Vested and released to employees during the year / period	(98)	(74)
Outstanding at 30 November	-	-
a) RSUs	2011 Number	2010 Number
Outstanding at 1 December / January	1,276,040	1,252,847
Transfer (out) / in from affiliate	(20,589)	24,934
Additional awards granted during the year / period	119,178	190,585
Vested and released to employees during the year / period	(214,350)	(166,902)
Forfeited by employees during the year / period	(4,373)	(25,424)
Outstanding at 30 November	1,155,906	1,276,040

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

30 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.

There were no modifications to the Group's share awards scheme during the year.

The weighted average fair value of RSAs granted in 2011 was \$14.80 (2010: \$23.73).

The weighted average fair value of shares granted under the ESPP in 2011 was \$16.52 (2010: \$16.23).

The weighted average fair value of RSUs granted in 2011 was \$14.34 (2010: \$22.30).

31 Business and financial risk management policies

The Group's activities expose it to a variety of financial and regulatory risks which can be principally defined as:

- market risk,
- credit risk,
- operational risk,
- liquidity risk, and
- capital adequacy risk

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

As contained within its Corporate Governance Charter and as outlined in the Directors' Report, the directors establish and adhere to a framework for overall risk management. This is encapsulated within the Group's main operating subsidiaries', Jefferies International Limited (JIL) and Jefferies Bache Limited (JBL), ICAAP documents as submitted to the Financial Services Authority (FSA), whereby the Boards provide written principles and policies for overall risk management.

The Boards of JIL and JBL have established two committees to facilitate the risk management process: the Audit Committee and Risk Oversight Committee. Several other management committees support this process, such as the New Business Committee, Balance Sheet and Liquidity Risk Management Committee, Independent Price Verification Committee and a Risk Committee. Notwithstanding the establishment of these committees, the ultimate responsibility for all areas and matters of the business lies with the Board.

Market risk

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 exchange rates, interest rates and equity and commodity prices.

Market Risk Management is an independent function within the Group that monitors all trading activities. Gross and net exposures of positions at account level are monitored daily against pre-defined limits. In addition, risk reports are generated and monitored every day including Value at Risk (VaR), Stress Test and Sensitivity reports. Key risks, overall level of risk and significant changes in risk profile are reported to senior management. Market Risk also assists Product Control by providing Independent Price Verification for valuations where external prices are not readily available.

The market risk infrastructure and processes are common across the Jefferies Group, thus reflecting the integrated nature of the Jefferies market risk management function. Within that framework, JIL's and JBL's Risk Management function design and develop risk management approaches tailored to the specific risk profiles in their various business activities.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

31 Business and financial risk management policies (continued)

Market risk (continued)

(i) Currency Risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, Sterling, Euro and Yen. This risk is generated largely through transactions with customers, foreign exchanges and intercompany balances. The Group utilises currency swaps to minimise its exposure to adverse foreign exchange movements. As part of the risk management policy, foreign exchange exposures are monitored on a daily basis.

The management has set up a policy to economically hedge their foreign exchange risk exposure against its functional currency. This is undertaken as soon as a foreign exchange transaction is undertaken.

(ii) Price Risk

The Group actively trades financial instruments to benefit from short-term price fluctuations. Under the Group's risk management policy, these positions are monitored on a daily basis via trade position limits which are strictly maintained independently of the trading desks. The risk limits are reviewed on a regular basis and reported to senior management on an exception basis. This price risk is mitigated by various strategies undertaken by the Group.

(iii) Interest Rate Risk

Interest rate risk arises where a change in the market interest rate results in the change in the value of an interest rate sensitive financial instrument. This risk is addressed by the Group through on-going monitoring of VaR and interest rate sensitivity analysis.

Both JIL and JBL have long term Sub-debt with the ultimate parent company, Jefferies Group, Inc., at a fixed interest rate. JBL, along with Jefferies Bache LLC and Jefferies Bache Financial Services, Inc. has a committed senior secured revolving credit facility with a group of commercial banks, in aggregate £599.3 million (\$950 million) of which a maximum of £315.4 million (\$500 million) can be borrowed by JBL subject to the borrowing base conditions. The facility is in USD, Euros and GBP. Interest is based on the Federal funds rate for USD or LIBOR or EURIBOR for GBP and Euros respectively.

(iv) Value-At-Risk and Stress testing

The Group's risk management function uses a wide range of techniques to manage the market risk, including VaR methodologies. Value-At-Risk ("VaR") analysis is performed using the historical simulation technique. The main use of VaR is with respect to the Group's trading book, where four years of price and implied volatility data are used to generate a 95% confidence interval VaR.

The primary VaR metrics as at 30 November 2011 were

	2011		2010	
	Jefferies International Limited	Jefferies Bache Limited	Jefferies International Limited	Jefferies Bache Limited
	£'000	£'000	£'000	£'000
Equity risk	294	-	405	-
FX risk	194	-	15	-
IR risk	1,491	-	1,038	-
Diversification	(720)	-	(481)	-
Base metals	-	59	-	309
Agriculturals	-	12	-	-
Total VaR	1,259	71	977	309

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

31 Business and financial risk management policies (continued)

Market risk (continued)

Risk Management recognises that there are limitations in using VaR as an isolated measurement of market risk. Examples of the limitations include the fact that the specific historical market data used in the VaR calculation may not be the best estimate of future risk factor movements, and that market movements that exceed the relevant confidence level of VaR may not be captured. Hence, Risk Management uses other techniques to manage market risk including exposure limits, sensitivity limits, stress testing and scenarios testing.

Stress testing is performed on a daily basis to examine the impact on the Group's trading book of extreme market moves, for both underlying price and implied volatility. The stress test is self-calibrating, in that it calculates the stress on a range of standard deviations, which are calculated with reference to the prevailing historic volatility observed in the market. In addition to this, a secondary stress is used to determine the effect of a change in the structure of the forward curves for each portfolio within this book. The results of the stress test are also used as part of the Group's Capital Adequacy calculations under the BASEL II rules.

Credit Risk

Credit risk is the risk of loss due to adverse changes in counterparty's creditworthiness 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 Group remains relatively limited. For trading, sales and equity finance activities credit risk principally relates to delivery versus payment settlement and collateralised stock borrowing and lending arrangements. Credit risk is managed in a number of ways, as follows:

- 1 All new counterparties must comply with a detailed "Know Your Client" (KYC) account opening procedure review which verifies their identity and categorises them into one of three risk categories – Low/Medium/High & Politically exposed. Counterparties in risk categories Medium/High & Politically exposed are subject to enhanced due diligence. All KYC reviews are updated regularly, the frequency dictated by the counterparty's relevant risk category.
- 2 All stock borrowing and lending transactions are collateralised, (and all repo / reverse repo transactions are margined), and are predominantly undertaken with entities that are - or are guaranteed by, or are parts of groups that are - rated investment grade, regulated financial institutions or central clearing institutions. They are subject to completion of a detailed counterparty credit review which approves specific credit limits controlling the gross, MTM, and Margin value of securities subject to borrowing / lending or purchase / repurchase transactions, and other key trading terms. Trading may commence only after execution of market standard (typically GMSLA, or GMRA) agreements as appropriate, permitting appropriate netting as approved by relevant Legal and Credit Officers. All stock borrowing / lending and purchase / repurchase positions are reviewed against approved limits, marked to market, and subject to written approval by both Business Unit and Credit Risk Managers on a daily basis.
- 3 The Commodities Futures business's credit risk is managed on a day-to-day basis through margin calls on clients. If a margin call is not fulfilled then the operations team will escalate to the credit control function and senior management. There are robust procedures in place to mitigate default risk.
- 4 Specific credit risk limits are not assigned to counterparties that settle on a Delivery Versus Payment (DVP) basis.

For the asset management business the precise terms of the fee arrangements are specified in the Fund Prospectus which clearly defines the basis of calculation of the fees and terms of payment. For investment banking fees payment terms are agreed as part of the client engagement. The precise terms are negotiated as part of the overall commercial terms of the deal and take into account factors such as current and/or projected earnings, the size of the exposure and the results of the due diligence on the client.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

31 Business and financial risk management policies (continued)

Credit Risk (continued)

At the reporting date the maximum exposure to Credit Risk was as follows

	2011 £000	2010 £000
Cash at bank and in hand	360,609	107,215
Securities borrowed collateral	238,277	597,300
Securities awaiting settlement	648,700	1,310,136
Cash collateral paid for reverse re-purchase agreements	349,471	674,862
Other trade receivables	676,249	113,406
Other debtors	21,848	53,351
	<u>2,295,154</u>	<u>2,856,270</u>

Cash at bank is deposited with a range of international banks and clearing institutions at the Balance Sheet date £359.4 million or 99.67% (2010 £103.2 million or 98.4%) by value of cash deposits were placed with banks and clearing institutions that were rated investment grade or were guaranteed by or parts of groups that were rated investment grade

Securities borrowed collateral is placed with counterparties in respect of the value of securities borrowed from those counterparties at the date of the balance sheet £238.2 million or 99.99% (2010 £569.1 million or 95.3%) of such collateral was placed with counterparties that were rated investment grade or were guaranteed by or parts of groups that were rated investment grade

Reverse re-purchase agreement collateral is placed with counterparties in respect of the value of securities borrowed from those counterparties at the date of the balance sheet £347.1 million or 99.33% (2010 £674.9 million or 100%) of such collateral was placed with counterparties that were rated investment grade or were guaranteed by or parts of groups that were rated investment grade

Securities awaiting settlement of £648.7 million comprises both trades pending settlement and trades that are overdue for settlement. Unless pre-approved, settlement is conducted on a delivery versus payment basis where the securities are exchanged simultaneously for cash. The risk facing the Group is that both the counterparty fails and that the price of the securities moves adversely. For the Group to incur a loss both events need to occur simultaneously. The Credit risk department monitors the level of exposure on a daily basis versus acceptable levels. Additionally the operations control department monitors the number of trades overdue for settlement versus acceptable levels. Senior management receives detailed and summary information on securities awaiting settlement on a daily basis.

The other debtors' balance of £21.8 million comprises amounts due from various different sources which include margin deposit bonds and investment banking fees receivable. Management monitors outstanding investment banking fees receivable and liaises with the client facing staff to ensure that fees are collected in a timely manner. However, management makes a provision for investment banking fees receivable once they reach 90 days overdue. The provision percentage increases with the age of the outstanding balance. Other receivables are monitored on a case-by-case basis as and when they arise and management decides on how to treat the recoverability of each receivable as and when it becomes overdue.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

31 Business and financial risk management policies (continued)

The following table shows the liquidity analysis of assets exposed to credit risk

	On demand	Due within 3 months	Due in 3 to 12 months	Due in 1 to 5 years	Due after 5 years	Total
30 November 2011	£000	£000	£000	£000	£000	£000
Cash at bank and in hand	360,609	-	-	-	-	360,609
Securities borrowed collateral	238,277	-	-	-	-	238,277
Reverse re-purchase collateral	343,072	-	6,399	-	-	349,471
Securities awaiting settlement	648,700	-	-	-	-	648,700
Other trade receivables	674,361	1,888	-	-	-	676,249
Other debtors	3,826	1,741	16,254	-	27	21,848
	2,268,845	3,629	22,653	-	27	2,295,154

	On demand	Due within 3 months	Due in 3 to 12 months	Due in 1 to 5 years	Due after 5 years	Total
30 November 2010	£000	£000	£000	£000	£000	£000
Cash at bank and in hand	107,215	-	-	-	-	107,215
Securities borrowed collateral	597,300	-	-	-	-	597,300
Reverse re-purchase collateral	674,862	-	-	-	-	674,862
Securities awaiting settlement	1,310,136	-	-	-	-	1,310,136
Other trade receivables	112,129	1,277	-	-	-	113,406
Other debtors	47,824	167	332	4,164	864	53,351
	2,849,466	1,444	332	4,164	864	2,856,270

Operational Risk

Operational risk refers to the risk of loss resulting from our operations, including, but not limited to, improper or unauthorised execution and processing of transactions, deficiencies in our operating systems, business disruptions and inadequacies or breaches in our internal control processes. Our business is dependent on our ability to process, on a daily basis, a large number of transactions across numerous markets in many currencies. In addition, the transactions we process have become increasingly complex. If our financial, accounting or other data processing systems do not operate properly or are disabled or if there are other shortcomings or failures in our internal processes, people or systems, we could suffer impairment to our liquidity, financial loss, disruption of our businesses, liability to clients, regulatory intervention or reputational damage.

These systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, including a disruption of electrical or communications services or our inability to occupy one or more of our buildings. We also face the risk of operational failure or termination of any of the exchanges, clearing houses or other financial intermediaries we use to facilitate our transactions. Any such failure or termination could adversely affect our ability to effect transactions and manage our exposure to risk. In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses. This may include a disruption involving electrical, communications, transportation or other services used by us or third parties with which we conduct business.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

31 Business and financial risk management policies (continued)

Operational Risk (continued)

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavour to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorised access, computer viruses or other malicious code, and other events that could have a security impact. In such events we may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

Our operational risk framework includes governance, collection of operational risk incidents, proactive operational risk management, and periodic review and analysis of business metrics to identify and recommend controls and process-related enhancements.

Each revenue producing and support department is responsible for the management and reporting of operational risks and the implementation of the operational risk policy and processes within the department.

Liquidity Risk

Liquidity risk is the risk of the Group being unable to secure adequate funding to meet current obligations. The liquidity risk is deemed to be limited for the Group as funding is provided by the ultimate parent undertaking, Jefferies Group, Inc. should it be required.

The Group is compliant with the liquidity standards as required by the FSA. A liquidity policy and a liquidity risk management framework were adhered to in compliance with the liquidity requirements. In addition, a contingency funding plan is in place to comply with the new FSA liquidity requirements.

Daily reports are produced on the usage of funds, liquidity position and circulated to senior management. Liquidity is dynamically managed within the treasury department.

With respect to client balances, the Group holds matched positions. As such, liquidity risk is mitigated as the liability positions unwind at the same time as the asset positions. Therefore, the Group's exposure to liquidity risk in this particular area is limited.

The table below shows the liquidity analysis of the Group's financial liabilities.

	On demand	Due within 3 months	Due in 3 to 12 months	Due in 1 to 5 years	Due after 5 years	Total
30 November 2011	£000	£000	£000	£000	£000	£000
Trading liabilities	1,164,912	-	-	-	-	1,164,912
Securities lent collateral	237,100	-	-	-	-	237,100
Re-purchase collateral	301,311	-	-	-	-	301,311
Other creditors	1,826,938	13,440	6,056	-	-	1,846,434
Creditors' amounts falling due after one year	-	-	-	427,863	554	428,417
Pension liability	-	-	-	-	12,484	12,484
Provisions for liabilities and charges	-	-	762	-	-	762
Total liabilities	3,530,261	13,440	6,818	427,863	13,038	3,991,420

Securities lent collateral of £237.1 million arises from collateral required for securities lent under securities lending contracts. These contracts typically have no fixed maturity date and the securities lent can be recalled on demand.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

31 Business and financial risk management policies (continued)

Liquidity Risk (continued)

	On demand	Due within 3 months	Due in 3 to 12 months	Due in 1 to 5 years	Due after five years	Total
30 November 2010	£000	£000	£000	£000	£000	£000
Trading liabilities	2,633,560	-	-	-	-	2,633,560
Securities lent collateral	472,357	-	-	-	-	472,357
Re-purchase collateral	416,665	-	-	-	-	416,665
Other creditors	1,458,366	745	1,755	-	-	1,460,866
Creditors' amounts falling due after one year	-	-	-	77,840	736	78,576
Pension liability	-	-	-	-	-	-
Provisions for liabilities and charges	-	179	538	767	-	1,484
Total liabilities	4,980,948	924	2,293	78,607	736	5,063,508

32 Clients' money

Group

2011

£000

Cash held in segregated accounts	37,838
Segregated clearing house debtors (see note 13)	154,900
Segregated intermediate brokers (see note 13)	275,254
Total client money resources	467,992

Client money requirement (see note 19) (472,290)

Deficit on client money requirement (4,298)

As required by the FSA the Group has separate bank and broker accounts set up for those clients that are treated under the FSA client money rules. The cash and assets within these accounts are maintained separately from that in the non-segregated bank accounts which are included in the balance sheet.

In 2011 there was a change to the Group's accounting policy on clients' money (see Accounting Policies note 1, page 19).

33 Related party transactions

Advantage has been taken of the exemption available under FRS 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 Group is included are publicly available. There were no related party transactions other than those covered under the above exemption either in the year to 30 November 2011 or in the prior period.

Jefferies International (Holdings) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

34 Immediate and ultimate holding company

The smallest group that the Company is consolidated within is Jefferies International (Holdings) Limited. The immediate and ultimate holding company is Jefferies Group, Inc., which is incorporated in the United States of America. The Group accounts are available from 520 Madison Avenue, New York, New York 10022 and at www.jefferies.com. This company also heads the largest group in which these results are incorporated.

35. Acquisitions

On 1 July 2011 the Group acquired Bache Commodities Limited, now re-named as Jefferies Bache Limited (JBL), as part of the Jefferies Group, Inc. global acquisition of the Prudential Bache legal entities from Prudential Financial, Inc.

The purchase consideration paid by the Group amounted to £87.7 million settled entirely in cash with no contingent purchase considerations attached to the sale agreement. At the time of acquisition, Jefferies Bache Limited had net assets of £98.1 million which after adjusting for incremental acquisition costs of £1.6 million generated negative goodwill of £8.8 million for the Group. The negative goodwill is being amortised by the Group over 17 months which is the period that management estimate that the assets will be either recovered or the benefit associated with those assets will be realised by the Group.

Under UK GAAP there were no fair value adjustments to the assets and liabilities held by Jefferies Bache Limited as part of the Group's acquisition accounting. Nor were there any provisions or write-downs included in the accounts of either the Group or Jefferies Bache Limited, in the 12 months prior to the acquisition date, that related to the acquisition. The fair values of the assets and liabilities of Jefferies Bache Limited, at the acquisition date, were not determined on a provisional basis other than those balance sheet items where that is the normal accounting practice (eg expenditure accruals).

Jefferies Bache Limited achieved a profit after tax of £15.0 million for the period pre-acquisition, 1 January 2011 to 30 June 2011. For the full financial year to 31 December 2010 Jefferies Bache Limited achieved a profit of £14.3 million.

36. Post balance sheet events

In February 2012 the Company's subsidiary, JIL, acquired the Hoare Govett business, a UK corporate equities broker, from Royal Bank of Scotland for a nominal amount. Approximately 50 staff and the broker's clients will form part of the Group's ongoing operations.

Jefferies International (Holdings) Limited

ADDITIONAL INFORMATION (UNAUDITED)

For the year ended 30 November 2011

CAPITAL MANAGEMENT

The Group's capital management policy is to manage its overall solvency ratios around targets materially in excess of their minimum regulatory capital requirements. This policy is a reflection of a number of factors – the business strategy, its risk appetite and the market environments in which they operate. The minimum regulatory capital requirements have been agreed with the FSA through the FSA's Individual Capital Adequacy Assessment Process (ICAAP).

The level of Pillar 2 capital held by JIL and JBL reflects the risk inherent in their business models and products traded as well as their governance, control and risk management infrastructure. Their assessments of their Pillar 2 requirements are then reviewed with the FSA and a final level agreed. Their minimum regulatory capital requirements are the sum of their individual Pillar 1 and 2 requirements.

JJHL, JIL and JBL's ongoing compliance with their internal capital management policy targets and external minimum regulatory capital requirements are monitored daily by senior management and reviewed against current and possible future market conditions, current portfolio composition and expected future business developments.

JJHL, JIL and JBL's Basel II Pillar 3 disclosures are on the corporate web-site
www.jefco.com/cositemgr.pl/html/InvestorRelations/SECFilings/BaselIIPillar3/index.shtml