

Registered Number: 4091663

Registered office
20 Bank Street
Canary Wharf
London E14 4AD

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

Report and financial statements

31 December 2011



MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

CONTENTS	PAGE
Directors' report	1
Independent auditor's report	7
Profit and loss account	9
Balance sheet	10
Notes to the financial statements	11

MORGAN STANLEY 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 18) for Morgan Stanley Montgomerie Investments Limited (the "Company") for the year ended 31 December 2011

RESULTS AND DIVIDENDS

The profit for the year, after tax, was \$121,379,000 (2010 \$232,559,000 profit after tax)

During the year dividends of \$650,367,000 were paid to the ordinary shareholders (2010 \$nil)

PRINCIPAL ACTIVITY

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

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"

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

The profit and loss account for the year is set out on page 9. The profit for the year amounts to \$121,379,000, a reduction of \$111,180,000 over the prior year. This movement was primarily driven by a decrease in net interest income on intercompany balances as the majority of loans with other Morgan Stanley Group undertakings were recalled during the year to fund a reduction in the Company's capital and the payment of interim dividends as described below. In the prior year the Company suffered a corporation tax charge of \$56,513,000 but has received full group relief in the current year.

The balance sheet for the Company is set out on page 10. Net assets at the end of the year were \$104,000 compared to \$2,128,992,000 at the end of the prior year. During the year, the Company's capital was reduced by share capital reductions in aggregate of \$1,585,049,000, and share premium account reductions in aggregate of \$12,111,299,000, as described in notes 11 and 13. Additionally, the Company paid dividends totalling \$650,367,000 and tax liabilities of \$94,656,000. The Company funded these payments by recalling amounts due from other Morgan Stanley Group undertakings amounting to \$15,430,695,000 in addition to net interest received of \$121,389,000. The excess of \$1,110,808,000 was used to fund the repayment of its intercompany creditors.

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 further 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 2011 and 2012, economic conditions have remained challenging with concerns about the continuing sovereign debt crisis in Europe, lack of robust economic recovery in the US and other developed markets and slowing economic growth in emerging markets. These on-going conditions present difficulties and uncertainty for the business outlook that may adversely impact the financial performance of the Company in the future.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

DIRECTORS' REPORT

Current market conditions (continued)

Morgan Stanley has taken transformative steps during this extremely difficult environment, including the de-risking of the balance sheet and those related to capital and liquidity outlined below

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, to enable the Morgan Stanley Group to withstand market stresses, and to meet regulatory stress testing requirements proposed by regulators globally. Throughout 2011, the Morgan Stanley Group has been focused on the composition of its funding liabilities, reducing reliance on short term funding in favour of more diverse and durable funding sources. This remains an ongoing objective of the Morgan Stanley Group.

In line with this active management, in June 2011, the Morgan Stanley Group's capital position was further strengthened by converting its outstanding Series B Non-Cumulative Non-Voting Perpetual Convertible Preferred Stock with a face value of \$7.8 billion and a 10% dividend issued to Mitsubishi UFJ Financial Group Inc ("MUFG"), for 385,464,097 shares in Morgan Stanley's common stock.

During the latest Comprehensive Capital Analysis and Review performed by the Federal Reserve, Morgan Stanley Group exceeded the minimum capital ratio even under the most negative "stressed" scenario, which reaffirms the improvements done in recent years to reduce risk and overhauling the quality and quantity of the capital base.

On 21 June 2012, Moody's Investor Services announced the conclusion of an industry-wide reassessment and revised ratings for 15 global capital markets banks. The Morgan Stanley Group's long- and short-term debt ratings were lowered two notches to Baa1/P-2 from A2/P-1, and a negative outlook was assigned.

While certain aspects of a credit ratings downgrade are quantifiable pursuant to contractual provisions, the impact it will have on the Morgan Stanley Group's business and results of operation in future periods is inherently uncertain and will depend on a number of inter-related factors, including among others, the magnitude of the downgrade, individual client behaviour and future mitigating actions the Morgan Stanley Group may take.

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.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

DIRECTORS' REPORT

Risk management (continued)

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 on a global basis as well as giving consideration to each individual legal entity, 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 and funding 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 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

Operational risk

Operational risk refers to the risk of financial or other loss, or damage to the Company's or the Morgan Stanley Group's reputation, resulting from inadequate or failed internal processes, people, resources, systems or from other internal or external events (e.g. internal or external fraud, legal and compliance risks, damage to physical assets, etc.). Legal and compliance risk is included in the scope of operational risk and is discussed below under "Legal and regulatory risk"

The Morgan Stanley Group has established an operational risk management process which operates on a global and regional basis to identify, measure, monitor and control risk. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal, regulatory, and reputational risks

Legal and regulatory risk

Legal and regulatory risk includes the risk of exposure to fines, penalties, judgements, damages and/or settlements in conjunction with regulatory or legal actions as a result of non-compliance with applicable legal or regulatory requirements or litigation. Legal risk also includes contractual risk such as the risk that a counterparty's performance obligations will be unenforceable. In the current environment of rapid and possibly transformational regulatory change, the Morgan Stanley Group also views regulatory change as a component of legal risk

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

DIRECTORS' REPORT

Risk management (continued)

Legal and regulatory risk (continued)

The Morgan Stanley Group has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to foster compliance with applicable statutory and regulatory requirements. The Morgan Stanley Group, principally through the Legal and Compliance Division, also has established procedures that are designed to require that the Morgan Stanley Group's policies relating to conduct, ethics and business practices are followed globally. In connection with its businesses, the Morgan Stanley Group has and continuously develops various procedures addressing issues such as regulatory capital requirements, sales and trading practices, new products, potential conflicts of interest, structured transactions, use and safekeeping of customer funds and securities, credit granting, money laundering, privacy and recordkeeping. In addition, the Morgan Stanley Group has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The legal and regulatory focus on the financial services industry presents a continuing business challenge for the Morgan Stanley Group.

Significant changes in the way that major financial services institutions are regulated are occurring in the UK, Europe, the US and worldwide. The reforms being discussed and, in some cases, already implemented, include several that contemplate comprehensive restructuring of the regulation of the financial services industry. Such measures will likely lead to stricter regulation of financial institutions generally, and heightened prudential requirements for systemically important firms in particular. Such measures could include taxation of financial transactions, liabilities and employee compensation as well as reforms of the over-the-counter ("OTC") derivatives markets, such as mandated exchange trading and clearing, position limits, margin, capital and registration requirements.

Many of these reforms, if enacted, may materially affect the Company's and the Morgan Stanley Group's business, financial condition, results of operations and cash flows in the future.

DIRECTORS

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

P K M Falk	(formerly known as P K M Green)
S I Merry	
J E Iragorri Rizo	(appointed 16 August 2012)
R M Taylor	(appointed 14 October 2011, resigned 14 June 2012)

DIRECTORS' LIABILITY INSURANCE

Directors' and Officers' Liability Insurance is taken out by Morgan Stanley, the Company's ultimate parent undertaking, for the benefit of the Directors and Officers of the Company.

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) were in force during the year and up to and including the date of the Directors' report for the benefit of the Directors of the Company.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

DIRECTORS' REPORT

POST BALANCE SHEET EVENTS

On 30 May 2012, the Company purchased the following shareholdings from its immediate parent

- 100,000 A shares of €1 each and 300,000 B shares of €1 each in Morgan Stanley Langtree Investments B V for a total consideration of \$266,520,000
- 1 B Class ordinary share of \$1 in Carysforth Investments Limited for a total consideration of \$1
- 1 Ordinary share of £1 and 296,200,000 ordinary shares of \$1 each in Morgan Stanley Mallard Investments Limited for a total consideration of \$340,226,000
- 100,001 Ordinary shares of \$1 in Morgan Stanley Medway Investments Limited for a total consideration of \$100,000
- 1,000 Class A shares of \$25 each and 42 Class B shares of \$25 each in Morgan Stanley Weaver S a r l for a total consideration of \$1,069,100,000
- 1 Ordinary share of £1 and 100,000 ordinary shares of \$1 each in Morgan Stanley Raleigh Investments Limited for a total consideration of \$102,000
- 18,000 Class A ordinary shares of \$1 each in Ramey S à r l for a total consideration of \$20,000
- 17,217 Ordinary shares of \$1 each in Morgan Stanley Equity Derivative Services (Luxembourg) S à r l for a total consideration of \$13,695,000

The Company funded the above transactions by borrowing \$1,689,763,000 from another Morgan Stanley Group undertaking

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 2011 the Company had no trade creditors (2010 nil)

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

DIRECTORS' REPORT

AUDITOR

Deloitte LLP have expressed their willingness to continue in office as auditor 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 the auditor

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 auditor in connection with preparing their report) of which the Company's auditor is 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 auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

DIRECTORS' RESPONSIBILITIES STATEMENT

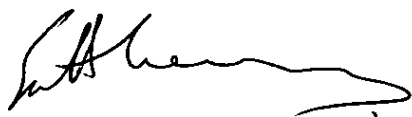
The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

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, 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
31 August 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

We have audited the financial statements of Morgan Stanley Montgomerie Investments Limited for the year ended 31 December 2011 which comprise the profit and loss account, the balance sheet and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other 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 AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

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

Dawn Johnston

Dawn Johnston FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Glasgow, United Kingdom

5 September 2012

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2011

	Note	2011 \$'000	2010 \$'000
Net gains/(losses) on fixed asset investments			
- Subsidiary and associated undertakings	2	8	(4)
Interest income	3	135,906	306,889
Interest expense	4	(10,789)	(21,647)
Other income	5	-	3,835
Other expense	6	(3,746)	(1)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		121,379	289,072
Tax on profit on ordinary activities	8	-	(56,513)
PROFIT FOR THE FINANCIAL YEAR		121,379	232,559

All operations were continuing in the current and prior year

There were no recognised gains or losses during the current or prior year 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 11 to 19 form an integral part of the financial statements

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

Registered number: 4091663

BALANCE SHEET**As at 31 December 2011**

	Note	2011 \$'000	2010 \$'000
FIXED ASSETS			
Investments			
- Subsidiary and associated undertakings	9	-	100
CURRENT ASSETS			
Loans and receivables			
- Debtors	10	181	15,430,886
		181	15,430,886
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Financial liabilities at amortised cost	11	-	(1,110,808)
Other creditors	12	(77)	(94,733)
NET CURRENT ASSETS		104	14,225,345
TOTAL ASSETS LESS CURRENT LIABILITIES		104	14,225,445
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
Financial liabilities at amortised cost	11	-	(12,096,453)
NET ASSETS		104	2,128,992
CAPITAL AND RESERVES			
Called up share capital	13	100	1,585,149
Share premium account	14	-	14,851
Profit and loss account	14	4	528,992
SHAREHOLDERS' FUNDS		104	2,128,992

These financial statements were approved by the Board and authorised for issue on 31 August 2012

Signed on behalf of the Board

Director

S. Merry

The notes on pages 11 to 19 form an integral part of the financial statements

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

1. ACCOUNTING POLICIES

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

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(e) below, and in accordance with applicable United Kingdom company law and accounting standards

The Company's ultimate UK parent undertaking, Morgan Stanley International Limited, presents information in accordance with Financial Reporting Standard ("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 reflected in the Business Review section of the Directors' report on pages 1 to 4

As set out in the Directors' report, retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy and steps have been taken to strengthen the Morgan Stanley Group capital position and ensure that the Company's capital 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 financial statements and Directors' report 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 other 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

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

1. ACCOUNTING POLICIES (CONTINUED)

e) Financial instruments

The Company classifies its financial assets into the following categories on initial recognition investments in subsidiary and associated undertakings and loans and receivables

The Company classifies its financial liabilities as financial liabilities at amortised cost on initial recognition

More information regarding these classifications is included below

i) 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), 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/(losses) on fixed asset investments in subsidiary'

ii) 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 (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 as described below. Transaction costs that are directly attributable to the acquisition of the financial asset are added to or deducted from the fair value on initial recognition.

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 below. Transaction costs that are directly attributable to the issue of the 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 financial liability (or a 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 financial 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 financial liability.

The redeemable preference shares issued by the Company are classified as financial liabilities at amortised cost in accordance with the substance of the contractual arrangement. Dividends on these redeemable preference shares are recognised in the profit and loss account in 'Interest expense' using the effective interest rate method.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

1. ACCOUNTING POLICIES (CONTINUED)

f) Fair value of financial instruments

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 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).

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 financial assets 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.

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/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.

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)(i) and 1(e)(ii). Any reversal is limited to the extent that the value of the asset may not exceed the original amortised cost of the asset had no impairment occurred.

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 consolidated financial statements in which the Company is included and which are publicly available. Accordingly, the Company, which is a wholly-owned subsidiary, has elected to avail itself of the exemption provided in Financial Reporting Standard ("FRS") 1 (Revised 1996) *Cash flow statements* and not present a cash flow statement.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

2. NET GAINS/(LOSSES) ON FIXED ASSET INVESTMENTS

	2011	2010
	\$'000	\$'000
Income from investments in subsidiary and associated undertakings	8	-
Impairment losses	-	(4)
	<u>8</u>	<u>(4)</u>

3. INTEREST INCOME

	2011	2010
	\$'000	\$'000
Interest income from loans to Morgan Stanley Group undertakings	<u>135,906</u>	<u>306,889</u>

4. INTEREST EXPENSE

	2011	2010
	\$'000	\$'000
Interest expense on loans from Morgan Stanley Group undertakings	<u>10,789</u>	<u>21,647</u>

5. OTHER INCOME

	2011	2010
	\$'000	\$'000
Foreign exchange gains	<u>-</u>	<u>3,835</u>

6. OTHER EXPENSE

	2011	2010
	\$'000	\$'000
Foreign exchange losses	3,746	-
Other expenses	-	1
	<u>3,746</u>	<u>1</u>

The Company employed no staff during the year (2010 \$nil)

The fees for the audit of the Company's statutory accounts of \$8,000 (2010 \$8,000) have been borne by another Morgan Stanley Group undertaking in both the current and prior year

7. DIRECTORS' BENEFITS

The Directors did not receive any remuneration for their qualifying services to the Company during the year (2010 \$nil)

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of (credit)/ charge in the year

	2011 \$'000	2010 \$'000
UK corporation tax at 26.49% (2010: 28%)		
- Current year	-	77,947
- Adjustment in respect of prior years	-	(21,434)
Tax on profit on ordinary activities	-	56,513

Factors affecting the tax credit for the year

The current year UK taxation credit is lower than that resulting from applying the average standard UK corporation tax rate of 26.49% (2010: 28%). The main differences are explained below

	2011 \$'000	2010 \$'000
Profit on ordinary activities before tax	121,379	289,072
Profit on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 26.49% (2010: 28%)	32,153	80,940
Effects of:		
Tax exempt income	(2)	-
Non-taxable gain on disposal of fixed assets	-	1
Group relief received for nil consideration	(32,151)	(3,626)
Currency translation on tax	-	632
Adjustments to the tax charge in respect of prior years	-	(21,434)
Current tax (credit)/ charge for the year	-	56,513

Finance (No. 2) Act 2010 enacted a 1% reduction in the UK corporation tax rate to 27% with effect from April 2011. Finance Act 2011 enacted a further 1% reduction in the rate of UK corporation tax to 26% from April 2011. The combined 2% reduction in the tax rate impacted the current tax charge in 2011.

Finance Act 2011 enacted an additional 1% reduction to the UK corporation tax rate to 25% with effect from April 2012. Finance Act 2012 increased the reduction by a further 1%. The combined 2% reduction in the tax rate to 24% from 1 April 2012 will impact the current tax charge in 2012.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2011

9. FIXED ASSET INVESTMENTS

Fixed asset investments in subsidiary and associated undertakings

	Subsidiary and associated undertakings \$'000
Cost	
At 1 January 2011	100
Disposals	(100)
At 31 December 2011	-
Net book value	
At 31 December 2010	100
At 31 December 2011	-

On 9 June 2011, the Company sold its investment in Woburn III Cooperatieve U A to another Morgan Stanley Group undertaking. No gain or loss arose on disposal.

On 14 October 2011, the Company, together with another Morgan Stanley Group undertaking incorporated a new UK registered limited liability partnership, Alverstone Investments LLP (the "LLP"). There has been no capital contribution into the LLP to date.

10. DEBTORS

	2011 \$'000	2010 \$'000
Debtors classified within loans and receivables at amortised cost		
Amounts due from Morgan Stanley Group undertakings	181	15,430,886

11. FINANCIAL LIABILITIES AT AMORTISED COST

	2011 \$'000	2010 \$'000
Financial liabilities at amortised cost falling due within one year		
Amounts owing to Morgan Stanley Group undertakings	-	1,110,808
Financial liabilities at amortised cost falling due after more than one year		
Financial instruments issued		
- Preference shares	-	12,096,453
Total financial liabilities at amortised cost	-	13,207,261

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

11. FINANCIAL LIABILITIES AT AMORTISED COST (CONTINUED)

Preference shares

	2011 Number	2010 Number	2011 \$'000	2010 \$'000
Allotted and fully paid preference shares of \$1 each, classified as financial liabilities				
At 1 January	5,000	5,000	5	5
Cancelled in the year	(5,000)	-	(5)	
At 31 December	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>5</u>
Total share capital and accrued dividends classified within liabilities			<u>-</u>	<u>5</u>

As at 31 December 2010, the issued share capital of the Company included 5,000 redeemable preference shares of \$1 each (the "Preference Shares"), classified as financial liabilities

On 20 June 2011, the share capital of the Company was reduced through the cancellation of the Preference Shares and the associated premium of \$12,096,448,000. The total consideration paid for this capital reduction and share premium reduction was \$12,096,453,000.

Prior to redemption, and subject to the approval of the Directors, the holders of the Preference Shares ranked ahead of the ordinary shares in the event of a winding up or return of capital. The holders of the Preference Shares were 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 holders of preference shares were entitled to receive notice of and to attend any general meeting of the Company but did not have the right to speak or vote in respect of their holdings of Preference Shares.

During the year, preference dividends of \$nil (2010: \$nil) were paid to the holders of the Preference Shares.

12. OTHER CREDITORS

	2011 \$'000	2010 \$'000
Amounts falling due within one year		
Corporation tax payable	<u>77</u>	<u>94,733</u>

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

13. CALLED UP SHARE CAPITAL

Shares classified as equity

	2011 \$'000	2010 \$'000
Allotted and fully paid:		
100,000 ordinary shares of \$1 each (2010 1,585,148,515 ordinary shares of \$1 each)	100	1,585,149
1 ordinary share of £1 each	-	-
	<u>100</u>	<u>1,585,149</u>

On 20 June 2011, an interim dividend of \$647,321,000 was paid to the Company's ordinary shareholders

On 27 July 2011, an interim dividend of \$3,042,000 was paid to the Company's ordinary shareholders. On the same date, the share capital of the Company was reduced through the cancellation of 1,584,148,515 ordinary shares of \$1 each and the associated premium of \$14,851,000. The total consideration paid for this capital reduction and share premium reduction was \$1,599,000,000.

On 10 August 2011, an interim dividend of \$4,000 was paid to the Company's ordinary shareholders. On the same date, the share capital of the Company was reduced through the cancellation of 900,000 ordinary shares of \$1. The total consideration paid for this capital reduction was \$1.

All ordinary shares are recorded at the rates of exchange ruling at the date the shares were paid up.

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'.

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 January 2010	1,585,149	14,851	296,433	1,896,433
Profit for the year	-	-	232,559	232,559
At 1 January 2011	1,585,149	14,851	528,992	2,128,992
Profit for the year	-	-	121,379	121,379
Dividends	-	-	(650,367)	(650,367)
Redemption of shares	(1,585,049)	(14,851)	-	(1,599,900)
At 31 December 2011	<u>100</u>	<u>-</u>	<u>4</u>	<u>104</u>

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

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. POST BALANCE SHEET EVENTS

On 30 May 2012, the Company purchased the following shareholdings from its immediate parent

- 100,000 A shares of €1 each and 300,000 B shares of €1 each in Morgan Stanley Langtree Investments B V for a total consideration of \$266,520,000
- 1 B Class ordinary shares of \$1 in Carysforth Investments Limited for a total consideration of \$1
- 1 Ordinary share of £1 and 296,200,000 ordinary shares of \$1 each in Morgan Stanley Mallard Investments Limited for a total consideration of \$340,226,000
- 100,001 Ordinary shares of \$1 in Morgan Stanley Medway Investments Limited for a total consideration of \$100,000
- 1,000 Class A share of \$25 each and 42 Class B shares of \$25 each in Morgan Stanley Weaver S à r l for a total consideration of \$1,069,100,000
- 1 Ordinary share of £1 and 100,000 ordinary shares of \$1 each in Morgan Stanley Raleigh Investments Limited for a total consideration of \$102,000
- 18,000 Class A ordinary shares of \$1 each in Ramey S à r l for a total consideration of \$20,000
- 17,217 Ordinary shares of \$1 each in Morgan Stanley Equity Derivative Services (Luxembourg) S à r l for a total consideration of \$13,695,000

The Company funded the above transactions by borrowing \$1,689,763,000 from another Morgan Stanley Group undertaking

18. 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 the state of 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 Company's immediate controlling party is Morgan Stanley Turnberry Limited 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, Mandy, Cardiff CF14 3UZ.

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 International Limited, 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, Mandy, Cardiff CF14 3UZ.