

Registered Number: 4091663

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London E14 1AD

**MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED
(FORMERLY MSDW MONTGOMERIE INVESTMENTS LIMITED)**

Report and financial statements

31 December 2009

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**MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED (FORMERLY
MSDW MONTGOMERIE INVESTMENTS LIMITED)**

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MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED (FORMERLY MSDW MONTGOMERIE INVESTMENTS LIMITED)

DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the profit and loss account, the balance sheet, and the related notes, 1 to 17) for Morgan Stanley Montgomerie Investments Limited (the "Company") for the year ended 31 December 2009

On 1 August 2009, the Company changed its name from MSDW Montgomerie Investments Limited to Morgan Stanley Montgomerie Investments Limited

RESULTS AND DIVIDENDS

The profit for the year, after tax, was \$232,118,000 (period from 1 December 2007 to 31 December 2008 \$193,439,000 profit after tax)

During the year no dividends were paid (period from 1 December 2007 to 31 December 2008 dividends of \$100,552,000 were paid on preference shares)

PRINCIPAL ACTIVITY

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"

The principal activity of the Company is to act as an intermediate holding company

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

BUSINESS REVIEW

In the prior period the Company 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. The change resulted in the Company reporting a period of thirteen months to 31 December 2008. The comparative figures reflected in the financial statements are for the 13 month period of account from 1 December 2007 to 31 December 2008 and therefore are not entirely comparable with amounts shown for the current year

The profit and loss account for the year is set out on page 6. The profit for the year, after tax, was \$232,118,000 (2008 \$193,439,000). The Company's profit for the year has increased by \$38,679,000 (2008 \$286,703,000) over the prior period. This movement can be primarily attributed to an increase in interest income on loans to Morgan Stanley Group undertakings arising due to the debtor balance in the Company being materially at its current level for the whole of the current year as opposed to only part of the prior period. The increase in interest income was partially offset by a decrease in dividends received from subsidiary undertakings and an increase in the tax charge for the year.

The balance sheet for the Company is set out on page 7. Net assets at the end of the year were \$1,896,433,000 (2008 \$1,664,315,000). The increase in net assets is principally attributable to a decrease in amounts due to other Morgan Stanley Group undertakings. This was offset by a reduction in the investments balance as a result of repayment of membership interests by subsidiaries.

The performance of the Company is included in the results of the Morgan Stanley Group which are disclosed 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.

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.

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

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED (FORMERLY MSDW MONTGOMERIE INVESTMENTS LIMITED)

DIRECTORS' REPORT (CONTINUED)

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 risk and other significant business risks.

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.

DIRECTORS

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

A Coull (resigned 11 June 2009)
P K M Green
S I Merry

DIRECTORS' LIABILITY INSURANCE

Qualifying indemnity provisions (as defined in section 234 of the Companies Act 2006) were in force during the year and at the date of the Directors' report for the benefit of all the Directors of the Company under a Directors' and Officers' Liability Insurance policy taken out by Morgan Stanley, the Company's ultimate parent company.

POST BALANCE SHEET EVENTS

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

**MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED (FORMERLY
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DIRECTORS' REPORT (CONTINUED)

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, providing that all trading terms and conditions have been complied with

As at 31 December 2009 the Company had no trade creditors (2008 Nil)

AUDITORS

Deloitte LLP have expressed their willingness to continue in office as auditors of the Company and, under Sections 485 to 488 of the Companies Act 2006, will be deemed to be re-appointed

Statement as to disclosure of information to auditors

Each of the persons who are Directors of the Company at the date when this report is approved confirms that

- so far as each of the Directors is aware, there is no relevant audit information (being information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware, and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

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

Approved by the Board and signed on its behalf by



Director
S. Merry
22 September 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED (FORMERLY MSDW MONTGOMERIE INVESTMENTS LIMITED)

We have audited the financial statements of Morgan Stanley Montgomerie Investments Limited (formerly MSDW Montgomerie Investments Limited) for the year ended 31 December 2009 which comprise the profit and loss account, the balance sheet and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MORGAN STANLEY
MONTGOMERIE INVESTMENTS LIMITED (FORMERLY MSDW MONTGOMERIE
INVESTMENTS LIMITED) (CONTINUED)**

Matters on which we are required to report by exception

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

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



Susan Forrester CA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Edinburgh, United Kingdom
24 September 2010

**MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED (FORMERLY
MSDW MONTGOMERIE INVESTMENTS LIMITED)**

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2009

	Note	Year ended 31 December 2009 \$'000	1 December 2007 to 31 December 2008 \$'000
Net losses on financial instruments classified as held for trading		-	(28,648)
Net gains on fixed asset investments			
- Subsidiary and associated undertakings	2	11,211	273,891
Interest income	3	346,386	145,299
Interest expense	4	(36,943)	(197,099)
Other income	5	19	6
Other expense	6	(7)	(10)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		320,666	193,439
Tax on profit on ordinary activities	8	(88,548)	-
PROFIT FOR THE FINANCIAL YEAR / PERIOD		232,118	193,439

All operations were continuing in the current year and prior period

There were no recognised gains or losses during the current year or prior period other than those disclosed above
Accordingly no statement of total recognised gains and losses has been prepared

A reconciliation of the movement in shareholders' funds is disclosed in note 14 to the financial statements

The notes on pages 8 to 17 form an integral part of the financial statements.

**MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED (FORMERLY
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Registered Number 4091663

BALANCE SHEET
As at 31 December 2009

	Note	2009 \$'000	2008 \$'000
FIXED ASSETS			
Investments			
- Subsidiary and associated undertakings	9	104	500,278
CURRENT ASSETS			
Loans and receivables			
- Debtors	10	15,165,804	15,930,766
CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR			
Financial liabilities at amortised cost	11	(1,109,845)	(2,670,276)
Other creditors	12	(63,177)	-
NET CURRENT ASSETS		13,992,782	13,260,490
TOTAL ASSETS LESS CURRENT LIABILITIES		13,992,886	13,760,768
CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
Financial liabilities at amortised cost	11	(12,096,453)	(12,096,453)
NET ASSETS		1,896,433	1,664,315
CAPITAL AND RESERVES			
Called up share capital	13	1,585,149	1,585,149
Share premium account	14	14,851	14,851
Profit and loss account	14	296,433	64,315
SHAREHOLDERS' FUNDS		1,896,433	1,664,315

These financial statements were approved by the Board and authorised for issue on 22 September 2010
Signed on behalf of the Board

Director
S. Merry

The notes on pages 8 to 17 form an integral part of the financial statements

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED (FORMERLY MSDW MONTGOMERIE INVESTMENTS LIMITED)

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2009

1 ACCOUNTING POLICIES

The Company's principal accounting policies are summarised below and have been applied consistently throughout the year and preceding period

a) Basis of preparation

The financial statements are prepared under the historical cost convention, modified by the inclusion of financial instruments at fair value as described in note 1(f) below, and in accordance with applicable United Kingdom company law and accounting standards

In the prior period the Company 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. The change resulted in the Company reporting a period of thirteen months to 31 December 2008. The comparative figures reflected in these financial statements are for the thirteen month period to 31 December 2008 as previously reported and therefore are not entirely comparable with amounts shown for the current year

The Company is not required to prepare consolidated financial statements by virtue of the exemption under Section 400 of the Companies Act 2006. The results of the Company are included within the financial statements of Morgan Stanley & Co International plc, a company registered in England and Wales, which will prepare consolidated financial statements for the year to 31 December 2009. The financial statements therefore present information about the Company as an individual entity and not about its group

The Company's ultimate UK parent undertaking, Morgan Stanley International Limited, presents information in accordance with FRS 29 *Financial Instruments Disclosures*. Accordingly, the Company is exempt from the disclosure requirements of FRS 29

b) The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review section of the Directors' report on pages 1 to 2

As set out in the Directors' report, the Company operates within the global liquidity management framework of the Morgan Stanley Group. Throughout the difficult market conditions, this framework has continued to provide sufficient liquidity to the Group and to the Company, and the Company's capital and liquidity position is satisfactory

Taking all of these factors into consideration, the Directors believe it is reasonable to assume that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements

c) Functional currency

Items included in the financial statements are measured and presented in US dollars, the currency of the primary economic environment in which the Company operates. All currency amounts in the Directors' report and the financial statements are rounded to the nearest thousand US dollars

d) Foreign currencies

All monetary assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the rates ruling at the balance sheet date. Transactions in currencies other than US dollars are recorded at the rates prevailing at the dates of the transactions. All translation differences are taken through the profit and loss account. Exchange differences recognised in the profit and loss account are presented in 'Other income' or 'Other expense', except where noted in 1(e) below

e) Financial instruments

The Company classifies its financial assets into the following categories on initial recognition: financial assets classified as held for trading, fixed asset investments and loans and receivables

The Company classifies its financial liabilities into the following categories on initial recognition: financial liabilities at amortised cost

**MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED (FORMERLY
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NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2009

1 ACCOUNTING POLICIES (CONTINUED)

e) Financial instruments (continued)

More information regarding these classifications is included below

i) Financial instruments classified as held for trading

Financial instruments classified as held for trading, including all derivatives, are initially recorded on trade date at fair value (see note 1(f) below). All subsequent related gains and losses, including foreign exchange differences, interest and dividends, are reflected in the profit and loss account in 'Net gains/ (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 profit and loss account in 'Other expense'.

ii) Investments in subsidiary and associated undertakings

Investments in subsidiary and associated undertakings outside the scope of FRS 26 *Financial instruments recognition and measurement* ("FRS 26"), are recorded within 'Investments in subsidiary and associated undertakings' and are stated at cost, less provision for any impairment. Interest (recognised on an accruals basis), dividend income (recognised when the Company's right to receive payment is established), profit or loss on disposal of fixed asset investments, impairment losses, reversals of impairment losses, and foreign exchange differences on monetary investments are all reported in the profit and loss account in 'Net gains on fixed asset investments in subsidiary and associated undertakings'.

iii) Loans and receivables and financial liabilities at amortised cost

Financial assets categorised as loans and receivables are initially recognised on settlement date at fair value (see note 1(f) below) and subsequently measured at amortised cost less allowance for impairment. Interest is recognised in the profit and loss account in 'Interest 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 method is a method of calculating the amortised cost of a financial asset or 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 financial liability (or, where appropriate a shorter period) to the carrying amount of the financial asset or financial 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.

Impairment losses, reversals of impairment losses and foreign exchange differences on financial assets classified as loans and receivables are recognised in the profit and loss account in either 'Other expense' or 'Other income' as appropriate.

Financial liabilities held at amortised cost are initially recognised on settlement date at fair value (see note 1(f) below) and subsequently measured at amortised cost. Interest is recognised in the profit and loss account in 'Interest expense' using the effective interest rate method as described above. Foreign exchange differences on financial liabilities held at amortised cost are recognised in the profit and loss account in 'Other income' or 'Other expense' as appropriate.

In the course of financing its business, the Company enters into arrangements which involve the sale of securities with agreements to repurchase, the purchase of securities with resale agreements, the lending of securities with collateral received and the borrowing of securities with collateral given. Cash collateral balances repayable and accrued interest arising under repurchase agreements and securities lending arrangements are classified as 'Financial liabilities at amortised cost' and the related securities, where owned by the Company, are included in 'Financial assets classified as held for trading'. Cash collateral balances receivable and accrued interest arising under resale agreements and securities borrowing arrangements are classified as debtors within 'Loans and receivables'. Securities received by the Company under resale arrangements and securities borrowing arrangements are generally not recognised on the balance sheet.

**MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED (FORMERLY
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**NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2009**

1 ACCOUNTING POLICIES (CONTINUED)

f) 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 the 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 the 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 the Company believes market participants would use in pricing the asset or liability at the measurement date.

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, as is the case for generic interest rate swaps, certain option contracts and certain credit default swaps. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry.

**MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED (FORMERLY
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NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2009

1. ACCOUNTING POLICIES (CONTINUED)

f) 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 profit and loss account and is recognised instead when the market data becomes observable.

g) Impairment of financial assets

At each balance sheet date, an assessment is made as to whether there is any objective evidence of impairment in the value of other fixed asset investments or 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.

Impairment losses on fixed asset investments in subsidiary and associated undertakings, measured as the difference between cost and the current estimated recoverable amount, are recognised within the profit and loss account in 'Net gains and losses on fixed asset investments in subsidiary and associated undertakings' and are reflected against the carrying amount of the impaired asset on the balance sheet.

Impairment losses on loans and receivables carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the asset's original effective interest rate. Such impairment losses are recognised in the profit and loss account within 'Other expenses' and are reflected against the carrying amount of the impaired asset on the balance sheet. Interest on the impaired asset continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed as detailed by financial asset in note 1(e) (ii) and (iii).

h) Taxation

UK corporation tax is provided at amounts expected to be paid / recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

i) Cash flow statement

The Company's ultimate parent undertaking produces a cash flow statement. Accordingly, the Company, which is a wholly-owned subsidiary, has elected to avail itself of the exemption provided in FRS 1 (Revised 1996) *Cash Flow Statements* and not present a cash flow statement.

2. NET GAINS ON INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

	Year ended 31 December 2009 \$'000	1 December 2007 to 31 December 2008 \$'000
Income from shares in subsidiary and associated undertakings	11,395	104,414
Impairment losses	(184)	-
Gains on disposals of subsidiary undertakings	-	169,477
	<u>11,211</u>	<u>273,891</u>

**MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED (FORMERLY
MSDW MONTGOMERIE INVESTMENTS LIMITED)**

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2009

**2 NET GAINS ON INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS
(CONTINUED)**

On 10 March 2008, the Company transferred 250,009 B Ordinary shares in Morgan Stanley Cadzand II Limited to Morgan Stanley Medway Limited for total consideration of \$2,599,099,000 resulting in a gain on sale of \$99,009,000

On 2 May 2008, the Company sold its holding of 104,001 B Ordinary shares in Morgan Stanley Cadzand III Limited to Morgan Stanley Weaver S a r l ("Weaver") in exchange for 42 Class B Parts of \$25 each in Weaver for a total consideration of \$1,049,239,000 resulting in a gain on sale of \$9,229,000

On 1 December 2008, the Company sold its holding in Morgan Stanley Ock Limited for total consideration of \$1,153,101,000, resulting in a gain on sale of investment of \$61,246,000

During 2008, the Company sold its holding in Morgan Stanley Humboldt Investments Limited for a total consideration of \$118,000, resulting in a loss on sale of investment of \$7,000

On 23 October 2009, Morgan Stanley Malin Investments Limited reduced its share capital by cancelling 99,999 of its ordinary shares of £1 each for nil consideration. No capital was repaid by Morgan Stanley Malin Investments Limited, resulting in a loss of \$184,000

3 INTEREST INCOME

	Year ended 31 December 2009 \$'000	1 December 2007 to 31 December 2008 \$'000
Interest income from loans to Morgan Stanley Group undertakings	346,386	145,299

4. INTEREST EXPENSE

	Year ended 31 December 2009 \$'000	1 December 2007 to 31 December 2008 \$'000
Interest expense on loans from Morgan Stanley Group undertakings	36,943	197,099

Included in 'Interest expense on loans from Morgan Stanley Group undertakings' is \$nil (period from 1 December 2007 to 31 December 2008 \$100,552,000) of preference share dividends

5 OTHER INCOME

	Year ended 31 December 2009 \$'000	1 December 2007 to 31 December 2008 \$'000
Foreign exchange gains	19	6

**MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED (FORMERLY
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NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2009

6. OTHER EXPENSE

	Year ended 31 December 2009 \$'000	1 December 2007 to 31 December 2008 \$'000
Auditors' remuneration – fees for audit of statutory accounts	<u>7</u>	<u>10</u>

7. STAFF COSTS

The Company employed no staff during the year (period from 1 December 2007 to 31 December 2008 nil)

The Directors did not receive any remuneration for their qualifying services to the Company during the year (period from 1 December 2007 to 31 December 2008 \$nil)

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge in the year / period

	Year ended 31 December 2009 \$'000	1 December 2007 to 31 December 2008 \$'000
UK corporation tax at 28% (period from 1 December 2007 to 31 December 2008 28.62%)		
- Current year / period	88,548	-
Tax on profit on ordinary activities	<u>88,548</u>	<u>-</u>

Factors affecting the tax charge for the year / period

The current year UK taxation charge is lower than that resulting from applying the standard UK corporation tax rate of 28% (period from 1 December 2007 to 31 December 2008 28.62%). The main differences are explained below

	Year ended 31 December 2009 \$'000	1 December 2007 to 31 December 2008 \$'000
Profit on ordinary activities before tax	<u>320,666</u>	<u>193,439</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2008 28.62%)	89,786	55,362
Effects of		
Non-taxable UK dividends	(3,191)	(28,553)
Non-taxable loss / (gains) on sale	52	(48,508)
Preference share dividends treated as interest	-	28,778
Group relief received for nil consideration	(750)	(7,079)
Currency translation on tax	2,651	-
Current tax charge for the year / period	<u>88,548</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2009

9. FIXED ASSET INVESTMENTS

Fixed asset investments in subsidiary and associated undertakings

	Subsidiary undertakings \$'000
Cost	
At 1 January 2009	500,278
Disposals	(499,990)
At 31 December 2009	<u>288</u>
Impairment provisions	
At 1 January 2009	-
Provisions made in the year	(184)
At 31 December 2009	<u>(184)</u>
Net book value	
At 31 December 2008	<u>500,278</u>
At 31 December 2009	<u>104</u>

On 11 June 2009, the company received a capital membership ~~repayment~~ amounting to \$499,900,000 from Woburn III Cooperative U A

On 17 July 2009, Morgan Stanley Cadzand Limited ("Cadzand") repaid an amount of \$90,000 attributable to the B ordinary shares in Cadzand held by the Company

On 23 October 2009, Morgan Stanley Malin Investments Limited reduced its share capital from 100,000 ordinary shares of £1 each by cancelling 99,999 of its issued £1 shares. No capital was repaid by Morgan Stanley Malin Investments Limited, resulting in a loss of \$184,000

Subsidiaries and significant holdings

Details of the investments in which the Company holds more than 20% of the nominal value of any class of share capital, and investments with a book value greater than 20% of the Company's own assets at 31 December 2009, are as follows

Name of company	Country of incorporation	Holding	Type of shares held	Proportion of voting rights	Nature of business
Woburn III Cooperative U A	The Netherlands	100%	A Memberships	100%	Financial services
Morgan Stanley Malin Investments Limited	England and Wales	100%	Ordinary	100%	Holding Company
Morgan Stanley Cadzand Limited	England and Wales	100%	A and B Ordinary	100%	Dormant

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10 DEBTORS

	2009 \$'000	2008 \$'000
Debtors classified within loans and receivables at amortised cost		
Amounts due from Morgan Stanley Group undertakings	<u>15,165,804</u>	<u>15,930,766</u>

11. FINANCIAL LIABILITIES AT AMORTISED COST

	2009 \$'000	2008 \$'000
Financial liabilities at amortised cost falling due within one year		
Bank loans and overdrafts	-	4
Amounts owing to Morgan Stanley Group undertakings	<u>1,109,845</u>	<u>2,670,272</u>
	<u>1,109,845</u>	<u>2,670,276</u>
Financial liabilities at amortised cost falling due after more than one year		
Financial instruments issued		
-Preference shares	<u>12,096,453</u>	<u>12,096,453</u>
	<u>12,096,453</u>	<u>12,096,453</u>
Total financial liabilities at amortised cost	<u>13,206,298</u>	<u>14,766,729</u>

Preference shares

	2009 Number	2008 Number	2009 \$'000	2008 \$'000
Allotted and fully paid preference shares of \$1 each, classified as financial liabilities				
At 1 January 2009 / 1 December 2007	5,000	-	5	-
Issued in the year / period	-	5,000	-	5
At 31 December	<u>5,000</u>	<u>5,000</u>	<u>5</u>	<u>5</u>
Accrued dividends			-	-
Total share capital and accrued dividends classified within liabilities			<u>5</u>	<u>5</u>

On 10 March 2009, the Company purchased the Floating Rate Notes ("FRNs") worth \$1,040,000,000 from MSDW Turnberry Limited and cancelled them on the same day

As at 31 December 2009, the issued share capital of the Company included 5,000 redeemable non-cumulative preference shares of \$1 each (the "Preference Shares"), classified as financial liabilities

On 17 October 2008, the Preference Shares were issued at par, fully paid, to the Company's immediate parent company for cash consideration of \$12,096,453,000

The Preference Shares rank ahead of the ordinary shares in the event of a winding up or other return of capital

**MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED (FORMERLY
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NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2009

11 FINANCIAL LIABILITIES AT AMORTISED COST (CONTINUED)

The holders of Preference Shares shall be entitled, in priority to the holders of any other class of share in the Company's share capital but subject always to declaration by the Board of any such dividend, to receive out of the profits of the Company available for distribution, a dividend (the "Preference Dividend") The Preference Dividend shall be in such amount and paid on such dates as the Board may, in its discretion decide and declare

The Company shall have the right at any time to redeem any Preference Share (provided that it is credited as fully paid) and on 17 October 2018 the Company shall mandatorily redeem all Preference Shares then in issue (provided that such Preference Shares are credited as fully paid) provided that, in each case if the relevant Preference Shares are to be redeemed using the existing capital of the Company, it gives to the registered holders not less than 1 months written notice of its intention to do so or if the Preference Shares are to be redeemed using distributable profits of the Company or proceeds of a fresh issue of shares, it gives to the registered holders not less than 1 business day's written notice of its intention to do so

The holders of Preference Shares shall be entitled to receive notice of and to attend any general meeting of the Company but shall not have the right to speak or vote in respect of their holdings of Preference Shares

During the year, dividends of \$nil (2008 \$100,552,000) were paid to the holders of the Preference Shares and - have been included within 'Interest expense'

12 OTHER CREDITORS

	2009 \$'000	2008 \$'000
Amounts falling due within one year		
Corporation tax	63,177	-

13 CALLED UP SHARE CAPITAL

	2009 \$'000	2008 \$'000
Allotted and fully paid		
Equity shares		
1,585,148,515 ordinary shares of \$1 each	1,585,149	1,585,149
1 ordinary share of £1	-	-
	<u>1,585,149</u>	<u>1,585,149</u>

Equity shares

All ordinary shares rank pari passu and are recorded at the rates of exchange ruling at the date the shares were paid up

On 16 October 2008, 1,485,149,000 ordinary shares of \$1 each were issued at par, fully paid, for cash consideration of \$1,500,000,000

Other shares classified as financial liabilities

The terms of other shares classified as financial liabilities are detailed in note 11, 'Financial liabilities at amortised cost'

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NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2009

14 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital \$'000	Share premium account \$'000	Profit and loss account \$'000	Total \$'000
At 1 December 2007	100,000	-	(129,124)	(29,124)
Profit for the period	-	-	193,439	193,439
Capital subscribed (see note 13)	1,485,149	14,851	-	1,500,000
At 1 January 2009	1,585,149	14,851	64,315	1,664,315
Profit for the year	-	-	232,118	232,118
At 31 December 2009	1,585,149	14,851	296,433	1,896,433

15. SEGMENTAL REPORTING

The Company has only one class of business as described in the Directors' report and operates in one geographic market, Europe, Middle East and Africa ("EMEA")

16. RELATED PARTY TRANSACTIONS

The Company is exempt from the requirement to disclose transactions with fellow wholly owned Morgan Stanley Group undertakings under paragraph 3(c) of FRS 8 *Related Party Disclosures*. There were no other related party transactions requiring disclosure.

17 PARENT UNDERTAKINGS

The ultimate parent undertaking and controlling entity and the 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.

The parent undertaking of the smallest group of companies for which group financial statements are drawn up and of which the Company is a member is **Morgan Stanley and Co International plc** which is registered in England and Wales. Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.