



Last year, we continued investing in our global platform.

EXPANDING OUR REACH

LongAcre Partners. In May 2007, we deepened our expertise in the media sector with the acquisition of LongAcre Partners, Ltd., a leading European media and Internet M&A advisory firm, complementing the Firm's established US media and new media investment banking professionals. This eight-year-old boutique firm had advised on more than 80 transactions worth a total of approximately \$12 billion since its founding. This new team brings more than 20 valuable professionals to Jefferies and broadens our global coverage of the advertising and marketing services, publishing, broadcast media, intellectual property, Internet/e-commerce and music/leisure industries. In 2007, the Jefferies Global Media group completed more digital media deals under \$1 billion than any other investment bank in our markets, and ranked second among media M&A advisors in Western Europe¹. In 2007, our global technology, media and telecommunications (TMT) groups completed nearly 130 transactions valued at almost \$30 billion, including 20 TMT IPOs in the US, ranking among the top three Wall Street investment banks².

Putnam Lovell. In June, we welcomed to Jefferies the global financial services investment banking group of Putnam Lovell, for 20 years a leading advisor to the financial services sector. This team added approximately 25 investment banking professionals in New York, Boston, London and San Francisco,

who are focused on the asset management, broker-dealer, financial technology and related industries. These additions complement the Firm's existing financial services practice, which primarily focused on specialty finance, transaction processing and other outsourced business services. Over the course of the year, this global team announced transactions with aggregate valuations in excess of \$2.5 billion.

Frankfurt. In July, we began operating in Frankfurt, Germany, a key global financial center, with a team of nearly 20 investment banking professionals to cover all major industry sectors in German-speaking Europe; manage corporate relationships regionally; initiate and execute transactions; and cover private equity, venture capital and other financial sponsors in the region. These professionals also enhance our global Industrial investment banking practice. The office officially opened in September.

Consumer Team. During the course of 2007, we assembled a team of industry-leading consumer-focused investment banking professionals, charged with building out a dedicated effort in this sector. The team has broad transaction capabilities, and has grown to more than 20 professionals as of year-end, with industry coverage including consumer products, retail, apparel, food, food service, food retail and beverages. We are

optimistic this team will follow a similar growth model to that of our Industrial practice, which began as a small team in 2003 that has grown to 30, executing 65 transactions valued at \$18.4 billion in 2007.

India and Singapore. In October, we officially opened our doors in New Delhi, India, with the establishment of Jefferies India Private Limited. Outside India, our investment banking professionals have to date raised close to \$2 billion for Indian issuers, including more than \$850 million in 2007 for clients in a range of sectors including media, industrials, technology, healthcare and textiles. We also participated in our first Global Depository Listing (GDR) of an Indian company. Separately, Jefferies initiated equity research coverage of several Indian companies during the year. In addition, our Singapore office officially became licensed in March 2007.

London. In November, we consolidated and relocated our Jefferies International headquarters office to Vintners Place in London. The move consolidated the Firm's five London locations (the results of various acquisitions), and brought together our nearly 350 investment banking, sales, trading, research and asset management professionals into one tailored location.

CONTINUOUS IMPROVEMENT IN INVESTMENT BANKING

Capital Markets Participation. In one of the worst credit crunches in recent history, Jefferies helped clients raise more than \$43 billion through more than 250 capital raising transactions. The number of equity and equity-linked transactions we managed or co-managed was up significantly over the previous year, to more than 170, with a considerable jump in lead-managed transactions. Our participation in debt transactions was also up significantly, to more than 80.

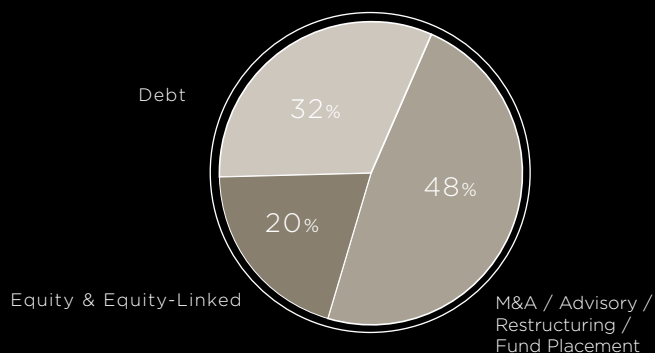
Jefferies ranked as the top underwriter of 2007 high yield US new issues valued at \$300 million and under³, and we continued our now seven-year run as the top underwriter of US high yield new issues valued at \$150 million and under⁴. In addition, *Leverage World* named Jefferies High Yield Underwriter of the Year for 2007 based on the strong after-market performance of new issues⁵.

Our leveraged loan platform, Jefferies Finance, is now among the top 20 lead arrangers of institutional loans in the United States⁶. Despite the credit environment, Jefferies Finance continued to underwrite loans in the second half of the year and was profitable in every quarter of 2007.

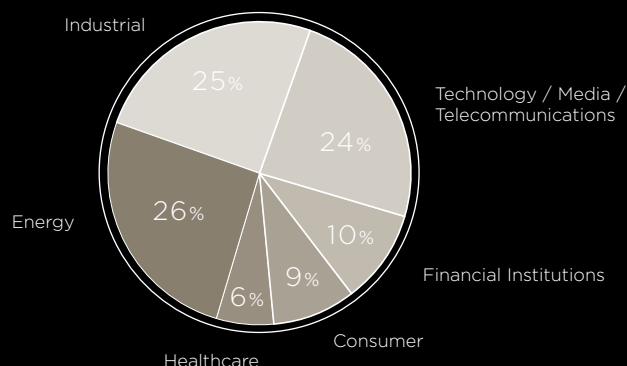
Our equity-linked financing efforts continued to gain traction and provide creative options for our clients, as evidenced by one of our pre-IPO convertible offerings in the clean technology sector, which captured Equity Deal of the Year at the *Euromoney* and Ernst & Young 2007 Annual Global Renewable Energy Awards⁷.

Advisory Assignments. Over the course of the year, we worked on nearly 180 M&A transactions valued at \$55.6 billion, and more than 30 completed and pending restructuring assignments. Jefferies ranked among the top 3 advisors of 2007 for deals under \$500 million⁸, with top rankings in technology, aerospace and defense, and energy. Our presence among the private equity community continued to grow, with more than 90 transactions—nearly 20 percent—of our total transactions involving a financial sponsor. The Firm's global fund placement group, Helix Associates, acquired in 2005, represents clients that invest capital in North America, Europe and Asia. In 2007, Helix added a presence in San Francisco to its New York and London-

INVESTMENT BANKING REVENUE / by product



INVESTMENT BANKING REVENUE / by industry



based teams. Helix has successfully extended its franchise and now raises private equity funds for diverse strategies such as US and European buyouts, emerging markets, turn-arounds and infrastructure investments. Aggregate capital raised in 2007 for our funds was 23 percent more than in 2006.

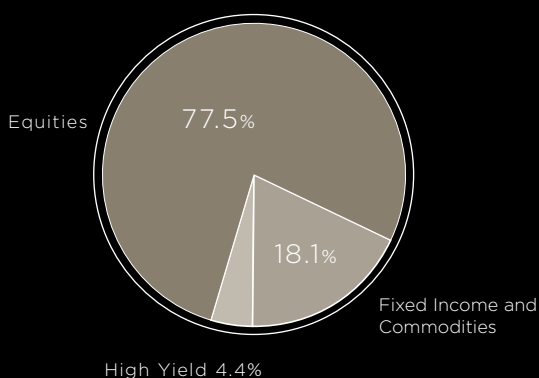
Sector Focus. We continue to gain traction in our markets, with all our groups performing well. In addition to the LongAcre Partners and Putnam Lovell acquisitions and new consumer and German teams, we also enhanced our energy, energy lending and UK healthcare teams, and appointed new heads of our maritime shipping and telecommunications groups, replacing retiring bankers in each case. In terms of revenues, energy (including maritime and oil services) accounted for 26 percent; industrial (including aerospace and defense and clean technology), 25 percent; technology, media and telecommunications, 24 percent; and financial services, consumer (including gaming) and healthcare combined, the remaining 25 percent.

Our technology practice completed nearly 120 transactions, valued at more than \$20 billion, and ranked as the #1 technology M&A advisor for the third year in a row⁸. Our aerospace and defense practice completed more than 38 transactions, valued at \$6.7 billion, including the #1 and #2 M&A Big Impact Deals of 2007, as ranked by *Washington Technology*⁹. The team was also the #1 aerospace and defense M&A advisor for three years running⁸. Our energy practice (including maritime and oil services) completed almost 80 transactions, valued at more than \$30 billion, and ranked as the #1 M&A energy advisor for the second consecutive year⁸. In addition, the Firm captured three Deal of the Year awards from *The Banker* magazine for energy-related transactions involving companies in Norway, Greece and Madagascar¹⁰.

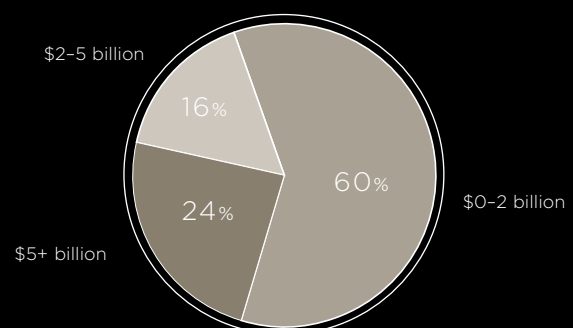
Europe and Asia. Our non-US activities are bearing fruit, currently accounting for about 15 percent of the Firm's investment banking revenues. In London, in addition to appointing a co-head of global investment banking, we added an experienced head of international equity capital markets to lead and grow our equity, equity-linked and structured products efforts. We participated in 17 equity and equity-linked transactions, valued at more than \$1.9 billion. We served as Nomad or broker to 14 AIM-listed companies across the shipping, energy, clean technology, technology, industrial and biotechnology sectors. We also served as bookrunner for the 2007 International IPO of the Year, as determined by the Quoted Company Awards¹¹. In the Middle East and Asia, we have a growing practice in India, we helped raise more than \$850 million for China-based companies during 2007, and our Dubai office has been active on a number of business fronts in further developing our international clientele and assisting in key transactions, most notably the sale of Aston Martin to an international consortium of investors.

Our Brand continues to gain recognition in the marketplace and to reflect the quality of our capabilities. In April, Thomson Financial's *Buyouts* magazine recognized Jefferies for our work with growing and mid-sized companies, naming our Firm Mid-Market Investment Bank of the Year for 2006. It's worth noting that Jefferies earned a similar honor for 2005 from *Investment Dealers' Digest*¹². In addition, Jefferies was named #1 investment bank in the boutique category on the AO Top Dealmakers List by *AlwaysOn* magazine and KPMG¹³.

SALES & TRADING REVENUE /
by product



EQUITY RESEARCH COMPANIES UNDER COVERAGE /
by market cap



STRENGTH IN SALES AND TRADING

Equities. In 2007, we continued to build on our long-standing cash equity platform with further enhancements to our full-service capabilities. We added experienced business heads and improved alignment across our platform to drive revenue growth more than 10 percent from the prior year. The Firm traded an estimated 43.7 billion shares globally, including more than 10.7 billion outside of the US, in more than 65 markets, utilizing an execution platform that includes sector trading, floor brokerage, electronic connectivity and direct access. Among institutional brokerages, Jefferies ranked among the top 5 and top 10, according to Ancerno Ltd.¹⁴ and Elkins/McSherry¹⁵, respectively. Hedge funds ranked Jefferies among the top 10 in both Traditional Expertise & Market Knowledge and Traditional Execution in a survey by *Institutional Investor's Alpha* magazine¹⁶.

Our prime brokerage business, which officially launched in late 2006, has been very well received by the hedge fund community and ended the first full year of operations with more than 130 clients and significant momentum entering 2008. We expanded our securities finance team, appointing an experienced professional with 23 years of securities lending and prime brokerage experience as co-head, and added specialists focused on hedge fund coverage and Asia. We also implemented a new Fully Paid for Lending Program to benefit clients with long security inventory, while adding 15 new counterparties to our client list. Our experienced equity derivatives team grew its presence in listed equity derivatives strategy and structured products, while adding talented members to the derivatives trading effort. With a team of more than 20 members, Jefferies is poised to continue its derivatives' revenue growth and further Jefferies as a mainstay on the equity derivatives landscape.

Jefferies enhanced its trading effort with the appointment of talented sector heads who continue to drive the cash trading effort with capital commitment capabilities, enabling Jefferies to service larger accounts. Our Firm has one of the largest institutional sales forces on Wall Street, with approximately 200 institutional sales professionals across the US, Europe and Asia, connecting a network of more than 4,000 clients with businesses in 25 countries and three continents. In 2007, we increased our NASDAQ market making capabilities approximately 20 percent, now making markets in approximately 6,000 stocks. Cash equities maintains a strong customer base and broad distribution, with approximately 80 percent of commissions sourced from more than 500 accounts, which we believe to be a significantly larger number of accounts as compared to our competitors. Jefferies' research sales effort, a team of nearly 50 in offices across the US, added a number of senior salespeople in 2007 to enhance the distribution and accessibility of our award-winning research product (see Research). Revenue from electronic trading continued to grow by attracting new clients across the globe with competitive direct market access solutions and algorithmic trading products. The combined efforts of our experienced program trading and knowledge-driven quantitative strategy teams helped our institutional investors achieve best execution. The Jefferies Electronic Trading Solutions (JETS) front-end trading tool captured the Best Real-Time Market Data Initiative Award from Inside Market Data Awards¹⁷.

Our equity capital markets team continued to identify opportunities and build on strong relationships with growth and value-oriented investors while acting as the primary conduit between investment banking and our sales and trading platforms. Excellent execution helped by our full-service platform has driven consistent repeat business and has pushed 440 percent

TIMELINE 2007

3RD ANNUAL INTERNET CONFERENCE
Hosted nearly 430 attendees with more than 30 presenting companies

OIL SERVICES SUMMIT
Hosted nearly 130 attendees with nearly 20 presenting companies

FINANCIAL SERVICES CONFERENCE
Hosted more than 180 attendees with over 25 presenting companies

ACQUISITIONS & DIVESTITURES SUMMIT
Hosted 350 E&P executives

3RD GLOBAL CLEAN TECHNOLOGY CONFERENCE
Hosted 660 attendees with 45 presenting companies and three tracks

HEALTHCARE CONFERENCE
Hosted more than 1,150 attendees with over 160 presenting companies over three days

growth in volume over the past four years, and helped capital market net revenue increase significantly in 2007 (see Investment Banking).

Investment Grade Fixed Income revenues grew considerably in the second half of 2007 and we are well positioned to add value in an increasingly illiquid marketplace. This team of more than 100 professionals serves more than 3,000 institutional clients and trades in more than 3,000 individual issues—up 30 percent since 2006. We captured market share in corporate bonds in our electronic platform and over the counter, and grew our emerging markets business, as well as our mortgage securities-related trading activities, among other accomplishments in 2007.

High Yield. We restructured our US high yield secondary trading business by consolidating our managed high yield funds and business into a single broker-dealer and substantially expanded its capital base with third-party commitments. With \$1.5 billion in equity commitments and the flexibility to modestly lever the platform on a one-to-one basis, we believe we are well positioned to grow over the coming years. We continued to expand our European presence as we welcomed a new head of European institutional high yield and distressed securities sales and trading, and added a new senior trader and senior salesman. Global high yield trading volumes expanded to \$43.5 billion with primary placement of high yield instruments being quite strong in the first half of the year (see Investment Banking). The second half of 2007 experienced the worst high yield markets in the 18-year history of the division. As such, revenues declined during this period and the division recorded a modest loss. This is a significant accomplishment given the overall environment and performance of peers. Through this period we have defended our position

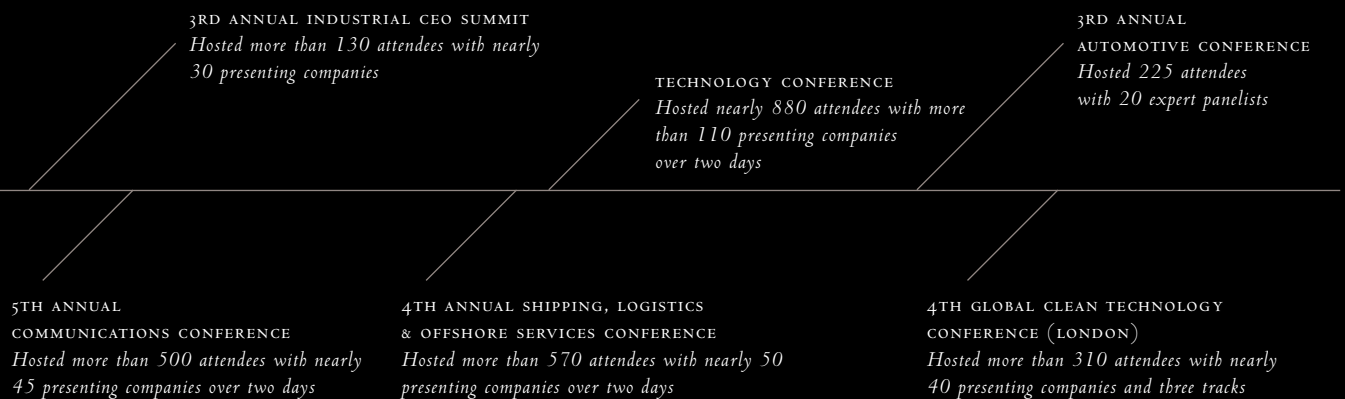
and protected capital, one-third of equity commitments to high yield remain undrawn and we have not applied any leverage.

Convertibles. Our convertible sales and trading businesses based in the US and London performed well in 2007. Globally, we traded a universe of more than 800 issues and served more than 600 clients in 2007. Our UK-based convertible securities business experienced a growth in revenues as a result of its increased activity in Asia in both primary and secondary markets, particularly in India. Europe was a more difficult market, but results were solid. The Firm's country fund business was also a major contributor to the overall success of the group.

Commodities. Our four-year-old commodity business, Jefferies Financial Products, LLC, delivered solid full-year performance, continuing to provide our clients with exposure to the robust performance of the commodity markets through innovative products.

CONNECTING IDEAS AND CAPITAL

Equity Research. In 2007, our equity research team ranked among the top 5 firms in *The Wall Street Journal's* Best on the Street analyst awards, for the second time in the past three years, with seven analyst honors¹⁸. The team also received 14 analyst honors in StarMine's Annual Analyst Survey¹⁹, across several industries and countries, reflecting a growing global presence. Our equity research practice is comprised of 140 equity research professionals covering nearly 900 growing and dynamic companies. Our focus remains on small and mid-cap companies, with 60 percent of companies under coverage having a market capitalization of less than \$2 billion. Coverage includes companies in the US, the UK, Europe, Japan, India and the emerging Asia markets.





We enhanced many of our core areas: consumer, energy, financial services, healthcare, industrial/aerospace and defense, and technology, media and telecommunications.

Industry Conferences. Jefferies hosts a series of annual, sectoral-based conferences that have gained significant traction by providing a forum for public and private, growing and mid-sized companies to interact directly with institutional investors. We believe the company presentations, panel discussions, guest speakers and one-on-one meetings that we facilitate at our conferences are of tremendous value to our clients, and there is great satisfaction in bringing our two core audiences together. During the year, Jefferies' research hosted an aggregate of more than 5,100 attendees at 11 targeted industry conferences, with more than 550 presenting companies and nearly 6,000 one-on-one meetings.

As another investor touch point, Jefferies hosted some 30 thematic conference calls with companies and/or industry experts and specialists discussing timely topics and cutting-edge issues. Investor attendance has averaged more than 80 clients and speakers have ranged from a leading authority on fracture systems discussing Appalachian shale to a leading clinical

endocrinologist discussing emerging diabetic treatments. During the year, analysts hosted nearly 370 non-deal corporate road shows and 32 field trips, and logged the equivalent of nearly 950 days marketing to institutional buy-side clients.

High Yield Research. In addition, our high yield research team, with 14 professionals covering approximately 400 companies, has always been an important component of our high yield sales and trading efforts. This team has developed a targeted quarterly road show for analysts to share their outlook and perspective with investors, which has proven very efficient and successful. With its extensive experience covering high yield securities and unique focus on special or developing situations, our team is among the most respected on Wall Street. Analysts have earned a number of honors over the years, including a spot on *Institutional Investor's* 2007 All-America Fixed Income Team²⁰.

STRATEGIC ASSET AND WEALTH MANAGEMENT

While the majority of the funds within our US asset management business had positive returns for 2007, a few of our funds were negatively impacted by the second-half downturn, resulting in an overall decline in annual revenues from US-based Jefferies Asset Management. However, our

global convertible bond asset management business, based in London and Zurich, achieved solid performance in 2007, with both global and European funds comfortably ahead of their respective benchmarks, and assets under management up 16 percent over the course of the year. This team now manages approximately \$2.9 billion in assets. We remain committed to our successful funds and supporting our asset management business going forward.

Jefferies Private Client Services (PCS) expanded its geographical coverage in 2007, adding wealth management teams in Atlanta, Dallas, Los Angeles and San Francisco, increasing the number of account executives by 40 percent. Revenues from this business increased more than 30 percent year-over-year, while assets under management increased 42 percent. Assets in our third-party managed account programs more than tripled in 2007, and the number of asset managers in our network grew to more than 300, covering a broad range of investment styles and asset classes. PCS continued to broaden its platform of products and services in order to better serve its high net worth clientele, enhancing its alternative investment platform and private equity capabilities to enable our experienced advisors to offer greater portfolio diversification and customized investment solutions for clients.

AN EVOLVING CULTURE

Given the growth of our Firm over the past five years and our expansion into new markets and regions, our culture continues to evolve, with employee-shareholders now in nearly 30 offices in 10 countries spanning three continents. While we continue to adapt and change, we believe, at our core, that Jefferies has

maintained the rare Wall Street culture of a creative, proactive, client-focused, relationship-driven firm. Our professionals possess a high level of integrity and are mandated to always do what is in the best interest of our clients and our Firm.

Employee Ownership continues to be an important part of the Firm's culture and strategy. Internal ownership is nearly 40 percent of the outstanding equity of the Firm. Through various stock ownership programs, all Jefferies' employee-partners are encouraged to take part in the firm that we are building and the value we are creating together. We believe that ownership alignment is the best motivator for long-term success.

Philanthropy. Together with the help of clients and vendors, our Firm and our employees have contributed more than \$42 million in donations toward a broad range of important causes including relief efforts for natural disasters and terrorist attacks, cancer research and youth programs. The Firm and its employees also support a wide range of important causes through its charitable matching gift program. In addition, the Firm's scholarship program supports the education of the children of Jefferies' employees, and has granted more than 760 high school and college scholarships over the past 27 years.

Diversity. Promoting a diverse workforce is important to us, and we seek to enrich our Firm and our culture by recruiting individuals from diverse cultures and backgrounds with wide-ranging experience and academic achievement from all over the world. Each employee brings his or her unique perspective and outlook to the exceptional platform that collectively is Jefferies.

¹ Thomson Financial/SDC, 2007. M&A Digital Media transactions in North America and Western Europe announced 1/1/07-12/31/07, under \$1 billion. Includes mergers, acquisitions and minority investments with disclosed and undisclosed values. Excludes tender offers, exchange offers, self-tenders, repurchases, remaining interests, privatizations. M&A transactions in Western Europe completed 1/1/07-12/31/07, under \$1 billion, in Advertising & Marketing, Broadcasting, Motion Pictures/Audio Visual, Publishing, Internet Software & Services and E-commerce/B2B. ² Dealogic, 2007. Includes all completed US technology, media and telecommunications initial public offerings over \$25 million. ³ Thomson Financial/SDC, 2007. All high yield US new issues \$300 million and under. Excludes mortgage and asset-backed securities. Full credit to lead manager, equal if joint. ⁴ Thomson Financial/SDC, 2001-2007. All high yield US new issues under \$150 million. Excludes mortgage and asset-backed securities. Full credit to lead manager, equal if joint. ⁵ Published 1/25/08, based on data provided by FridsonVision, LLC. ⁶ LoanConnector, 2007. Based on volume. Data provided by Reuters LPC. ⁷ Announced September 2007. ⁸ Thomson Financial/SDC, 2007. US transactions announced or closed 1/1/07-12/31/07. Technology M&A transactions in North America and Western Europe announced 1/1/05-12/31/07, under \$1 billion. Defense-related M&A transactions in North America and Western Europe announced or closed 1/1/05-12/31/07, all values. US Energy M&A transactions announced 1/1/06-12/31/07. Includes mergers, acquisitions and minority investments with disclosed and undisclosed values. Excludes tender offers, exchange offers, self-tenders, repurchases, remaining interests, privatizations. ⁹ Announced February 2008. ¹⁰ Announced May 2007. ¹¹ Announced January 2008. ¹² Published January 16, 2006. ¹³ Announced December 2007. ¹⁴ Published in *Bloomberg Markets*, June 2007. ¹⁵ Published in *Institutional Investor*, November 2007. ¹⁶ Published October 2007. ¹⁷ Announced May 2007. ¹⁸ Published May 21, 2007 and May 16, 2005. ¹⁹ Announced May and October 2007. ²⁰ Published October 2007.

