

JEFFERIES INTERNATIONAL LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 30 November 2011



Company Registration No 1978621

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

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Jefferies International Limited

DIRECTORS' REPORT

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

1. Principal activities

Jefferies International Limited acts as a principal operating subsidiary for Jefferies International (Holdings) Limited which in turn acts as an intermediate holding company for Jefferies Group, Inc, a United States listed, independent, full service global securities and investment banking firm serving companies and their investors

In this report, the term "Company" ("we", "us") refers to Jefferies International Limited and its branches. The subsidiaries of Jefferies International Limited are detailed in note 12 to the financial statements. The Company is exempt by virtue of s400 of Companies Act 2006 from the requirement to prepare consolidated group accounts.

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 act through our network of offices, as a representative for our American parent company and our affiliates.

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.

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

The Company is regulated by the Financial Services Authority in the United Kingdom. The operations of the Company's branches and subsidiary in France, Germany, Italy, Dubai and Switzerland are regulated by the relevant authorities in those countries. The Company is a member of the London Stock Exchange, Euronext, Deutsche Boerse (Xetra platform), Oslo Bors, SIX Swiss Exchange, Borsa Italia, BATS Europe (MTF) and Chi-X (MTF).

The Company 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. We are also a dealer for the European Financial Stability Fund (EFSF).

As at 30 November 2011, the Company had 774 employees representing approximately 20% of Jefferies Group's global workforce.

2. Business review

The Company has achieved a profit after tax for the financial year of £45,385,065 (2010 £7,800,450).

The primary driver in the growth in profitability has been the success of our Fixed Income business. 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.

Jefferies (Schweiz) AG (JSA), our Swiss incorporated subsidiary, continues to focus on the sales, trading and investment management of global convertible bonds. JSA is in the process of developing a fixed income International Rates business commencing once all necessary regulatory approvals have been obtained.

Jefferies Group, Inc continues to expand operations in Asia. The Group's strategic plan is to grow the Asian operation to a size comparable to the established businesses in the Americas and Europe. To facilitate this structural change the Group has set up a new Asian holding company. On 30 June 2011 Jefferies (Japan) Limited was transferred from the Company to the new Asian holding company.

Jefferies International Limited

DIRECTORS' REPORT (continued)

2. Business review (continued)

The table below sets out the key results and performance indicators for the year. The statutory Profit and Loss Account for the year is set out on page 8. A change to the accounting policy on client money has necessitated the restatement of certain 2010 numbers within the Balance Sheet and notes 17 and 28 to the accounts (see note 1 *Clients' money*).

	12 months to 30 November 2011 £000	11 months to 30 November 2010 £000
Turnover	328,033	211,272
Profit for the financial year / period	45,385	7,800
Shareholders' funds	265,989	220,991

Key financial performance indicators

Gross margin	23%	9%
Return on capital employed	16%	6%
Current ratio	115%	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 acquired the Hoare Govett business, the UK corporate broker, from Royal Bank of Scotland (see note 30).

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

The Company's shareholder funds have increased from £221million in 2010 to £266 million in 2011. The Company had cash of £135.4 million as at 30 November 2011. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

6 Financial risk management objectives and policies

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

The principal trading risks of the Company are discussed in note 26 of the financial statements.

Other risks are considered below:

- The Company operates in a competitive market environment and the continued success of the business is based on its staff, their knowledge and understanding of the market and meeting client requirements. The Company looks to retain and recruit staff through the offering of a competitive and comprehensive compensation and benefits package that is regularly reviewed in light of market changes.

Jefferies International Limited

DIRECTORS' REPORT (continued)

6. Financial risk management objectives and policies (continued)

- In line with the rest of the Jefferies group, the business of the Company falls under the group business recovery plan. The overall purpose of the plan is to ensure that the organisation is ready to manage the effects of an emergency on its business operations. These plans not only facilitate a recovery in the event of a major catastrophe, they also assist the organisation in dealing with local disasters such as power outages, fires, floods or technology based failures.

7. Directors and directors' interests

The directors who held office during the year were as follows

		<u>Date of Appointment</u>
T G Barker	<i>(non - executive director)</i>	
T Cronin	<i>(executive director)</i>	9 November 2011
J F Graham	<i>(executive director)</i>	
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 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. Creditor payment policy

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

9. Employer policy

Jefferies International Limited strives to keep employees informed of the progress of the businesses within the Jefferies group and encourages them to make known their views. The text of public announcements is made available to employees (via e-mail) simultaneously with its release to the press and shareholders. Senior management provides regular briefings to all staff concerning business performance and strategy.

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

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

10. Charitable and political donations

Charitable donations amounting to £3,417 (2010: £143,651) were made by the Company 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).

Jefferies International Limited

DIRECTORS' REPORT (continued)

11. Auditors

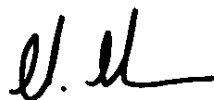
Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's 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 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

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

23 March 2012

Vintners Place
68 Upper Thames Street
London EC4V 3BJ

Jefferies International 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 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 Company and of the profit or loss of the Company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make 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 Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of 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 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 LIMITED

We have audited the financial statements of Jefferies International Limited for the year ended 30 November 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 30. 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 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 Company's affairs as at 30 November 2011 and of its 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

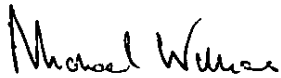
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JEFFERIES INTERNATIONAL 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

23 March 2012

Jefferies International Limited

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
Turnover	2	328,033	211,272
Administrative expenses		<u>(251,912)</u>	<u>(193,073)</u>
Operating profit		76,121	18,199
Impairment charge on fixed asset investment	12	-	(4,670)
Gain from sale of fixed asset investment	12	899	-
Income from fixed asset investments	12	<u>2,092</u>	<u>3,035</u>
Profit on ordinary activities before interest and taxation		79,112	16,564
Interest receivable and similar income	3	605	1,111
Interest payable and similar charges	4	<u>(14,793)</u>	<u>(7,331)</u>
Profit on ordinary activities before taxation	5	64,924	10,344
Tax on profit on ordinary activities	9	<u>(19,539)</u>	<u>(2,544)</u>
Profit for the financial year / period	23	<u>45,385</u>	<u>7,800</u>

The notes on pages 11 to 31 form part of these financial statements

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

Jefferies International Limited

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
Profit for the financial year / period		45,385	7,800
Currency translation difference on foreign currency net investments	23	<u>(387)</u>	<u>1,047</u>
Total recognised gains and losses relating to the financial year / period		<u>44,998</u>	<u>8,847</u>

The notes on pages 11 to 31 form part of these financial statements

Jefferies International Limited

BALANCE SHEET

As at 30 November 2011

		2011		2010	
	Notes	£000	£000	Restated £000	£000
Fixed assets					
Intangible assets	10		26		42
Tangible assets	11		17,986		16,961
Investments	12		<u>2,868</u>		<u>8,197</u>
			20,880		25,200
Current Assets					
Cash at bank and in hand		138,189		69,767	
Trading assets	14	1,726,316		2,360,726	
Debtors					
Amounts falling due within one year	13	1,653,236		2,834,991	
Amounts falling due after more than one year	13	<u>25,011</u>		<u>25,223</u>	
		3,542,752		5,290,707	
Creditors amounts falling due within one year					
Trading liabilities	15	(1,153,549)		(2,633,560)	
Other creditors	17	<u>(1,925,717)</u>		<u>(2,381,345)</u>	
		(3,079,266)		(5,014,905)	
Net current assets			<u>463,486</u>		<u>275,802</u>
Total assets less current liabilities			484,366		301,002
Creditors amounts falling due after one year	18		(217,807)		(78,571)
Provisions for liabilities and charges	20		<u>(570)</u>		<u>(1,440)</u>
Net assets			<u>265,989</u>		<u>220,991</u>
Capital and reserves					
Called up share capital	22		258,639		258,639
Share premium account	23		2,162		2,162
Capital contribution reserve	23		412		412
Translation reserve	23		823		1,210
Profit and loss account	23		<u>3,953</u>		<u>(41,432)</u>
Shareholders' funds	23		<u>265,989</u>		<u>220,991</u>

The notes on pages 11 to 31 form part of these financial statements

These financial statements were approved by the board of directors and authorised for issue on 23 March 2012 and were signed on its behalf by



D W Weaver
DIRECTOR

Jefferies International 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 year, 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 17 and 28). The impact of this change has been to increase both cash at bank and creditors as at 30 November 2010 by £2,404,237.

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, as noted below. The Company is exempt by virtue of s400 of Companies Act 2006 from the requirement to prepare group accounts.

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 26. The Company's shareholder funds have increased from £221 million in 2010 to £266 million in 2011. The Company had cash of £135.4 million as at 30 November 2011. 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 1, no cash flow statement is presented in these accounts as the Company is a wholly-owned subsidiary of Jefferies Group, Inc., which presents such a statement in its own published consolidated financial statements that are publicly available.

Net trading income

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

Commission income

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

Investment banking fees

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.

Service fee income

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

Dividend income from subsidiaries

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

Interest and expense recognition

Interest income and expense presented in the profit and loss account includes interest on financial assets and liabilities and short-term 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. The interest income and expense is accounted for on an accruals basis in the profit or

Jefferies International Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

1 ACCOUNTING POLICIES (continued)

Interest and expense recognition (continued)

loss account using the effective interest method and are added to the carrying amount of the instruments to the extent that they are not settled in the period in which they arise

Adoption of Financial Reporting Standard (FRS) 29

The Company utilises the FRS 29 exemption which states that certain disclosures are not required for certain subsidiaries and parent companies in their single-entity financial statements when at least 90 percent of the voting rights are held within the group, provided that entity is included in publicly available consolidated financial statements which include disclosures that comply with the standard

Trading assets and liabilities

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

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

Derivatives

Derivatives are held for both hedging and trading purposes and arise from customer and proprietary trading activities. All trading book positions held by the firm 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 Company'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 Company to potential loss in the event of a counterparty default.

Derecognition

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

Offsetting

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

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

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

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

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

1 ACCOUNTING POLICIES (continued)

Financing transactions, stock borrowing and lending

The Company 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 Company 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 agreements that give the Company the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty. The Company 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 Company to provide the counterparty with collateral in the form of cash, letters of credit, or other securities. The Company receives collateral in the form of cash or other securities for securities loaned transactions.

On a daily basis, the Company monitors the market value of securities borrowed or loaned against the collateral value, and the Company 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 Company 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.

Fair value measurement

The Company 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.

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:

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

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

1 ACCOUNTING POLICIES (continued)

Intangible assets and amortisation

Intangible assets are included at cost and amortised by equal annual installments over a period of three years which is estimated to be their useful economic life. Provision is made for any impairment in asset value.

Fixed asset investments and shares in subsidiary undertakings

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

Forgivable Loans

Forgivable loans provided to an employee, where the employee must complete a specified period of service before the loan is forgiven, are amortised over the loan period until the loan is finally forgiven. The total amount of the loan is amortised to the profit and loss account, with costs being recognised in the year under review to the extent that it relates to that year. The loan must be repaid if an employee ceases to be employed by the Company before the loan is forgiven. If the loan is to be repaid, the life to date charge is reversed to the profit and loss account upon cessation of employment.

Taxation

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.

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 Company'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

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the year end. The results of overseas branches are translated into sterling at the average rates of exchange for the year.

Exchange differences arising from translation of the branches' results for the year 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 Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in independently administered funds. The amounts charged to the profit and loss account represent the contribution payable in respect of the accounting period.

Leased assets

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

Provision for onerous leases

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

Jefferies International Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2011

1 ACCOUNTING POLICIES (continued)

Share-based payments

The share awards programme allows employees of the Company to acquire shares in the ultimate parent company, Jefferies Group, Inc. As this is a Jefferies Group administered scheme that awards the equity of the ultimate parent company, Jefferies Group, Inc., these transactions are accounted for on an equity-settled basis.

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. Share awards granted to an employee on commencement of employment are charged to the Profit and Loss account immediately at the point of grant unless there is a required service period whereupon it is charged over the requisite service period. 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 an intercompany account as a payable back to the ultimate parent company, Jefferies Group, Inc. A share award may be forfeited if an employee ceases to be employed by the Company before the end of the vesting period, if they breach the forfeiture provisions of that award. If the award of shares is forfeited during the vesting period, the life to date charge is reversed to the profit and loss account at the time of forfeiture.

Deferral schemes

An Employee Benefit Trust (EBT) and an Employee Financial Retirement Benefit Scheme (EFRBS) have been set up by the Company. These trusts are managed by a board of trustees and are totally independent of the Company and Jefferies Group.

Fair Value Hierarchy

In determining the fair value of the financial instruments, the Company maximises the use of observable inputs and minimises the use of unobservable inputs by requiring that observable inputs be 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 of what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. We apply a hierarchy to categorise our 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 reported date.
- Level 2 Pricing inputs are other than quoted prices in active markets, which are 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 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 observed.
- Level 3 Instruments that have little to no pricing observability as of 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.

Clients' money

The Company holds money on behalf of clients in accordance with the Client Asset Rules of the Financial Services Authority. Such monies and the corresponding liability to clients are shown on the face of the balance sheet in order to be consistent with the accounting policies of other Jefferies International (Holdings) Limited group companies where client money represents a fundamental part of their ongoing business. The Balance Sheet as at 30 November 2010 has been restated to reflect this change in accounting policy. The impact of this change has been to increase both cash at bank and creditors as at 30 November 2010 by £2,404,237.

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

2 TURNOVER

	12 months to 30 November 2011 £000	11 months to 30 November 2010 £000
Net trading income		
- Principal transactions	183,724	127,104
- Commissions	27,072	23,532
- Interest	2,501	(1,516)
Investment banking fees	65,831	43,015
Service fee income	45,523	16,083
Other income	3,382	3,054
	<u>328,033</u>	<u>211,272</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	283	792
Interest receivable from group undertakings	3	-
Other interest receivable	<u>319</u>	<u>319</u>
	<u>605</u>	<u>1,111</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	(13,807)	(6,519)
Other interest payable	<u>(986)</u>	<u>(812)</u>
	<u>(14,793)</u>	<u>(7,331)</u>

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 statutory audit of the Company's accounts	316	271
Auditor's remuneration in relation to the regulatory audit	19	16
Auditor's remuneration for taxation services	27	23
Amortisation of intangible assets (note 10)	16	3
Depreciation of tangible fixed assets (note 11)	3,863	3,540
Impairment of fixed asset investments (note 12)	-	4,670
Operating lease rentals	6,619	5,609
Loss on foreign currency revaluation	<u>1,717</u>	<u>1,220</u>

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

6 REMUNERATION OF DIRECTORS

The highest paid director received emoluments of £700,580 (2010 £1,175,510) and £11,368 (2010 £9,888) in contributions were made to a pension scheme on his behalf. The highest paid director was not awarded any shares in the year.

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

	12 months to 30 November 2011 £000	11 months to 30 November 2010 £000
Emoluments	2,056	2,298
Pension contributions	41	32
	<u>2,097</u>	<u>2,330</u>

Contributions to money purchase pension schemes were made on behalf of three directors during the year (2010 three)

All directors benefited from qualifying third party indemnity provisions

7 STAFF NUMBERS AND COSTS

The average number of employees (including directors) during the year was 690 (2010 584). The split of these was as follows

	12 months to 30 November 2011 Number	11 months to 30 November 2010 <i>Restated</i> Number
Front office staff	456	379
Administration staff	234	205
	<u>690</u>	<u>584</u>

The 2010 staff numbers have been restated between front office and administration staff for consistency

The aggregate payroll costs were as follows

	12 months to 30 November 2011 £000	11 months to 30 November 2010 £000
Wages and salaries	145,721	113,542
Social security costs	20,421	15,225
Other pension costs	5,377	3,617
	<u>171,519</u>	<u>132,384</u>

8 PENSION COSTS

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in independently administered funds. The amount charged against profits for contributions payable by the Company to the fund amounted to £5,376,638 (2010 £3,616,765). The pension contributions for November 2011, which amounted to £529,342 (November 2010 £409,214), were still to be paid over at the year end and hence appear in creditors.

Jefferies International 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	(4,548)	-
Double tax relief	258	-
Adjustment to UK Corporation tax in respect of prior years	187	-
	<u>(4,103)</u>	<u>-</u>
Overseas tax	<u>(299)</u>	<u>-</u>
Total current tax	(4,402)	-
Deferred tax (note 21)		
– origination and reversal of timing differences	(13,487)	(3,491)
– adjustments in respect of prior years	(756)	1,811
– effect of reduction in tax rate	<u>(894)</u>	<u>(864)</u>
Total tax charge on ordinary activities	<u>(19,539)</u>	<u>(2,544)</u>

Tax reconciliation

	12 months to 30 November 2011 £000	11 months to 30 November 2010 £000
Profit on ordinary activities before taxation	64,924	10,344
Tax on profit on ordinary activities before taxation at the standard rate of corporation tax in the United Kingdom of 26.67% (2010: 28%)	(17,315)	(2,896)
Non-taxable dividend	558	850
Non-taxable gain on disposal of subsidiary	240	-
Adjustments in respect of prior years	187	-
Disallowable expenses	(758)	(502)
Restricted stock credit	2,719	2,165
Higher tax rates on overseas earnings	(41)	-
Contributions into Employee Trusts	-	(471)
Impairment charge on fixed asset investment	-	(1,308)
Depreciation for the year / period exceeded by / (in excess of) capital allowances	353	(992)
Tax losses utilisation	7,945	3,489
Relief for losses surrendered from group companies	1,777	-
Other timing differences	<u>(67)</u>	<u>(335)</u>
Total current tax	<u>(4,402)</u>	<u>-</u>

Deferred taxation relating to capital allowances and other timing differences is provided only in so far as a liability or asset is expected to crystallise in the foreseeable future

Factors that may affect future tax charges

The main rate of corporation tax changed to 26% from 1 April 2011, rather than the previously announced 27% as enacted by the Resolution under the Provisional Collection of Taxes Act 1968, which was passed on 29 March 2011

Jefferies International Limited
NOTES TO THE FINANCIAL STATEMENTS
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9 TAXATION (continued)

Tax reconciliation (continued)

The Finance Act 2011 reduced the main rate of corporation tax from 26% to 25% from 1 April 2012. The reduction was substantively enacted on 19 July 2011. As this change in rate was substantively enacted prior to 30 November 2011, it has been reflected in the deferred tax asset at 30 November 2011.

Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. The proposed changes to the main rate had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

10 INTANGIBLE ASSETS

	Software licences £000	Total £000
<u>Cost</u>		
As at 1 December 2010	45	45
Additions	-	-
As at 30 November 2011	45	45
<u>Amortisation</u>		
As at 1 December 2010	3	3
Charge for the year	16	16
As at 30 November 2011	19	19
<u>Net Book Value</u>		
As at 30 November 2011	26	26
As at 30 November 2010	42	42

11 TANGIBLE FIXED ASSETS

	Leasehold Improvements £000	Fixtures, Fittings & Equipment £000	Total £000
<u>Cost</u>			
As at 1 December 2010	19,982	11,120	31,102
Foreign currency movement	(17)	13	(4)
Additions	2,268	2,616	4,884
Disposals	(2,376)	(5,354)	(7,730)
As at 30 November 2011	19,857	8,395	28,252
<u>Depreciation</u>			
As at 1 December 2010	6,646	7,495	14,141
Foreign currency movement	(8)	-	(8)
Disposals	(2,376)	(5,354)	(7,730)
Charge for the year	1,914	1,949	3,863
As at 30 November 2011	6,176	4,090	10,266
<u>Net Book Value</u>			
As at 30 November 2011	13,681	4,305	17,986
As at 30 November 2010	13,336	3,625	16,961

Jefferies International Limited
NOTES TO THE FINANCIAL STATEMENTS
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12 FIXED ASSET INVESTMENTS

	2011 £000	2010 £000
<u>Shares in subsidiary undertakings</u>		
As at 1 December	7,797	12,467
Additional investment in Jefferies (Japan) Limited	3,000	-
Transfer out of Jefferies (Japan) Limited	(8,330)	-
Impairment charge	-	(4,670)
As at 30 November	2,467	7,797
<u>Other fixed asset investments</u>		
As at 1 December	400	396
Foreign exchange revaluation of investment	1	4
As at 30 November	401	400
Total fixed asset investments	2,868	8,197

In the year Jefferies (Japan) Limited (JL) was transferred to Jefferies Asia Holdings II Private Limited The Company received a payment equivalent to the net asset value of JL's balance sheet in recompense The Company recognised a gain of £898,982 on the disposal of Jefferies (Japan) Limited

The other fixed asset investments are preference shares in Altius Holdings Limited and Altius Associates Limited which were transferred to the Company from Helix Associates Limited along with its trade in 2009

The Company has investments in the following subsidiaries

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

Apart from Jefferies (Schweiz) AG which is registered in Switzerland, all subsidiaries are registered in England and Wales In the year the Company received a dividend of £2,091,900 (2010 £3,034,500), from Jefferies (Schweiz) AG

Jefferies International Limited
NOTES TO THE FINANCIAL STATEMENTS
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13 DEBTORS

	2011 £000	2010 £000
Amounts falling due within one year:		
Amounts owed by group undertakings	83,482	37,456
Securities borrowing	238,277	597,300
Securities awaiting settlement	648,700	1,335,889
Reverse repurchase agreements	494,734	674,862
Other trade receivables	162,803	129,442
Other debtors	18,542	44,410
Prepayments and accrued income	3,710	4,297
Deferred taxation (note 21)	2,988	11,335
	<u>1,653,236</u>	<u>2,834,991</u>
Amounts falling due after more than one year:		
Prepayments and accrued income	52	126
Other debtors	16,251	9,599
Deferred taxation (note 21)	8,708	15,498
	<u>25,011</u>	<u>25,223</u>

14 TRADING ASSETS

	2011 £000	2010 £000
Equity shares	116,603	174,144
Debt securities - Corporate	557,163	655,776
Debt securities - Government	705,788	1,423,604
Asset-backed securities	84,811	92,276
Derivatives	261,951	14,926
	<u>1,726,316</u>	<u>2,360,726</u>

15 TRADING LIABILITIES

	2011 £000	2010 £000
Equity shares	91,127	240,873
Debt securities - Corporate	153,338	444,055
Debt securities - Government	680,577	1,939,254
Derivatives	228,507	9,378
	<u>1,153,549</u>	<u>2,633,560</u>

Jefferies International Limited
NOTES TO THE FINANCIAL STATEMENTS
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16 FINANCIAL INSTRUMENTS

The tables below analyse financial instruments measured at fair value at the end of the year, by the level in the fair value hierarchy into which the fair value measurement is categorised

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	490,412	215,376	-	705,788
Asset-backed securities	-	42,625	42,186	84,811
Derivatives	-	261,951	-	261,951
Total Trading Assets	597,257	1,079,729	49,330	1,726,316
<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	75	228,432	-	228,507
Total Trading Liabilities	594,578	558,971	-	1,153,549
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	442,435	-	444,055
Debt securities – Government	1,420,306	518,948	-	1,939,254
Derivatives	95	9,283	-	9,378
Total Trading Liabilities	1,656,145	977,415	-	2,633,560

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

16 FINANCIAL INSTRUMENTS (continued)

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

	Equity shares £'000	Debt securities - Corporate £'000	Debt securities - Gov't £'000	Asset- backed securities £'000	Total £'000
30 November 2011					
Balance as at 1 December 2010	4,071	2,241	-	11,025	17,337
Total gains or (losses) recognised 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
30 November 2010					
Balance as at 1 January 2010	1,785	716	122	-	2,623
Total gains or (losses) recognised 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

17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £000	2010 <i>Restated</i> £000
Bank loans and overdrafts	331	40,297
Amounts owed to group undertakings	532,692	392,654
Securities lending	237,100	472,357
Securities awaiting settlement	605,161	956,655
Repurchase agreements	452,973	416,665
Other amounts owed to clients and counterparties	2,834	2,404
Other trade payables	10,543	22,442
Other creditors		
- Social security	13,540	18,222
- Corporation tax	3,389	-
- Other creditors	33,423	9,037
- Accruals and deferred income	33,731	50,612
	<u>1,925,717</u>	<u>2,381,345</u>

The other amounts owed to clients and counterparties balance as at 30 November 2010 has been restated to reflect the change in the accounting policy on clients' money (see note 28)

Jefferies International Limited
NOTES TO THE FINANCIAL STATEMENTS
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18 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2011 £000	2010 £000
Amount due to parent undertaking		
- Subordinated loan notes	216,529	77,112
Other creditors		
- Accruals and deferred income	1,278	1,459
	<u>217,807</u>	<u>78,571</u>

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.

19 COLLATERAL

	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	494,734	674,862
Cash collateral received for repurchase agreements	(452,973)	(416,665)
Net cash collateral	<u>42,938</u>	<u>383,140</u>
Non cash collateral pledged	108,833	142,979
Non cash collateral received	(13,923)	(31,241)
Net non cash collateral	<u>94,910</u>	<u>111,738</u>

20 PROVISION FOR LIABILITIES AND CHARGES

	Onerous lease provision £000	Dilapidations provision £000	Other provisions £000	Total £000
As at 1 December 2010	957	150	333	1,440
Charged to the profit and loss account	-	-	200	200
Utilised during the year	(737)	-	(333)	(1,070)
As at 30 November 2011	<u>220</u>	<u>150</u>	<u>200</u>	<u>570</u>

Onerous lease provision

The provision relates to an onerous lease on property which is no longer occupied by the Company. The lease on the property expires in March 2012.

Dilapidations provision

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

Other provisions

The remaining provision relates to severance costs arising for current ongoing restructuring plans.

Jefferies International Limited
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21 DEFERRED TAXATION ASSET

	£000	
As at 1 December 2010		26,833
Charged to profit and loss account		(15,137)
As at 30 November 2011		11,696
Deferred tax comprises		
	2011 £000	2010 £000
Amounts falling due within one year		
Depreciation charged in excess of capital allowances	284	-
Unrelieved tax losses	336	7,657
Share award expenses not yet deductible for tax	2,002	3,353
Other timing differences	366	325
	<u>2,988</u>	<u>11,335</u>
	2011 £000	2010 £000
Amounts falling due after more than one year		
Depreciation charged in excess of capital allowances	1,126	4,169
Contributions into the Employee Benefit Trust and Employee Financial Retirement Benefit Scheme	1,105	454
Share award expenses not yet deductible for tax	5,926	10,280
Other timing differences	551	595
	<u>8,708</u>	<u>15,498</u>

Further reductions to the main rate of corporation tax are proposed to reduce the rate by 1% per annum to 23% 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. The estimated financial effect of these changes is insignificant (£971,875).

22 CALLED UP SHARE CAPITAL

	2011 £	2010 £
<u>Allotted, called up and fully paid</u>		
Ordinary shares of £1 each	<u>258,639,323</u>	<u>258,639,323</u>

On 10 February 2012 the Company's limit on its authorised share capital was revoked and removed pursuant to the Companies Act 2006.

Jefferies International Limited
NOTES TO THE FINANCIAL STATEMENTS
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23 RECONCILIATION OF SHAREHOLDER FUNDS

	Share Capital £'000	Share premium £'000	Capital contrib'n £'000	Translation reserve £'000	Other reserves £'000	Profit and loss £'000	Total £'000
As at 1 December 2010	258,639	2,162	412	1,210	-	(41,432)	220,991
Foreign exchange differences relating to the translation of branch results	-	-	-	(387)	-	-	(387)
Profit for the year	-	-	-	-	-	45,385	45,385
As at 30 November 2011	258,639	2,162	412	823	-	3,953	265,989
As at 1 January 2010	211,585	2,162	412	163	400	(49,632)	165,090
Shares issued to parent company	47,054	-	-	-	-	-	47,054
Foreign exchange differences relating to the translation of branch results	-	-	-	1,047	-	-	1,047
Profit for the financial period	-	-	-	-	-	7,800	7,800
Transfer to Profit and Loss	-	-	-	-	(400)	400	-
As at 30 November 2010	258,639	2,162	412	1,210	-	(41,432)	220,991

24 COMMITMENTS UNDER OPERATING LEASES

Annual commitments under operating leases comprise

	Land & buildings £000	2011 Other £000	Total £000	Land & buildings £000	2010 Other £000	Total £000
Operating leases which expire						
Within one year	784	35	819	-	-	-
In two to five years	332	135	467	2,581	196	2,777
After five years	3,822	-	3,822	2,832	-	2,832
	4,938	170	5,108	5,413	196	5,609

Jefferies International Limited

NOTES TO THE FINANCIAL STATEMENTS

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25 SHARE-BASED PAYMENTS

During the year £7,453,732 (2010 £8,492,566) 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.

The Jefferies Incentive Compensation Plan awards outstanding are as follows:

RSA	2011 Number	2010 Number
Outstanding at 1 December / 1 January	3,751,892	3,810,008
Transfer in / (out) from an affiliate	205,593	(33,574)
Additional awards granted	2,014,518	913,447
Vested and distributed during the year / period	(1,047,682)	(854,826)
Forfeited during the year / period	(68,060)	(83,163)
Outstanding at 30 November	<u>4,856,261</u>	<u>3,751,892</u>
ESPP	2011 Number	2010 Number
Outstanding at 1 December / 1 January	-	-
Additional awards granted	98	74
Vested and distributed during the year / period	(98)	(74)
Outstanding at 30 November	<u>-</u>	<u>-</u>

Jefferies International Limited
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25 SHARE-BASED PAYMENTS (continued)

RSU	2011 Number	2010 Number
Outstanding at 1 December / 1 January	1,243,173	1,218,759
Transfer (out) / in from an affiliate	(9,925)	24,934
Additional awards granted	109,271	183,606
Vested and distributed during the year / period	(198,686)	(164,006)
Forfeited during the year / period	(4,373)	(20,120)
Outstanding at 30 November	<u>1,139,460</u>	<u>1,243,173</u>

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

The weighted average fair value of RSAs granted for 2011 was \$13.83 (2010: \$23.00).

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

The weighted average fair value of RSUs granted for 2011 was \$14.41 (2010: \$22.16).

26 BUSINESS AND RISK MANAGEMENT POLICIES

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

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

- Market risk is the risk of loss from adverse changes in instrument values and/or earnings fluctuations arising from changes in market factors such as interest rates, exchange rates, and equity and commodity prices. The market risk appetite of the Company remains relatively limited, in terms of the size and nature of positions held, and this is monitored via a review of the positions held versus the established limits. In addition, as Jefferies' Group management in the U.S. deems it appropriate that the local market risk function contributes to U.S. risk management reporting, a value at risk model is reviewed locally for this purpose. To the fullest extent possible, the market risk infrastructure and process is common across the group, thus reflecting the integrated nature of the Jefferies market risk management function. As the London business continues to grow, this approach will be subject to ongoing review.
- Credit risk is the risk of loss due to adverse changes in clients' and counterparties' creditworthiness, or their inability or unwillingness to meet their financial obligations under the terms and conditions of a financial contract as and when they fall due. The credit risk appetite of the Company remains relatively limited and comprises business settled principally on a delivery versus payment basis, where associated credit risk is perceived to be relatively low, and collateralised equity and fixed income financing arrangements.
- The Company's functional currency is pounds sterling; foreign currency risk can arise where significant transactions are made in other currencies. In order to minimise the exposure to exchange rate fluctuations, currency risk is managed at the point the income or expense is recognised in the financial accounts by the exposure being sold in the spot currency market.
- Liquidity risk is the risk of the Company being unable to secure adequate funding to meet current obligations. The liquidity risk is deemed to be limited for the Company as funding is provided by the group should it be required.

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26 BUSINESS AND RISK MANAGEMENT POLICIES (continued)

The table below shows the liquidity analysis of assets and liabilities

	On demand	Due within 3 months	Due in 3-12 months	Due in one to five years	Due after five years	Total
	£000	£000	£000	£000	£000	£000
Assets						
Intangible and tangible assets	-	-	-	26	17,986	18,012
Investments	-	-	-	-	2,868	2,868
Cash at bank and in hand	138,189	-	-	-	-	138,189
Trading assets	1,726,316	-	-	-	-	1,726,316
Debtors						
- Securities borrowing	238,277	-	-	-	-	238,277
- Reverse repurchase agreements	494,734	-	-	-	-	494,734
- Other amounts falling due within one year	901,738	790	17,697	-	-	920,225
- Amounts falling due after more than one year	-	-	-	23,968	1,043	25,011
Total assets	3,499,254	790	17,697	23,994	21,897	3,563,632
	On demand	Due within 3 months	Due in 3-12 months	Due in one to five years	Due after five years	Total
	£000	£000	£000	£000	£000	£000
Liabilities						
Trading liabilities	1,153,549	-	-	-	-	1,153,549
Securities lending	237,100	-	-	-	-	237,100
Repurchase agreements	452,973	-	-	-	-	452,973
Other creditors	1,235,644	-	-	-	-	1,235,644
Creditors amounts falling due after one year	-	-	-	217,253	554	217,807
Provisions for liabilities and charges	-	-	570	-	-	570
Total liabilities	3,079,266	-	570	217,253	554	3,297,643
Net assets	419,988	790	17,127	(193,259)	21,343	265,989

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26 BUSINESS AND RISK MANAGEMENT POLICIES (continued)

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

	Effective interest rate	On demand/ repricing within 1 year	Repricing between one and five years	Repricing after five years	Non- interest bearing	Total
		£000	£000	£000	£000	£000
Assets						
Intangible and tangible assets	n/a	-	-	-	18,012	18,012
Investments	n/a	-	-	-	2,868	2,868
Cash at bank and in hand	n/a	-	-	-	138,189	138,189
Trading assets	n/a	-	-	-	1,726,316	1,726,316
Debtors						
- Securities borrowing	0.87%	238,277	-	-	-	238,277
- Reverse repurchase agreements	0.67%	494,734	-	-	-	494,734
- Other amounts falling due within one year	n/a	-	-	-	920,225	920,225
- Amounts falling due after more than one year	n/a	-	-	-	25,011	25,011
Total assets		733,011	-	-	2,830,621	3,563,632
	Effective interest rate	On demand/ repricing within 1 year	Repricing between one and five years	Repricing after five years	Non- interest bearing	Total
		£000	£000	£000	£000	£000
Liabilities						
Trading liabilities	n/a	-	-	-	1,153,549	1,153,549
Securities lending	0.87%	237,100	-	-	-	237,100
Repurchase agreements	0.67%	452,973	-	-	-	452,973
Other creditors	n/a	-	-	-	1,235,644	1,235,644
Creditors' amounts falling due after one year	9.00%	-	-	216,529	1,278	217,807
Provisions for liabilities and charges	n/a	-	-	-	570	570
Total liabilities		690,073	-	216,529	2,391,041	3,297,643
Net assets		42,938	-	(216,529)	439,580	265,989

Jefferies International Limited
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27 IMMEDIATE AND ULTIMATE HOLDING COMPANY

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

28 CLIENTS' MONEY

At 30 November 2011, amounts held by the Company on behalf of the clients in accordance with the Clients Asset Rules of the Financial Services Authority amounted to £2,834,073 (2010 £2,404,237). The Company has no beneficial interest in these amounts, however, they are shown on the face of the balance sheet in order to be consistent with the accounting policies of other companies within the Jefferies International (Holdings) Limited group. This is a change from the Company's accounting policy applied in previous years (see note 1 *Clients' money*).

29 RELATED PARTY TRANSACTIONS

Advantage has been taken of the exemption available under Financial Reporting Standard 8 not to disclose details of transactions or balances with Jefferies Group, Inc. or any other group or associated undertakings, as the consolidated accounts of Jefferies Group, Inc. in which the Company is included are publicly available. 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.

30 SUBSEQUENT EVENTS

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

CAPITAL MANAGEMENT

The Company's capital management policy is to maintain a strong capital base that is comfortably above the minimum regulatory capital level set for it by the Financial Services Authority (FSA) which supervises capital adequacy. This policy is a reflection of a number of factors – the business strategy, its risk appetite and the market environments in which it operates.

Our capital management approach is driven by the organisation's risk appetite. The Company's policy is to manage the overall solvency ratio around a target comfortably in excess of the minimum regulatory capital requirements. These targets have been agreed with the FSA through the FSA's Individual Capital Adequacy Assessment Process (ICAAP).

The level of Pillar 2 capital reflects the risk inherent in the Company's business model and products traded as well as its governance, control and risk management infrastructure. The Company's assessment of its Pillar 2 requirement is then reviewed with the FSA and a final level agreed. The Company's minimum regulatory capital level is the sum of its Pillar 1 and 2 requirements.

The Company's disclosure against Pillar 3 requirements are fully disclosed on the corporate web-site www.jefco.com/cositemgr.pl/html/InvestorRelations/SECFilings/BaselIIPillar3/index.shtml

The Company's ongoing compliance with its internal capital management policy target 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.