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MORGAN STANLEY SINOPE CAYMAN LIMITED

Report and Accounts

For the period from 1 December 2007 to 31 December 2008

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MORGAN STANLEY SINOPE CAYMAN LIMITED

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MORGAN STANLEY SINOPE CAYMAN LIMITED

DIRECTORS' REPORT

The Directors present their report and accounts for Morgan Stanley Sinope Cayman Limited (the "Company") for the thirteen month period from 1 December 2007 to 31 December 2008.

The Company changed its accounting reference date from 30 November to 31 December on 17 December 2008, resulting in the current accounting period being extended from 30 November 2008 to 31 December 2008.

RESULTS AND DIVIDENDS

The loss for the period, after tax, was €5,598,000 (2007: €944,000 loss after tax).

During the period, no dividends were paid.

PRINCIPAL ACTIVITY

The Company is an exempt company incorporated under the laws of the Cayman Islands and its principal activity 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 (the "Group").

The management and control of the Company is in the United Kingdom, and the entity is liable to UK Corporation Tax on its taxable profits.

BUSINESS REVIEW

The profit and loss account for the period is set out on page 4. The Company's loss has increased from €944,000 in the prior year to €5,598,000 in the current period.

The balance sheet on page 5 of the financial statements shows that the Company's financial position at the end of the period is €127,142,000 a decrease of 4% from the prior year.

The performance of the Company is included in the results of the Group which are discussed in the Group's Annual Report on Form 10-K to the United States Securities and Exchange Commission. The 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

The Company and the Group are operating under difficult market conditions. These conditions present difficulties and uncertainty for the business outlook which may adversely impact the financial performance of the Company in the future.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above. In addition, the risk management section below sets out the Company's and the Group's policies for the management of liquidity and cash flow risk and other significant business risks.

During the period under review, the Group has been involved in a number of initiatives to respond to the stresses experienced in global financial markets and to strengthen the Group's overall liquidity position. These include the following:

On 21 September 2008, Morgan Stanley obtained approval from the Board of Governors of the Federal Reserve System to become a bank holding company upon conversion of its subsidiary, Morgan Stanley Bank (Utah) to a national bank. On 23 September 2008, Morgan Stanley Bank (Utah) was authorised to operate as a national bank and Morgan Stanley became a financial holding company;

On 13 October 2008, Morgan Stanley announced that Mitsubishi UFJ Financial Group ("MUFG") had closed a \$9 billion equity investment that gives MUFG a 21% ownership interest in Morgan Stanley on a fully diluted basis; and

On 3 October 2008, the Emergency Economic Stabilization Act of 2008 (initially introduced as the Troubled Asset Relief Program ("TARP")) was enacted by the US Government. On 14 October 2008, the US Government announced that, among other steps to restore confidence in financial markets, it would be making direct capital investments in major financial institutions under the TARP Capital Purchase Program ("CPP"). On 26 October

DIRECTORS' REPORT

2008, under the terms of the CPP, the US Treasury purchased \$10 billion in preferred shares and warrants to purchase up to 65,245,759 of Morgan Stanley common stock (the "TARP investment").

Since the end of the period the Group has continued to actively manage its capital and liquidity position, and during May and June 2009 raised over \$6 billion of equity and \$5.5 billion of debt capital. As a result of its strong capital position, on 9 June 2009 Morgan Stanley received approval from the US Treasury to repay the TARP investment and Morgan Stanley announced its intention to pay back the funds.

Taking all of these factors into consideration, the Directors have no reason to believe that the Company will not 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.

Risk Management

Risk is an inherent part of the Company's business activity and is managed within the context of the broader Group's business activities. The 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 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 is unable to meet its financial obligations.

The 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 and cash flow risk

The Group's senior management establishes the overall liquidity and capital policies of the Group. The Group's liquidity and funding risk management policies are designed to mitigate the potential risk that the Group and the Company may be unable to access adequate financing to service its financial obligations when they fall due without material adverse franchise or business impact. The key objectives of the liquidity and funding risk management framework are to support the successful execution of the Group's and the Company's business strategies while ensuring ongoing and sufficient liquidity through the business cycle and during periods of financial distress.

MORGAN STANLEY SINOPE CAYMAN LIMITED

DIRECTORS' REPORT (Continued)

DIRECTORS

The following Directors held office throughout the period (except where otherwise shown):

A Coull (appointed 24 November 2008, resigned 11 June 2009)
B Gill (resigned 18 November 2008)
P K M Green (appointed 11 June 2009)
S I Merry
L A Nash (resigned 1 May 2008)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing their report and financial statements in accordance with applicable law and United Kingdom Accounting Standards.

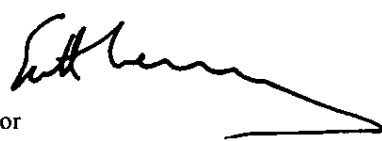
The Company was incorporated as an exempt company in the Cayman Islands under the laws of the Cayman Islands. The Directors and Company shareholders require the financial statements of the Company to be prepared in accordance with 4 Part VII of the Companies Act 1985 of the United Kingdom (the "Companies Act 1985") and drawn up in Euros.

The Directors are required to prepare such financial statements for each financial year which 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 those financial statements, the Directors are required to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (d) 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with Part VII of the Companies Act 1985. 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.
17 November 2009

MORGAN STANLEY SINOPE CAYMAN LIMITED

PROFIT AND LOSS ACCOUNT Period ended 31 December 2008

	Note	1 December 2007 to 31 December 2008 €'000	Year ended 30 November 2007 €'000
Net losses on financial instruments classified as held for trading		-	(554)
Interest income	2	11,842	10,886
Interest expense	3	(17,441)	(11,268)
Other income	4	2	-
Other expense	5	(1)	(8)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(5,598)	(944)
Tax on loss on ordinary activities	7	-	-
LOSS FOR THE FINANCIAL PERIOD		(5,598)	(944)

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

A reconciliation of the movement in shareholders' funds is disclosed in note 12 to the accounts.

The notes on pages 6 to 17 form an integral part of the accounts.

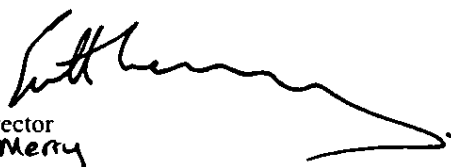
MORGAN STANLEY SINOPE CAYMAN LIMITED

BALANCE SHEET

As at 31 December 2008

	Note	31 December 2008 €'000	30 November 2007 €'000
FIXED ASSETS			
Investments:			
- Subsidiary and associated undertakings	8	403,320	403,320
CURRENT ASSETS			
Loans and receivables:			
Debtors	9	11,842	-
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Financial liabilities at amortised cost	10	(288,020)	(270,580)
NET CURRENT LIABILITIES		(276,178)	(270,580)
TOTAL ASSETS LESS CURRENT LIABILITIES		127,142	132,740
CAPITAL AND RESERVES			
Called up share capital	11	-	-
Share premium account	12	135,000	135,000
Profit and loss account	12	(7,858)	(2,260)
SHAREHOLDERS' FUNDS		127,142	132,740

These accounts were approved by the Board and authorised for issue on **17 November 2009**
Signed on behalf of the Board


Director
S. Merry

The notes on pages 6 to 17 form an integral part of the accounts.

NOTES TO THE FINANCIAL STATEMENTS
Period ended 31 December 2008

1. ACCOUNTING POLICIES

a) Basis of preparation

The accounts 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 is incorporated under Cayman law, and Cayman law permits the use of United Kingdom law and generally accepted accounting principles in the preparation of financial statements.

The formats of the Company's profit and loss account and balance sheet have been adapted to better align with the accounting requirements of FRS 26. In the opinion of the Directors, these revised formats result in clearer reporting of the Company's performance and financial position and improve comparability with other companies both within and outside the Group.

Certain other limited format changes have been made to prior year amounts to conform to the current period presentation.

The Company has changed its accounting reference date from 30 November to 31 December to align with the changed year end of its ultimate parent undertaking, Morgan Stanley. This change has resulted in a reporting period of thirteen months to 31 December 2008. The comparative figures reflected in the financial statements are for a twelve month period to 30 November 2007 and therefore are not entirely comparable with amounts shown for the current period.

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) Functional currency

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

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

c) Foreign currencies

All monetary assets and liabilities denominated in currencies other than Euros are translated into Euros at the rates ruling at the balance sheet date. Transactions in currencies other than Euros are recorded at the rates prevailing at the dates of the transactions. All translation differences are taken through the 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(d) below.

d) Financial instruments

The Company classifies its financial assets into the following categories on initial recognition: financial assets held for trading; financial assets designated at fair value through profit or loss; available-for-sale fixed asset investments; other fixed asset investments and loans and receivables.

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

i) Financial instruments classified as held for trading

'Net gains/ (losses) on financial instruments held for trading' (consisting only of derivatives used for risk management purposes) consists of all related gains and losses, including foreign exchange differences.

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2008

1. ACCOUNTING POLICIES (Continued)

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, impairment losses and reversals of impairment losses, and foreign exchange differences on monetary investments are reported in the profit and loss account in 'Net gains/ (losses) 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 and subsequently measured at amortised cost less allowance for impairment. Interest is recognised in the profit and loss account using the effective interest rate method in interest income.

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 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 and is not revised subsequently. 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 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 balances 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 held for trading'. Cash balances 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.

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 method.

e) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties, in an arm's length transaction.

In determining fair value, the Company uses various valuation approaches depending on how observable the inputs to the valuation are. The Company maximises the use of observable inputs and minimizes the use of

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2008

1. ACCOUNTING POLICIES (Continued)

unobservable inputs by using the most observable inputs 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 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, 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.

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

The fair values of many financial instruments, including over-the-counter ("OTC") financial instruments, are derived using pricing models. Pricing models take into account the contract terms (including the maturity), as well as multiple inputs, including where applicable, equity prices, interest rate yield curves, credit curves, the creditworthiness of the counterparty, option volatility and currency rates. The Company subjects all valuations and models to a review process on a periodic basis.

Depending on the product and the terms of the transaction, the fair value of OTC financial instruments can be modelled using a series of techniques, including closed-form analytic formulae such as the Black-Scholes option pricing model, simulation models or a combination thereof. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgement, and the pricing inputs are observed from actively quoted markets. In the case of more established financial instruments, the pricing models used by the Company are widely accepted by the financial services industry.

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. It is recognised instead when the market data becomes observable.

f) 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 available-for-sale fixed asset investments, other fixed asset investments or loans and receivables. Impairment losses are recognised if there is an adverse impact expected to the future cash flows of an asset and the expected impact can be reliably estimated.

Impairment losses on available-for-sale fixed asset investments are measured as the difference between cost and the current fair value. When a decline in the fair value of an available-for-sale financial asset has been recognised through the statement of total recognised gains and losses and there is evidence that the asset is impaired, the cumulative loss that had been recognised through the statement of total recognised gains and losses is removed from reserves and recognised in the profit and loss account within 'Net gains and losses on fixed asset investments in available-for-sale financial assets'.

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2008

1. ACCOUNTING POLICIES (Continued)

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 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(d)(iii).

g) 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.

Full provision has been made for deferred tax assets and liabilities arising from timing differences. Deferred tax is measured using the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered; deferred tax assets and liabilities are not discounted.

h) 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. INTEREST INCOME

	1 December 2007 to 31 December 2008 €'000	Year ended 30 November 2007 €'000
Interest income from loans to Group undertakings	<u>11,842</u>	<u>10,886</u>

Included in 'Interest income from loans to Group undertakings' is €11,842,000 (2007: €10,857,000) of preference share dividends.

3. INTEREST EXPENSE

	1 December 2007 to 31 December 2008 €'000	Year ended 30 November 2007 €'000
Interest expense from loans from Group undertakings	<u>17,441</u>	<u>11,268</u>

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS Period ended 31 December 2008

4. OTHER INCOME

	1 December 2007 to 31 December 2008 €'000	Year ended 30 November 2007 €'000
Other foreign exchange gains	<u>2</u>	<u>-</u>

5. OTHER EXPENSE

	1 December 2007 to 31 December 2008 €'000	Year ended 30 November 2007 €'000
Auditors' remuneration – audit fees	-	8
Other expenses	<u>1</u>	<u>-</u>
	<u>1</u>	<u>8</u>

The audit fee has been borne by another Group company in the current period.

6. DIRECTORS' EMOLUMENTS

The Company employed no staff during the period (2007: Nil)

The Directors did not receive any remuneration for their qualifying services to the Company during the period (2007: £nil).

7. TAX ON LOSS ON ORDINARY ACTIVITIES

Analysis of credit in the period

	1 December 2007 to 31 December 2008 €'000	Year ended 30 November 2007 €'000
UK corporation tax at 28.62% (2007: 30%)		
- Current period	-	-
Tax on profit loss on ordinary activities	<u>-</u>	<u>-</u>

Factors affecting the tax credit for the period

The current period UK taxation charge is higher than that resulting from applying the standard UK corporation tax rate of 28.62% (2007: 30%). The main differences are explained below:

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS Period ended 31 December 2008

7. TAX ON LOSS ON ORDINARY ACTIVITIES (Continued)

	1 December 2007 to 31 December 2008 €'000	Year ended 30 November 2007 €'000
Loss on ordinary activities before tax	(5,598)	(944)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28.62% (2007: 30%)	(1,602)	(283)
Effects of:		
Expenses not deductible for tax purposes	-	164
Group relief surrendered for nil consideration	4,991	3,385
Non taxable dividends on preference shares shown as interest income	(3,389)	(3,266)
Current tax credit for the period	-	-

8. FIXED ASSET INVESTMENTS

Investments in subsidiary and associated undertakings

	Subsidiary undertakings €'000
Cost	
At 1 December 2007	403,320
At 31 December 2008	403,320

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2008

8. FIXED ASSET INVESTMENTS (Continued)

Significant investments

Details of the investments of the Company, including those 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 2008, are as follows:

Name of Company	Country of incorporation	Holding	Type of shares held	Proportion of voting rights	Nature of Business
Morgan Stanley Adrastea Netherlands B.V.	The Netherlands	100%	Ordinary Shares	100%	Financial services
Morgan Stanley Adrastea Netherlands B.V.	The Netherlands	100%	Class A Redeemable Preference shares	100%	Financial services
Morgan Stanley Adrastea Netherlands B.V.	The Netherlands	100%	Class B Redeemable Preference shares	100%	Financial services
Morgan Stanley Adrastea Netherlands B.V.	The Netherlands	100%	Class C Redeemable Preference shares	100%	Financial services

NOTES TO THE FINANCIAL STATEMENTS
Period ended 31 December 2008

9. DEBTORS

	31 December 2008 €'000	30 November 2007 €'000
Debtors classified within loans and receivables at amortised cost		
Other amounts due from Group undertakings	<u>11,842</u>	<u>-</u>

10. FINANCIAL LIABILITIES AT AMORTISED COST

	31 December 2008 €'000	30 November 2007 €'000
Financial liabilities at amortised cost falling due within one year		
Other amounts owing to Group undertakings	<u>288,020</u>	<u>270,580</u>

11. CALLED UP SHARE CAPITAL

	31 December 2008 Number	30 November 2007 Number
Authorised:		
Equity shares		
Ordinary shares of \$1 each	<u>50,000</u>	<u>50,000</u>
	31 December 2008 €'000	30 November 2007 €'000
Allotted and fully paid:		
Equity shares		
101 ordinary shares of \$1 each	<u>-</u>	<u>-</u>

Equity shares

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

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2008

12. 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 2006	-	135,000	(1,316)	133,684
Loss for the year			(944)	(944)
At 1 December 2007	-	135,000	(2,260)	132,740
Loss for the period	-	-	(5,598)	(5,598)
At 31 December 2008	-	135,000	(7,858)	127,142

13. FINANCIAL RISK MANAGEMENT

Risk Management Procedures

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

Significant risks faced by the Group resulting from its investment activities are set out below.

a) Credit risk

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

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

The maximum exposure to credit risk of the entity at the reporting date is the carrying amount of the financial assets held in the balance sheet.

The entity does not have any significant exposure arising from off- balance sheet items.

As the Entity enters into all of its financial asset transactions with group entities, the Entity's credit risk related to this concentration is mitigated as both the Entity and the Group entities are wholly owned indirect subsidiaries of the same group parent entity, Morgan Stanley.

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2008

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Liquidity and cash flow risk

Liquidity risk is the risk that the Entity may encounter difficulty in realising financial assets or otherwise raising funds to meet commitments associated with financial instruments.

The Group's senior management establishes the overall liquidity and capital policies of the Group. The Group's liquidity and funding risk management policies are designed to mitigate the potential risk that the Group and the Company may be unable to access adequate financing to service its financial obligations when they come due without material, adverse franchise or business impact. The key objectives of the liquidity and funding risk management framework are to support the successful execution of the Group's and the Company's business strategies while ensuring ongoing and sufficient liquidity through the business cycle and during periods of financial distress.

The following table shows the cash flows on the Company's financial liabilities on the basis of the earliest possible contractual maturity:

	On demand	Total
	€'000	€'000
2008		
Creditors: Amounts falling due within one year		
Other creditors	276,179	276,179
Total	<u>276,179</u>	<u>276,179</u>
	Unaudited	Unaudited
	On demand	Total
	€'000	€'000
2007		
Creditors: Amounts falling due within one year		
Other creditors	270,580	270,580
Total	<u>270,580</u>	<u>270,580</u>

c) Market Risk

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

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

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

The Group manages the market risk associated with its business activities in consideration of each individual legal entity, including the use of derivatives for risk management purposes by the Company, but on a global basis, at both a trading division and an individual product level.

The Company actively manages its market risk by hedging with other Group companies. The residual market risk on the entity is not material.

NOTES TO THE FINANCIAL STATEMENTS
Period ended 31 December 2008
13. FINANCIAL RISK MANAGEMENT (CONTINUED)**d) Interest rate risk**

The table below summarises the Company's exposure to interest rate risk. Included in the table are the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	On demand	Total
	€'000	€'000
At 30 November 2008		
Assets		
Investments	261,900	261,900
Total assets	<u>261,900</u>	<u>261,900</u>
Liabilities		
Other creditors	(276,179)	(276,179)
Total liabilities	<u>(276,179)</u>	<u>(276,179)</u>
Total interest sensitivity gap	<u>14,729</u>	<u>14,279</u>
	Unaudited	Unaudited
	On demand	Total
	€'000	€'000
At 30 November 2007		
Assets		
Investments	261,900	261,900
Total assets	<u>261,900</u>	<u>261,900</u>
Liabilities		
Other creditors	(270,580)	(270,580)
Total liabilities	<u>(270,580)</u>	<u>(270,580)</u>
Total interest sensitivity gap	<u>8,680</u>	<u>8,680</u>

The following sensitivity analysis shows the potential gain / (loss) to the income statement of a parallel increase and decrease of 50 basis points to current market interest rates:

	50 basis points increase	50 basis points decrease
At 30 November 2008	<u>(1,543)</u>	<u>1,543</u>
	50 basis points increase	50 basis points decrease
At 30 November 2007	<u>(28)</u>	<u>28</u>

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2008

14. SEGMENTAL REPORTING

The Company has only one class of business as described in the Directors' report and operates in one geographic market, the United Kingdom.

15. RELATED PARTY TRANSACTIONS

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

16. 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 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.