Registered Number: 34161590

Registered Office:
Locatellikade 1
Parnassustoren
1076 AZ
Amsterdam
The Netherlands

MORGAN STANLEY B.V.

Report and financial statements

Period from 1 December 2008 to 31 December 2009

MORGAN STANLEY B.V.

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MORGAN STANLEY B.V.

DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the statement of comprehensive income, the statement of changes in equity, the statement of financial position, the statement of cash flows and related notes 1 to 18) for Morgan Stanley B.V. (the "Company") for the thirteen month period from 1 December 2008 to 31 December 2009. The Company's financial statements have been prepared in accordance with Dutch law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

The Company changed its accounting reference date from 30 November to 31 December on 5 January 2009, resulting in the current accounting period being extended from 30 November 2009 to 31 December 2009.

RESULTS AND DIVIDENDS

The profit for the period, after tax, was €1,539,000 (2008: €4,648,000 profit after tax).

During the period, no dividends were paid or proposed (2008: €nil).

PRINCIPAL ACTIVITY

The principal activity of the Company is the issuance of financial instruments and the hedging of the obligations arising pursuant to such issuances.

The Company's ultimate parent undertaking and controlling entity is Morgan Stanley, which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the "Morgan Stanley Group".

BUSINESS REVIEW

The statement of comprehensive income for the period is set out on page 5. As stated above the Company changed its accounting reference date from 30 November to 31 December, and the current year figures are therefore for the thirteen month period to 31 December 2009. The comparative figures are for a twelve month period and are therefore not entirely comparable with the amounts shown for the current period. The Company made a profit before income tax of €2,045,000 in the period, a decrease of €4,192,000 or 67% on the prior year. This movement can be primarily attributed to a lower level of management charges received from other Morgan Stanley Group undertakings as a result of the reduction in the average level of financial instruments issued in the current period

The statement of financial position for the Company is set out on page 7. The Company's financial position at the end of the period shows that the total assets were €2,900,852,000 an increase of €747,685,000 or 35% from the prior year end. This has primarily been driven by an increase in the issuance of financial instruments and the purchase of financial assets used to hedge these issuances. Despite a lower average level of financial instruments issued during the period, the level of financial instruments issued increased towards the end of the period.

The performance of the Company is included in the results of the Morgan Stanley Group which are discussed in the Morgan Stanley Group's Annual Report on Form 10-K to the United States Securities and Exchange Commission. The Morgan Stanley Group manages its key performance indicators on a global basis but in consideration of individual legal entities. For this reason, the Company's Directors believe that providing performance indicators for the Company itself would not enhance an understanding of the development, performance or position of the business of the Company.

Future outlook

There have not been any significant changes in the Company's principal activity in the period under review and no significant change in the Company's principal activity is expected.

Current market conditions

During the second half of 2009, global market and economic conditions improved and global capital markets began to recover from the severe downturn that occurred at the end of 2008. Economic conditions however continue to be challenging. These conditions present difficulties and uncertainty for the business outlook which may adversely impact the financial performance of the Company in the future.

Current market conditions (continued)

During the year ending 31 December 2008, the Morgan Stanley Group took certain steps to respond to the stresses experienced in the global financial markets at the end of 2008 and to strengthen the Morgan Stanley Group's overall capital and liquidity position, including participation in the US Government's Troubled Asset Relief Program ("TARP"). In mid 2009, as a result of its strong capital position, Morgan Stanley received approval from the US Treasury to repay the $10 billion TARP investment received in 2008. Morgan Stanley continues to actively manage its capital and liquidity position to ensure adequate resources are available to support the activities of the Morgan Stanley Group, including its subsidiary entities. The risk management section below sets out the Company's and the Morgan Stanley Group's policies for the management of liquidity and cash flow and other significant business risks. Note 13 to the financial statements provides quantitative and qualitative disclosures about the Company's management and exposure to financial risks, including liquidity risk.

Risk Management

Risk is an inherent part of the Company's business activity and is managed within the context of the broader Morgan Stanley Group's business activities. The Morgan Stanley Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its activities on a global basis, in accordance with defined policies and procedures and in consideration of the individual legal entities.

Market risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as liquidity, will result in losses for a position or portfolio.

The Morgan Stanley Group manages the market risk associated with its trading activities in consideration of each individual legal entity, but on a global basis, at both a trading division and an individual product level.

Credit risk

Credit risk refers to the risk of loss arising from borrower or counterparty default when a borrower, counterparty or obligor does not meet its obligations.

The Morgan Stanley Group manages credit risk exposure in consideration of each individual legal entity, but on a global basis, by ensuring transparency of material credit risks, ensuring compliance with established limits, approving material extensions of credit, escalating risk concentrations to appropriate senior management and mitigating credit risk through the use of collateral and other arrangements.

Liquidity risk

Liquidity and funding risk refers to the risk that the Company will be unable to meet its funding obligations in a timely manner. Liquidity risk stems from the potential risk that the Company will be unable to obtain necessary funding through borrowing money at favourable interest rates or maturity terms, or selling assets in a timely manner and at a reasonable price.

The Morgan Stanley Group's senior management establishes the overall liquidity and capital policies of the Morgan Stanley Group. The Morgan Stanley Group's liquidity and funding risk management policies are designed to mitigate the potential risk that the Morgan Stanley Group and the Company may be unable to access adequate financing to service its financial obligations without material franchise or business impact. The key objectives of the liquidity and funding risk management framework are to support the successful execution of the Morgan Stanley Group's and the Company's business strategies while ensuring sufficient liquidity through the business cycle and during periods of stressed market conditions. The Morgan Stanley Group has established regional committees to oversee the activities of its subsidiaries from a regional perspective.

MORGAN STANLEY B.V.

DIRECTORS' REPORT

DIRECTORS

The following Directors held office throughout the period and to the date of approval of this report (except where otherwise shown):

J.Y. Bahurel	
A.J.S. Crawford	(appointed 8 December 2009)
H. Herrmann	(appointed 5 February 2009)
C.E.C. Hood	(resigned 5 February 2009)
R. Jackson-Proes	(resigned 8 December 2009)
J.A. Solan	
TMF Management B.V.	

POST BALANCE SHEET EVENTS

There have been no significant events since the balance sheet date.

AUDIT COMMITTEE

The Company qualifies as an organisation of public interest pursuant to Dutch and EU law. The Morgan Stanley Group has an audit committee that complies with the international corporate governance rules. The Company has therefore taken the exemption for groups and has not installed an audit committee.

AUDITORS

Deloitte Accountants B.V. have expressed their willingness to continue in office as auditors of the Company and a resolution to re-appoint them will be proposed at the forthcoming annual general meeting.

Approved by the Board and signed on its behalf by

Directors

29th April 2010

J.Y.Bahurel   A.J.S. Crawford   H. Herrmann   J.A. Solan   TMF Management B.V.

MORGAN STANLEY B.V.

DIRECTORS' RESPONSIBIITY STATEMENT

The Directors, the names of whom are set out below, confirm to the best of their knowledge:

(a) the financial statements, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and as endorsed by the EU, have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

(b) the management report represented by the Directors' report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

Approved by the Board and signed on its behalf by

Directors

29th April 2010

J.Y.Bahurel A.J.S. Crawford H. Herrmann J.A. Solan TMF Management B.V.

MORGAN STANLEY B.V.

STATEMENT OF COMPREHENSIVE INCOME
Period ended 31 December 2009

	Note	1 December 2008 to 31 December 2009 €'000	Year ended 30 November 2008 €'000
Net losses on financial instruments classified as held for trading		(204,013)	(264,344)
Net gains on financial instruments designated at fair value through profit or loss		204,013	264,344
Interest income	4	1,150	1,083
Interest expense	4	(332)	(8)
Other income	5	1,294	5,170
Other expense	6	(67)	(8)
PROFIT BEFORE INCOME TAX		2,045	6,237
Income tax expense	7	(506)	(1,589)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/YEAR		1,539	4,648

All operations were continuing in the current period and prior year.

The notes on pages 9 to 32 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
Period ended 31 December 2009

	Note	Share capital €'000	Retained earnings €'000	Total €'000
Balance at 1 December 2007		18	5,350	5,368
Profit and total comprehensive income for the year		-	4,648	4,648
Issue of share capital	10	15,000	-	15,000
Balance at 30 November 2008		15,018	9,998	25,016
Profit and total comprehensive income for the period		-	1,539	1,539
Balance at 31 December 2009		15,018	11,537	26,555

The notes on pages 9 to 32 form an integral part of the financial statements.

MORGAN STANLEY B.V.
Registered Number: 34161590

STATEMENT OF FINANCIAL POSITION
As at 31 December 2009
(Including Proposed Appropriation of Results)

	Note	31 December 2009 €'000	30 November 2008 €'000
ASSETS			
Loans and receivables:			
Cash at bank		6,596	1,259
Trade receivables		10,659	22,787
Other receivables	18	33,960	29,808
		51,215	53,854
Financial assets classified as held for trading	8	30,958	4,301
Financial assets designated at fair value through profit or loss	9	2,818,679	2,095,012
TOTAL ASSETS		2,900,852	2,153,167
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost:			
Trade payables		18,300	3,818
Other payables	18	12,565	245
		30,865	4,063
Financial liabilities classified as held for trading	8	-	317,337
Financial liabilities designated at fair value through profit or loss	9	2,843,278	1,806,052
Current tax		154	699
TOTAL LIABILITIES		2,874,297	2,128,151
EQUITY			
Share capital	10	15,018	15,018
Retained earnings		11,537	9,998
TOTAL EQUITY		26,555	25,016
TOTAL LIABILITIES AND EQUITY		2,900,852	2,153,167

These financial statements were approved by the Board and authorised for issue on

Signed on behalf of the Board on

Directors
29th April 2010

J.Y.Bahurel A.J.S. Crawford H. Herrmann J.A. Solan TMF Management B.V.

The notes on pages 9 to 32 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
Period ended 31 December 2009

	Note	1 December 2008 to 31 December 2009 €'000	Year ended 30 November 2008 €'000
OPERATING ACTIVITIES			
Profit for the period/year		1,539	4,648
Adjustments for:			
Income tax payable		(545)	936
Profit before changes in operating assets and liabilities		994	5,584
Changes in operating assets			
Decrease in loans and receivables, excluding cash at bank		7,976	24,990
(Increase) in financial assets classified as held for trading		(26,657)	(4,301)
(Increase)/ decrease in financial assets designated at fair value through profit or loss		(723,667)	8,009,634
		(742,348)	8,030,323
Changes in operating liabilities			
Increase/ (decrease) in financial liabilities at amortised cost		26,802	(114,967)
(Decrease)/ increase in financial liabilities classified as held for trading		(317,337)	317,337
Increase/ (decrease) in financial liabilities designated at fair value through profit or loss		1,037,226	(8,252,029)
		746,691	(8,049,659)
NET CASH FLOWS FROM/ (USED IN) OPERATING ACTIVITIES		5,337	(13,752)
FINANCING ACTIVITIES			
Issue of ordinary share capital	10	-	15,000
NET CASH FLOWS FROM FINANCING ACTIVITIES		-	15,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		5,337	1,248
Currency translation differences on foreign currency cash balances		-	(1)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD/YEAR		1,259	12
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD/YEAR		6,596	1,259

The notes on pages 9 to 32 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Period ended 31 December 2009

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in The Netherlands, at the following address:

Locatellikade 1, Parnassustoren, 1076 AZ, Amsterdam, The Netherlands.

The Company is engaged in the issuance of financial instruments and the hedging of obligations pursuant to such issuances.

2. BASIS OF PREPARATION

Statement of compliance

The Company has prepared its financial statements in accordance with IFRSs adopted by the EU. The primary financial statements in this document are presented in accordance with International Accounting Standards ("IAS") 1 *'Presentation of Financial Statements'*.

The Company has changed its accounting reference date from 30 November to 31 December to align with the changed year end of its ultimate parent undertaking, Morgan Stanley. This change has resulted in a reporting period of thirteen months to 31 December 2009. The comparative figures reflected in the financial statements are for the twelve month period ended 30 November 2008 and therefore are not entirely comparable with amounts shown for the current period.

Certain presentational changes have been made to the statement of cash flows and note 13 from the prior year to conform to the presentation in the current period. Neither of the above changes impact the prior year statement of financial position. Within the statement of cash flows the starting point for the current period is profit for the period, whereas the starting point for the prior year was profit before income tax. The change in note 13 relates to the maturity profile of issued structured notes and financial liabilities classified as held for trading in the liquidity risk maturity analysis table. Balances, which were previously incorrectly presented as maturing in less than one year, equal to or more than two years but less than five years and equal to or more than five years, have now been changed to on demand. The change to note 13 results in the prior period comparatives included within note 13 of these financial statements for the year ended 31 December 2009 not being consistent with the 31 December 2008 comparatives included in note 7 of the condensed financial statement for the six months to 31 May 2009.

New standards and interpretations adopted during the period

The following standards and interpretations relevant to the Company's operations were adopted during the period. Except where otherwise stated, the standards and interpretations did not have a material impact on the Company's financial statements.

IAS 1 *'Presentation of Financial Statements (revised)'* was issued by the International Accounting Standards Board ("IASB") in September 2007 for application in accounting periods beginning on or after 1 January 2009. The Company adopted the revised standard during the period resulting in the renaming and re-ordering of the primary statements and related minor changes to disclosure.

Amendments to IFRS 7 *'Financial Instruments: Disclosures': Improving disclosures about financial instruments'* was issued by the IASB in March 2009 for application in accounting periods beginning on or after 1 January 2009. The Company chose to early adopt IFRS 7 with effect from 1 December 2008 which resulted in minor changes to disclosure.

As part of the May 2008 Annual Improvements to IFRS, the IASB made amendments to the following standards that are relevant to the Group's operations: IAS 1 *'Presentation of Financial Statements'* and IAS 39 *'Financial Instruments: Recognition and Measurement'*. The amendments were made for application in accounting periods beginning on or after 1 January 2009.

Amendments to IFRIC 9 *'Reassessment of Embedded Derivatives'* and IAS 39 *'Financial Instruments: Recognition and Measurement' - Embedded derivatives* were issued by the IASB in March 2009 for application in accounting periods ending on or after 30 June 2009.

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following standards and interpretations relevant to the Company's operations were in issue by the IASB but not yet mandatory. The Company does not expect that the adoption of the following standards will have a material impact on the Company's financial statements.

IFRS 9 *'Financial instruments'* was issued by the IASB in November 2009 for retrospective application in accounting periods beginning on or after 1 January 2013. Although there are expected to be changes to the presentation of financial instruments by the Company, there is not expected to be a significant impact on net assets.

IAS 24 *'Related party disclosures'* was revised by the IASB in November 2009 for retrospective application in annual periods beginning on or after 1 January 2011.

As part of the April 2009 Annual Improvements to IFRS, the IASB made amendments to the following standards that are relevant to the Company's operations: IFRS 8 *'Operating Segments'*, IAS 1 *'Presentation of Financial Statements'*, IAS 7 *'Statement of Cash Flows'*, IAS 18 *'Revenue'*, IAS 36 *'Impairment of Assets'* and IAS 39 *'Financial Instruments: Recognition and Measurement'*. The amendments are for application in accounting periods beginning on or after 1 July 2009. These Annual improvements were endorsed by the EU in March 2010.

Basis of measurement

The financial statements of the Company are prepared under the historical cost convention modified by the inclusion of certain financial instruments at fair value.

Use of estimates and sources of uncertainty

The preparation of financial information requires the Company to make estimates and assumptions regarding the valuation of certain financial instruments and other matters that affect the financial statements and related disclosures. The Company believes that the estimates utilised in preparing the financial statements are prudent and reasonable. Actual results could differ materially from these estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Functional currency

Items included in the financial statements are measured and presented in Euros, the currency of the primary economic environment in which the Company operates.

All currency amounts in the financial statements and Directors' report are rounded to the nearest thousand Euros.

b. Foreign currencies

All monetary assets and liabilities denominated in currencies other than Euros are translated into Euros at the rates ruling at the date of the statement of financial position. Transactions in currencies other than Euros are recorded at the rates prevailing at the dates of the transactions. All translation differences are taken through the statement of comprehensive income and are presented in 'Other income' or 'Other expense', except where noted in 3(c) below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments

The Company classifies its financial assets in the following categories on initial recognition: financial assets classified as held for trading, financial assets designated at fair value through profit or loss, and loans and receivables.

The Company classifies its financial liabilities into the following categories on initial recognition: financial liabilities classified as held for trading, financial liabilities designated at fair value through profit or loss, and financial liabilities at amortised cost.

More information regarding these classifications is included below:

i) Financial instruments classified as held for trading

Financial instruments classified as held for trading, including derivatives, are initially recorded on trade date at fair value. All subsequent related gains and losses, including foreign exchange differences and interest, are reflected in the statement of comprehensive income in 'Net losses on financial instruments classified as held for trading'. Transaction costs are excluded from the initial and subsequent fair value measurement of the financial instrument. These costs are recognised in the statement of comprehensive income in 'Other expense'.

ii) Financial instruments designated at fair value through profit or loss

The Company has designated financial assets and financial liabilities at fair value through profit or loss when:

- the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis; or
- the financial asset or financial liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

From the date the transaction in a financial instrument designated at fair value is entered into (trade date) until settlement date, the Company recognises any unrealised fair value changes in the contract as financial instruments designated at fair value through profit or loss. On settlement date, the fair value of consideration given or received is recognised as a financial instrument designated at fair value through profit or loss. All related gains and losses, including foreign exchange differences and interest, are reflected in the statement of comprehensive income in 'Net gains on financial instruments designated at fair value through profit or loss'. Transaction costs are excluded from the initial fair value measurement of the financial instrument. These costs are recognised in the statement of comprehensive income in 'Other expense'.

iii) Loans and receivables and financial liabilities at amortised cost

Financial assets classified as loans and receivables are initially recognised on settlement date at fair value and subsequently measured at amortised cost less allowance for impairment. Interest is recognised in 'Interest income' in the statement of comprehensive income, using the effective interest rate method. Transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability are added to or deducted from the fair value on initial recognition.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the expected life of the financial asset or financial liability. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability. The calculation of the effective interest rate includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iii) Loans and receivables and financial liabilities at amortised cost (continued)

Impairment losses and reversals of impairment losses on financial assets classified as loans and receivables are recognised in the statement of comprehensive income in either 'Other expense' or 'Other income'.

Financial liabilities held at amortised cost are initially recognised on settlement date at fair value and subsequently measured at amortised cost. Interest is recognised in the statement of comprehensive income in 'Interest expense' using the effective interest rate method as described above.

d. Fair value of financial instruments

Fair value measurement
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that maximises the use of relevant observable inputs and minimises the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions other market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgement.

The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. . In addition, a downturn in market conditions could lead to further declines in the valuation of many instruments.

Valuation techniques
Fair value for many cash and over-the-counter ("OTC") contracts is derived using pricing models. Pricing models take into account the contract terms (including maturity), as well as multiple inputs including, where applicable, commodity prices, equity prices, interest rate yield curves, credit curves, correlation, creditworthiness of the counterparty, option volatility and currency rates. Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality, and model uncertainty. Credit valuation adjustments are applied to both cash instruments and OTC derivatives. For cash instruments, the impact of changes in own credit spreads is considered when measuring the fair value of liabilities and the impact of changes in the counterparty's credit spreads is considered when measuring the fair value of assets. For OTC derivatives, the impact of changes in both the Company's and the counterparty's credit standing is considered when measuring fair value. In determining the expected exposure, the Company considers collateral held and legally enforceable master netting agreements that mitigate the Company's exposure to each counterparty. All valuation adjustments are subject to judgement, are applied on a consistent basis and are based upon observable inputs where available. The Company generally subjects all valuations and models to a review process initially and on a periodic basis thereafter.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value of financial instruments (continued)

Gains and losses on inception
In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (i.e. the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognises a gain or loss on inception of the transaction.

When unobservable market data has a significant impact on determining fair value at the inception of the transaction, the entire initial change in fair value indicated by the valuation technique as at the transaction date is not recognised immediately in the statement of comprehensive income and is recognised instead when the market data becomes observable.

e. Recognition of financial assets received as collateral

The Company does not recognise financial assets pledged to the Company as collateral unless the Company is exposed to the risks and rewards associated with ownership of those assets.

f. Impairment of financial assets

At each reporting date, an assessment is made as to whether there is any objective evidence of impairment in the value of a financial asset classified as loans and receivables. Impairment losses are recognised if an event has occurred which will have an adverse impact on the expected future cash flows of an asset and the expected impact can be reliably estimated.

g. Income tax

The tax expense represents the sum of the tax currently paid and payable.

The tax currently payable is based on taxable profit for the period. Taxable profit may differ from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax is charged or credited in the statement of comprehensive income except when it relates to items charged or credited directly to equity, in which case the current tax is also dealt with in equity.

Current tax assets are offset against current tax liabilities when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

h. Cash and cash equivalents

For the purposes of the statement of cashflows, cash and cash equivalents comprise balances which have less than three months maturity from the date of acquisition.

4. INTEREST INCOME AND INTEREST EXPENSE

'Interest income' and 'Interest expense' represent total interest income and total interest expense for financial assets and financial liabilities that are not carried at fair value.

No other gains or losses have been recognised in respect of loans and receivables other than as disclosed as 'Interest income' within the statement of comprehensive income.

No other gains or losses have been recognised in respect of financial liabilities measured at amortised cost other than as disclosed as 'Interest expense' within the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
Period ended 31 December 2009

5. OTHER INCOME

	1 December 2008 to 31 December 2009 €'000	Year ended 30 November 2008 €'000
Management charges to other Morgan Stanley Group undertakings	1,294	5,170

6. OTHER EXPENSE

	1 December 2008 to 31 December 2009 €'000	Year ended 30 November 2008 €'000
Auditors remuneration:		
Audit of the Company's financial statements	67	8

The Company employed no staff during the period (2008:nil).

7. INCOME TAX EXPENSE

	1 December 2008 to 31 December 2009 €'000	Year ended 30 November 2008 €'000
Current tax expense		
Current period/year	521	1,591
Adjustments in respect of prior years	(15)	(2)
Income tax expense	506	1,589

Reconciliation of effective tax rate

The current period income tax expense is lower than that resulting from applying the standard rate of corporation tax in the Netherlands of 25.5% (2008: 25.5%). The main differences are explained below:

	1 December 2008 to 31 December 2009 €'000	Year ended 30 November 2008 €'000
Profit before income tax	2,045	6,237
Income tax using the standard rate of corporation tax in the Netherlands of 25.5% (2008: 25.5%)	521	1,591
Impact on tax of:		
Over provided in prior years	(15)	(2)
Total income tax expense in the statement of comprehensive income	506	1,589

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES CLASSIFIED AS HELD FOR TRADING

Financial assets and financial liabilities classified as held for trading are summarised in the table below:

	31 December 2009		30 November 2008	
	Assets €'000	Liabilities €'000	Assets €'000	Liabilities €'000
Derivatives	30,958	-	4,301	317,337

9. FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments designated at fair value through profit or loss consist primarily of the following classes of assets and liabilities:

Issued structured notes - These instruments contain an embedded derivative which significantly modifies the cash flows of the issuance. The return on the instrument is linked to an underlying that is not clearly and closely related to the debt host including, but not limited to, equity, credit or commodity-linked notes. The structured notes are designated at fair value as the risks to which the Company is a contractual party are risk managed on a fair value basis as part of the Company's trading portfolio and the risk is reported to key management personnel on this basis.

Prepaid equity securities contracts - These contracts involve derivatives for which an initial payment is paid at inception. These financial instruments, along with the loans designated at fair value and the derivative contracts classified as held for trading, are part of the hedging strategy for the obligations arising pursuant to the issuance of the structured notes. The prepaid equity securities contracts are designated at fair value as the risks to which the Company is a contractual party are managed on a fair value basis as part of the Company's trading portfolio and the risk is reported to key management personnel on this basis.

Designated loans - These are loans to other Morgan Stanley Group undertakings that, along with the prepaid equity securities contracts and the derivative contracts classified as held for trading, are part of the hedging strategy for the obligations arising pursuant to the issuance of the structured notes. These loans are designated at fair value as the risks to which the Company is a contractual party are managed on a fair value basis as part of the Company's trading portfolio and the risk is reported to key management personnel on this basis.

	31 December 2009		30 November 2008	
	Assets €'000	Liabilities €'000	Assets €'000	Liabilities €'000
Issued structured notes	-	2,843,278	-	1,806,052
Prepaid equity securities contracts	708,046	-	1,270,316	-
Designated loans	2,110,633	-	824,696	-
	2,818,679	2,843,278	2,095,012	1,806,052

The change in fair value of issued structured notes recognised through the statement of comprehensive income attributable to own credit risk is a loss of €92,227,000 (2008: loss of €51,531,000) and cumulatively is a gain of €64,284,000 (2008: gain of €156,511,000). This change is determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk.

The change in fair value of prepaid equity securities contracts and designated loans recognised through the statement of comprehensive income attributable to changes in credit risk is a gain of €108,011,000 (2008: gain of €68,017,000) and cumulatively is a loss of €64,986,000 (2008: loss of €172,997,000).

9. FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

The change in fair value attributable to credit risk for the period is offset by a net loss of €15,784,000 (2008: loss of €16,486,000), and cumulatively is a gain of €702,000 (2008: gain of €16,486,000), in changes in the fair value of financial instruments classified as held for trading attributable to credit risk.

The carrying amount of financial liabilities designated at fair value was €37,825,000 lower than the contractual amount due at maturity (2008: €42,100,000 lower).

10. EQUITY

Ordinary share capital

	Ordinary shares of €100 each: Number
Authorised	
At 1 December 2007	900
Increases in the year	
2 July 2008	399,100
At 30 November 2008 and 31 December 2009	400,000

	Ordinary shares of €100 each: €'000
Issued and fully paid	
At 1 December 2007	18
Issued in the year	
2 July 2008	15,000
At 30 November 2008 and 31 December 2009	15,018

On 2 July 2008 the Company increased its authorised share capital by 399,100 ordinary shares of €100 each and issued 150,000 ordinary shares of €100 each in the Company to its sole shareholder. The issued shares rank pari passu with the existing ordinary shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

The Company uses the risk-mirroring contracts that it purchases from other Morgan Stanley Group companies to match the price, interest rate, foreign currency and other market risks associated with the issuance of the structured notes, consistent with the Company's risk management strategy. Both the risk mirroring contracts and the structured note issuances are valued at fair value through profit or loss. As such, the Company is not exposed to any market risk on these financial instruments. The changes in fair value of the structured note issuances are fully hedged by the changes in fair value of the risk mirroring contracts. Therefore, a legal revaluation reserve under Part 9, Book 2 of the Dutch Civil Code (BW 2, article 390(1)) is not necessary.

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11. EXPECTED MATURITY OF ASSETS AND LIABILITES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled:

At 31 December 2009	Less than twelve months €'000	Equal to or more than twelve months €'000	Total €'000
ASSETS			
Loans and receivables:			
Cash at bank	6,596	-	6,596
Trade receivables	10,659	-	10,659
Other receivables	33,960	-	33,960
Financial assets classified as held for trading	27,534	3,424	30,958
Financial assets designated at fair value through profit or loss	1,992,310	826,369	2,818,679
TOTAL ASSETS	2,071,059	829,793	2,900,852
LIABILITIES			
Financial liabilities at amortised cost:			
Trade payables	18,300	-	18,300
Other payables	12,565	-	12,565
Financial liabilities classified as held for trading	-	-	-
Financial liabilities designated at fair value through profit or loss	2,013,485	829,793	2,843,278
Current tax	154	-	154
TOTAL LIABILITIES	2,044,504	829,793	2,874,297

At 31 December 2008	Less than twelve months €'000	Equal to or more than twelve months €'000	Total €'000
ASSETS			
Loans and receivables:			
Cash at bank	1,259	-	1,259
Trade receivables	22,787	-	22,787
Other receivables	29,808	-	29,808
Financial assets classified as held for trading	3,013	1,288	4,301
Financial assets designated at fair value through profit or loss	1,724,974	370,038	2,095,012
TOTAL ASSETS	1,781,841	371,326	2,153,167
LIABILITIES			
Financial liabilities at amortised cost:			
Trade payables	3,818	-	3,818
Other payables	245	-	245
Financial liabilities classified as held for trading	247,251	70,086	317,337
Financial liabilities designated at fair value through profit or loss	1,504,812	301,240	1,806,052
Current tax	699	-	699
TOTAL LIABILITIES	1,756,825	371,326	2,128,151

12. SEGMENT REPORTING

Segment information is presented in respect of the Company's business and geographical segments. The business segments and geographical segments are based on the Company's management and internal reporting structure. Transactions between business segments are on normal commercial terms and conditions.

Business segments

Morgan Stanley structures its business segments primarily based upon the nature of the financial products and services provided to customers and Morgan Stanley's internal management structure. The Company's own business segments are consistent with those of Morgan Stanley.

The Company has one reportable business segment, Institutional Securities, which provides financial services to financial institutions. Its business includes the issuance of financial instruments and the hedging of the obligations arising pursuant to such issuances.

Geographical segments

The Company operates in three geographic regions as listed below:

- Europe, Middle East and Africa ("EMEA")
- Americas
- Asia

The following table presents selected statement of comprehensive income and statement of financial position information of the Company's operations by geographic area. The external revenues (net of interest expense) and total assets disclosed in the following table reflect the regional view of the Company's operations, on a managed basis. The basis for attributing external revenues (net of interest expense) and total assets is determined by trading desk location.

	EMEA		Americas		Asia		Total	
	2009 €'000	2008 €'000	2009 €'000	2008 €'000	2009 €'000	2008 €'000	2009 €'000	2008 €'000
Profit before income tax	1,588	5,957	-	-	457	280	2,045	6,237
Total assets	2,272,294	1,911,091	114,648	82,769	513,910	159,307	2,900,852	2,153,167

13. FINANCIAL RISK MANAGEMENT

Risk Management Procedures

Risk is an inherent part of both Morgan Stanley's and the Company's business activity and is managed by the Company within the context of the broader Morgan Stanley Group. The Morgan Stanley Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities in accordance with defined policies and procedures. The Company's own risk management policies and procedures are consistent with those of the Morgan Stanley Group.

The principal activity of the Company continues to be the issuance of structured notes under a Note Programme and the economic hedging of the obligations arising pursuant to such issuances. It is the policy and objective of the Company not to be exposed to market risk. On issuance of each financial instrument, the Company enters into economic hedges of its obligations through purchasing financial instruments from other Morgan Stanley Group companies.

Credit risk

Credit risk refers to the risk of loss arising from borrower or counterparty default.

The Morgan Stanley Group manages credit risk exposure on a global basis, but in consideration of each individual legal entity, including the Company. The credit risk management policies and procedures of the Morgan Stanley Group include ensuring transparency of material credit risks, ensuring compliance with established limits, approving material extensions of credit, and escalating risk concentrations to appropriate senior management. Credit risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to appropriate key management personnel of the Company.

The Company enters into the majority of its financial asset transactions with Morgan Stanley Group entities, where both the Company and Morgan Stanley Group entities are wholly owned subsidiaries of the same ultimate parent company, Morgan Stanley. Accordingly, the Company is considered to be exposed to the credit risk of Morgan Stanley.

The maximum exposure to credit risk of the Company as at 31 December 2009 is the carrying amount of the financial assets held in the statement of financial position, without taking account of any collateral held or any other credit enhancement.

Liquidity risk

Liquidity risk is the risk that the entity may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Morgan Stanley Group's senior management establishes the overall liquidity and funding policies of the Morgan Stanley Group and the liquidity risk management policies and procedures conducted within the Company are consistent with those of the Morgan Stanley Group. The Morgan Stanley Group's liquidity and funding risk management policies are designed to mitigate the potential risk that entities within the Morgan Stanley Group, including the Company, may be unable to access adequate financing to service their financial liabilities when they become payable without material, adverse franchise or business impact. The key objective of the liquidity and funding risk management framework is to support the successful execution of both the Company's and the Morgan Stanley Group's business strategies while ensuring ongoing and sufficient liquidity through the business cycle and during periods of stressed market conditions.

The Company hedges all of its financial liabilities with financial assets entered into with other Morgan Stanley Group companies, where both the Company and other Morgan Stanley Group companies are wholly owned subsidiaries of the same group parent company, Morgan Stanley. Further, the maturity profile of the financial assets matches the maturity profile of the financial liabilities.

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity management policies (continued)

The principal elements of the Morgan Stanley Group's liquidity management framework, which includes consideration of the liquidity risk for each individual legal entity, are the Contingency Funding Plan ("CFP") and liquidity reserves. Comprehensive financing guidelines (secured funding, long-term funding strategy, surplus capacity, diversification and staggered maturities) support the Morgan Stanley Group target liquidity profile.

Contingency Funding Plan. CFP is the Morgan Stanley Group's primary liquidity risk management tool. The CFP models a potential, prolonged liquidity contraction over a one-year time period and sets forth a course of action to effectively manage a liquidity event. The CFP and liquidity risk exposures are evaluated on an on-going basis and reported to the Firm Risk Committee, Asset/Liability Management Committee, and other appropriate risk committees including the European Financial Risk Committee.

CFP is produced on a Morgan Stanley Group as well as major group and subsidiary level to capture specific cash requirements and cash availability at various legal entities. The CFP assumes that Morgan Stanley does not have access to cash that may be held at certain subsidiaries due to regulatory, legal or tax constraints. Since the Company hedges the liquidity risk of its financial liabilities with financial assets that match the maturity profile of the financial liabilities, the Company is not considered a major subsidiary for the purposes of liquidity risk. However, the Company would have access to the cash or liquidity reserves held by Morgan Stanley in the unlikely event they were unable to access adequate financing to service their financial liabilities when they become payable.

The Morgan Stanley Group's CFP model incorporates scenarios with a wide range of potential cash outflows during a liquidity stress event, including, but not limited to, the following: (i) repayment of all unsecured debt maturing within one year and no incremental unsecured debt issuance; (ii) maturity roll-off of outstanding letters of credit with no further issuance and replacement of cash collateral; (iii) return of unsecured securities borrowed and any cash raised against these securities; (iv) additional collateral that would be required by counterparties in the event of a three-notch long-term credit ratings downgrade; (v) higher haircuts on or lower availability of secured funding; (vi) client cash withdrawals; (vii) drawdowns on unfunded commitments provided to third parties; and (viii) discretionary unsecured debt buybacks.

Liquidity Reserves. The Morgan Stanley Group seeks to maintain target liquidity reserves that are sized to cover daily funding needs and meet strategic liquidity targets as outlined in CFP. These liquidity reserves are held in the form of cash deposits and pools of central bank eligible unencumbered securities. The Morgan Stanley liquidity reserve is managed globally and consists of overnight cash deposits and unencumbered U.S. and European government bonds, agencies and agency pass throughs. The Morgan Stanley Group believes that diversifying the form in which its liquidity reserves are maintained (cash and securities) enhances its ability to quickly and efficiently source funding in a stressed environment. The Morgan Stanley Group's funding requirements and target liquidity reserves may vary based on changes to the level and composition of its balance sheet, timing of specific transactions, client financing activity, market conditions and seasonal factors.

Funding management policies

The Morgan Stanley Group's funding management policies are designed to provide for financings that are executed in a manner that reduces the risk of disruption to the Morgan Stanley Group's and the Company's operations. The Morgan Stanley Group pursues a strategy of diversification of secured and unsecured funding sources (by product, by investor and by region) and attempts to ensure that the tenor of the Morgan Stanley Group's, and the Company's, liabilities equals or exceeds the expected holding period of the assets being financed. Maturities of financings are designed to manage exposure to refinancing risk in any one period.

The Morgan Stanley Group funds its balance sheet on a global basis through diverse sources, which includes consideration of the funding risk of each legal entity. These sources may include the Morgan Stanley Group's equity capital, long-term debt, repurchase agreements, securities lending, deposits, commercial paper, letters of credit and lines of credit. The Morgan Stanley Group has active financing programs for both standard and structured products in the U.S., European and Asian markets, targeting global investors and currencies such as U.S. dollar, Euro, British pound, Australian dollar and Japanese Yen.

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Funding management policies (continued)

In managing both the Company's and the Morgan Stanley Group's funding risk the composition and size of the entire statement of financial position, not just financial liabilities, is monitored and evaluated. A substantial portion of the Morgan Stanley Group's total assets consist of highly liquid marketable securities and short-term receivables arising from its Institutional Securities sales and trading activities. The liquid nature of these assets provides the Company and the Morgan Stanley Group with flexibility in financing and managing its business.

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, derivative contracts, financial assets designated at fair value through profit or loss and financial liabilities designated at fair value through profit or loss are disclosed according to their earliest contractual maturity; all such amounts are presented at their fair value, consistent with how these financial instruments are managed. All other amounts represent the undiscounted cash flows receivable and payable by the Company arising from its financial assets and financial liabilities to earliest contractual maturities as at 31 December 2009. Receipt of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from these financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company.

31 December 2009	On demand	In less than one year	Equal to or more than one year but not more than two years	Equal to or more than two years but less than five years	Equal to or more than five years	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Financial assets						
Loans and receivables:						
-Cash at bank	6,596	-	-	-	-	6,596
-Trade receivables	10,659	-	-	-	-	10,659
-Other receivables	33,960	-	-	-	-	33,960
Financial assets classified as held for trading:						
-Derivatives	27,814	500	441	2,188	15	30,958
Financial assets designated at fair value through the profit or loss:						
-Prepaid equity securities contracts	331,726	164,580	88,138	40,527	83,075	708,046
-Designated loans	1,446,513	278,250	113,666	235,114	37,090	2,110,633
Total financial assets	1,857,268	443,330	202,245	277,829	120,180	2,900,852

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Period ended 31 December 2009

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2009	On demand	In less than one year	Equal to or more than one year but not more than two years	Equal to or more than two years but less than five years	Equal to or more than five years	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Financial liabilities						
Financial liabilities at amortised cost:						
-Trade Payables	18,300	-	-	-	-	18,300
-Other payables	12,565	-	-	-	-	12,565
Financial liabilities designated at fair value through profit or loss:						
-Issued structured notes	1,799,694	443,330	202,245	277,829	120,180	2,843,278
Total financial liabilities	1,830,559	443,330	202,245	277,829	120,180	2,874,143

30 November 2008	On demand	In less than one year	Equal to or more than one year but not more than two years	Equal to or more than two years but less than five years	Equal to or more than five years	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Financial liabilities						
Financial liabilities at amortised cost:						
-Trade payables	3,818	-	-	-	-	3,818
-Other payables	245	-	-	-	-	245
Financial liabilities classified as held for trading:						
-Derivatives	306,451	-	-	10,886	-	317,337
Financial liabilities designated at fair value through profit or loss:						
-Issued structured notes	1,444,697	117,406	7,316	153,120	83,513	1,806,052
Total financial liabilities	1,755,211	117,406	7,316	164,006	83,513	2,127,452

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Following the adoption of the amendment to IFRS 7: '*Improving disclosures about Financial Instruments*', the 2008 comparative information is not directly comparable to the 2009 information as, in 2008, a contractual maturity analysis for financial assets was not required or presented.

Market Risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as liquidity, will result in losses for a position or portfolio.

Sound market risk management is an integral part of the Company's and the Morgan Stanley Group's culture. The Company is responsible for ensuring that market risk exposures are well-managed and prudent and more broadly for ensuring transparency of material market risks, monitoring compliance with established limits, and escalating risk concentrations to appropriate senior management.

The Company is managed within the Morgan Stanley Group's global framework. The market risk management policies and procedures of the Company are consistent with those of the Morgan Stanley Group, including reporting of material risks identified to appropriate key management personnel of the Company.

The issued structured notes expose the Company to the risk of changes in market prices of the underlying securities, interest rate risk and, where denominated in currencies other than Euros, the risk of changes in rates of exchange between the Euro and the other relevant currencies. The Company uses the risk-mirroring contracts that it purchases from other Morgan Stanley Group companies to match the price, interest rate, foreign currency and other market risks associated with the issuance of the structured notes, consistent with the Company's risk management strategy. As such, the Company is not exposed to any market risk on these financial instruments.

14. FINANCIAL ASSETS ACCEPTED AS COLLATERAL

The Company accepts financial assets as collateral which, dependent on the terms of the arrangement, the Company is allowed to sell or repledge. The collateral received which is all subsequently repledged is in the form of bonds as part of a collateralisation agency agreement for certain issued structured notes and are mostly conducted under standard documentation used by financial market participants.

The fair value of collateral accepted under these arrangements as at 31 December 2009 was €2,405,000 (2008: €nil). Of this amount €2,405,000 (2008: €nil) has been fully re-pledged to third parties.

15. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Improving disclosures about Financial Instruments (Amendment to IFRS 7) was adopted during the period. In accordance with IFRS 7 paragraph 44G, comparative information has not been provided for the disclosures required by the amendments.

a. Fair value hierarchy disclosure

Financial instruments recognised at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices (unadjusted) in an active market for identical assets or liabilities (Level 1) – Valuations based on quoted prices in active markets for identical assets or liabilities that the Morgan Stanley Group has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products does not entail a significant degree of judgment.
- Valuation techniques using observable inputs (Level 2) – Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Valuation techniques with significant unobservable inputs (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Company's valuation approach and fair value hierarchy categorisation for certain significant classes of financial instruments recognised at fair value is as follows:

Derivatives

OTC derivative contracts include forward, swap and option contracts related to equity prices, interest rates, or foreign currencies.

Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be either observed or modelled using a series of techniques, and model inputs from comparable benchmarks, including closed-form analytic formulas such as the Black-Scholes option pricing model, and simulation models or a combination thereof. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgement, and the pricing inputs are observed from actively quoted markets. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry. OTC derivative products valued by the Company using pricing models are generally categorised in Level 2 of the fair value hierarchy. In instances where significant inputs are unobservable, they are categorised as Level 3 of the fair value hierarchy.

Designated loans

The fair value of loans to other Morgan Stanley Group undertakings is estimated based on the present value of the expected future cash flows using its best estimate of interest rate yield curves. Designated loans are generally categorised in Level 2 of the fair value hierarchy.

Issued structured notes and prepaid equity securities contracts

The Company issues structured notes and purchases prepaid equity securities contracts that have coupons or repayment terms linked to the performance of debt or equity securities or currencies. Fair value of structured notes and prepaid equity securities contracts is estimated using valuation models described above for the derivative and debt features of the notes. These models incorporate observable inputs referencing identical or comparable securities, including prices that the notes are linked to, interest rate yield curves, option volatility and currency rates. The impact of own credit spreads is also included based on observed secondary bond market spreads. Structured notes and prepaid equity securities contracts are generally categorised in Level 2 of the fair value hierarchy. In instances where significant inputs are unobservable, they are categorised as Level 3 of the fair value hierarchy.

15. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

Fair value control processes

The Company employs control processes to validate the fair value of its financial instruments, including those derived from pricing models. These control processes are designed to assure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilised is appropriate and consistently applied and that the assumptions are reasonable. These control processes include reviews of the pricing model's theoretical soundness and appropriateness by Morgan Stanley Group personnel with relevant expertise who are independent from the trading desks .Additionally, groups independent from the trading divisions within the financial control, market risk and credit risk departments participate in the review and validation of the fair values generated from pricing models, as appropriate. Where a pricing model is used to determine fair value, recently comparable transactions and other observable market data are considered for purposes of validating assumptions underlying the model.

Financial assets and liabilities recognised at fair value

The Company's financial assets and liabilities recognised at fair value have been broken down into a three level hierarchy based on the observability of inputs. The following table presents the carrying value of the Company's financial assets and liabilities across the fair value hierarchy:

31 December 2009	**Quoted prices in active market (Level 1) €'000**	**Valuation techniques using observable inputs (Level 2) €'000**	**Valuation techniques with significant non-observable inputs (Level 3) €'000**	**Total €'000**
Financial assets classified as held for trading:				
- Derivatives	-	29,552	1,406	30,958
Financial assets designated at fair value through profit or loss:				
- Prepaid equity securities contracts	-	635,558	72,488	708,046
- Designated loans	-	2,110,633	-	2,110,633
Total financial assets held at fair value	-	2,775,743	73,894	2,849,637
Financial liabilities designated at fair value through profit or loss				
- Issued structured notes	-	2,731,208	112,070	2,843,278
Total financial liabilities at fair value	-	2,731,208	112,070	2,843,278

15. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

30 November 2008

	Quoted prices in active market (Level 1) €'000	Valuation techniques using observable inputs (Level 2) €'000	Valuation techniques with significant non-observable inputs (Level 3) €'000	Total €'000
Financial assets classified as held for trading:				
- Derivatives	-	4,301	-	4,301
Financial assets designated at fair value through profit or loss:				
- Prepaid equity securities contracts	-	1,270,316	-	1,270,316
- Designated loans		824,696		824,696
Total financial assets held at fair value	-	2,099,313	-	2,099,313
Financial liabilities classified as held for trading:				
- Derivatives	-	317,337	-	317,337
Financial liabilities designated at fair value through profit or loss:				
- Issued structured notes	-	1,796,481	9,571	1,806,052
Total financial liabilities at fair value	-	2,113,818	9,571	2,123,389

b. Changes in Level 3 assets and liabilities at fair value

The following table presents the changes in the fair value of the Company's Level 3 financial assets and financial liabilities for the period ended 31 December 2009:

31 December 09

	Balance at 1 December 2008 €'000	Total losses recognised in profit or loss €'000	Purchases €'000	Sales €'000	Issuances €'000	Settlements €'000	Net transfers in and / or out of Level 3 (1) €'000	Balance at 31 December 2009 €'000	Unrealised losses for level 3 assets / liabilities outstanding as at 31 December 2009 (2) €000
Financial assets									
Financial assets classified as held for trading:									
- Derivatives	-	(6,728)	-	-	-	13,596	(5,462)	1,406	(6,728)
Financial assets designated at fair value through profit or loss:									
- Prepaid equity securities contracts	-	(67,829)	56,012	-	-	(15,844)	100,149	72,488	(67,829)
Total financial assets held at fair value		(74,557)	56,012	-	-	(2,248)	94,687	73,894	(74,557)

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Period ended 31 December 2009

15. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

31 December 2009	Balance at 1 December 2008	Total gains recognised in profit or loss	Purchases	Sales	Issuances	Settlements	Net transfers in and / or out of Level 3 (1)	Balance at 31 December 2009	Unrealised gains for level 3 assets / liabilities outstanding as at 31 December 2009 (2)
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€000
Financial liabilities									
Financial liabilities designated at fair value through profit or loss:									
- Issued structured notes	9,571	(72,678)	-	-	80,903	(20,010)	114,284	112,070	(72,678)
Total financial liabilities at fair value	9,571	(72,678)	-	-	80,903	(20,010)	114,284	112,070	(72,678)

(1) For financial assets and financial liabilities that were transferred into and out of Level 3 during the period, gains or (losses) are presented as if the assets or liabilities had been transferred into or out of Level 3 as at the beginning of the period.
(2) Amounts represent unrealized gains or (losses) for the period ended 31 December 2009 related to assets and liabilities still outstanding at 31 December 2009.
(3) All cash flows on derivative contracts are presented in settlements.

For the year ended 30 November 2008, the total amount of the change in the fair value of financial instruments held by the Company estimated using a valuation technique that includes unobservable market data was a net loss of €1,881,000.

During the period, the Company reclassified approximately €94,687,000 of financial assets, and €114,284,000 of financial liabilities from Level 2 to Level 3. The reclassifications were due to either a reduction in the volume of recently executed transactions and market price quotations for these instruments, or a lack of available broker quotes, such that certain unobservable inputs became significant to the fair value measurement.

c. Significant transfers between Level 1 and Level 2 of the fair value hierarchy

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy during the period.

15. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

d. Sensitivity of fair values to changing significant assumptions to reasonably possible alternatives

All financial instruments are valued in accordance with the techniques outlined in the fair value hierarchy disclosure above. Some of these techniques, including those used to value instruments categorised in Level 3 of the fair value hierarchy, are dependent on unobservable parameters and the fair value for these financial instruments has been determined using parameters appropriate for the valuation methodology based on prevailing market evidence. It is recognised that the unobservable parameters could have a range of reasonably possible alternative values.

In estimating the change in fair value, the unobservable parameters were varied to the extremes of the ranges of reasonably possible alternatives using statistical techniques, such as dispersion in comparable observable external inputs for similar asset classes, historic data or judgment if a statistical technique is not appropriate. Where a financial instrument has more than one unobservable parameter, the sensitivity analysis reflects the greatest increase or decrease to fair value by varying the assumptions individually. It is unlikely that all unobservable parameters would concurrently be at the extreme range of possible alternative assumptions and therefore the sensitivity shown below is likely to be greater than the actual uncertainty relating to the financial instruments.

The following table presents the sensitivity of the fair value of Level 3 financial assets and financial liabilities as at year end to reasonably possible alternative assumptions.

31 December 2009		Effect of reasonably possible alternative assumptions	
	Fair value €'000	Increase in fair value €'000	Decrease in fair value €'000
Financial assets classified as held for trading:			
- Net derivatives contracts[1]			
- Credit	1,150	1,700	900
- Equity	256	300	200
Financial assets designated at fair value through profit or loss:			
- Prepaid equity securities contracts	72,488	-	400
Financial liabilities designated at fair value through profit or loss:			
- Issued structured notes	112,070	2,000	1,500

(1) Net derivative contracts represent Financial assets classified as held for trading – derivative contracts net of Financial liabilities classified as held for trading – derivative contracts.

For the year ended 30 November 2008, for the net fair value of financial assets less financial liabilities that are recognised in the financial statements where valuation techniques use unobservable market inputs, changing one or more assumptions used in these valuation techniques to reasonably possible alternative assumptions has no material impact to the total assets less total liabilities of the Company.

16. FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

For all financial assets and financial liabilities not recognised at fair value, the carrying amount is considered to be a reasonable approximation of fair value due to the short term nature of these financial assets and liabilities.

17. CAPITAL MANAGEMENT

The Morgan Stanley Group manages its capital on a global basis with consideration for individual legal entity. The capital managed by the Morgan Stanley Group broadly includes ordinary share capital, preference share capital, subordinated loans and reserves.

The Morgan Stanley Group also uses an economic capital framework. The economic capital framework estimates the amount of equity capital required to support the businesses over a wide range of market environments while simultaneously satisfying regulatory, rating agency and investor requirements. The framework will evolve over time in response to changes in the business and regulatory environment and to incorporate enhancements in modelling techniques. Economic capital is based on regulatory capital usage plus additional capital for stress losses.

The Morgan Stanley Group's objectives when managing global capital are:

- to comply with the requirements set by the Board of Governors of the Federal Reserve System of the United States, and
- to minimise capital within a legal entity whilst safeguarding that entity's ability to continue as a going concern, so that it can continue to provide returns for the Morgan Stanley Group.

The Morgan Stanley Group sets the amount of capital for each entity in proportion to its risk and in line with regulatory requirements.

As described in the Financial Risk Management note (note 14), the Company's exposure to liquidity and market risk is closely managed and this is reflected in the Company's capital structure. The Company may manage its capital by adjusting the amount of dividends paid, returning capital to shareholders or issuing new shares as required.

The Company manages the following items as capital:

	31 December 2009 €'000	30 November 2008 €'000
Ordinary share capital	15,018	15,018
Reserves	11,537	9,998
	26,555	25,016

18. RELATED PARTY DISCLOSURES

Parent and subsidiary relationships

Parent and ultimate controlling entity

The Company's immediate parent undertaking is Morgan Stanley International Holdings Inc, which is registered in Delaware, the United States of America.

The ultimate parent undertaking and controlling entity and the smallest and largest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley. Morgan Stanley is incorporated in Delaware, the United States of America and copies of its financial statements can be obtained from 25 Cabot Square, Canary Wharf, London E14 4QA.

Key management compensation

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel includes the Board of Directors plus key business unit management.

Compensation paid to key management personnel in respect of their services rendered to the Company is:

	1 December 2008 to 31 December 2009 €'000	Year ended 30 November 2008 €'000
Short-term employee benefits	99	31
Post-employment benefits	18	-
Share-based payment	14	5
Other long-term employee benefits	6	1
Termination benefits	-	2
Management fees	202	219
	339	258

Key management personnel compensation is borne by other Morgan Stanley Group undertakings in both the current period and prior years.

Transactions with related parties

The Morgan Stanley Group conducts business for clients globally through a combination of both functional and legal entity organisational structures. Accordingly, the Company is closely integrated with the operations of the Morgan Stanley Group and enters into transactions with other Morgan Stanley Group undertakings for the purposes of utilising financing, trading and risk management, and infrastructure services. The nature of these relationships along with information about the transactions and outstanding balances is given below. The Company has not recognised any expense and has made no provision for bad and doubtful debts related to the amount of outstanding balances from related parties (2008: nil).

NOTES TO THE FINANCIAL STATEMENTS
Period ended 31 December 2009

18. RELATED PARTY DISCLOSURES (CONTINUED)

Financing

The Company receives financing from and provides financing to other Morgan Stanley Group undertakings in the following forms:

General funding

General funding is undated, unsecured, floating rate lending. Funding may be received or provided for specific transaction related financing requirements, or for general intra-group financing purposes. The interest rates are established by the Morgan Stanley Group Treasury function for all entities within the Morgan Stanley Group and approximate the market rate of interest that the Morgan Stanley Group incurs in financing its business.

Details of the outstanding balances on these financing arrangements and the related interest income/ expense recognised in the statement of comprehensive income during the period are shown in the table below:

	31 December 2009		30 November 2008	
	Interest	Balance	Interest	Balance
	€'000	€'000	€'000	€'000
Amounts due from:				
Other Morgan Stanley Group undertakings	1,062	33,960	963	29,808
Amounts due to:				
Other Morgan Stanley Group undertakings	285	12,565	6	245

Trading and risk management

The Company issues structured notes and hedges the obligations arising from the issuance by entering into prepaid equity securities contracts, derivative contracts and designated loans with other Morgan Stanley Group undertakings. All such transactions are entered into on an arm's length basis. These transactions may give rise to credit risk either for the Company, or to a related party towards the Company. The total amounts receivable and payable on issued notes, prepaid equity securities, derivative contracts and designated loans were as follows:

	31 December 2009 €'000	30 November 2008 €'000
Amounts due from:		
The Company's direct and indirect parent companies	2,112,867	824,695
Other Morgan Stanley Group undertakings	747,429	1,297,405
	2,860,296	2,122,100
Amounts due to:		
Other Morgan Stanley Group undertakings	1,647,147	1,630,000

18. RELATED PARTY DISCLOSURES (CONTINUED)

The Company has received collateral of €2,405,000 (2008: €nil) from other Morgan Stanley Group undertakings and has repledged collateral of €nil (2008: €nil) to other Morgan Stanley Group undertakings. The collateral received is in the form of bonds as part of a collateralisation agency agreement for certain issued structured notes and are mostly conducted under standard documentation used by financial market participants.

In addition, the management and execution of business strategies on a global basis results in many Morgan Stanley transactions impacting a number of Morgan Stanley Group entities. The Morgan Stanley Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched. For the period ended 31 December 2009, a net gain of €1,294,000 was recognised in the statement of comprehensive income arising from such policies (2008: net gain of €5,170,000).

ADDITIONAL INFORMATION

Auditors' report

The auditors' report is recorded on the next page.

Statutory rules concerning appropriation of the net result

The Articles of Incorporation of the Company provide that the net result for the period is at the disposition of the Annual General Meeting of Shareholders.

Appropriation of the net result for the period

The statement of financial position is presented after the proposed appropriation of the net result for the period ended 31 December 2009. The directors propose to add profit to the statement of comprehensive income as part of the equity shareholders' funds.

Subsequent events

No events have occurred since the balance sheet date, which would change the financial position of the Company and which would require adjustment of disclosure in the annual report now presented.

Deloitte.

Deloitte Accountants B.V.
Orlyplein 10
1043 DP Amsterdam
P.O.Box 58110
1040 HC Amsterdam
Netherlands

Tel: +31 (88) 2882888
Fax: +31 (88) 2889739
www.deloitte.nl

To the shareholders of
Morgan Stanley B.V.
Amsterdam

Date
April 29, 2010

Reference
3100054184/OP9980/ak

Auditor's report

Report on the financial statements

We have audited the accompanying financial statements for the financial period December 1, 2008 to December 31, 2009 of Morgan Stanley B.V., Amsterdam, which comprise the statement of financial position as at December 31, 2009, the statements of comprehensive income, changes in equity and cash flows for the period then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Directors' report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Deloitte Accountants B.V. is registered with the Trade Register of the Chamber of Commerce and Industry in Rotterdam number 24362853.

Member of
Deloitte Touche Tohmatsu

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Morgan Stanley B.V. as at December 31, 2009 and of its result and its cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the Directors' report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Already signed: W.H.E van Ommeren