

Registered Number: 34161590

Registered Office:

Locatellikade 1

Parnassustoren

1076 AZ

Amsterdam

The Netherlands

MORGAN STANLEY B.V.

Report and financial statements

Period from 1 December 2008 to 31 December 2009

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MORGAN STANLEY B.V.

DIRECTORS' REPORT

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

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

RESULTS AND DIVIDENDS

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

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

PRINCIPAL ACTIVITY

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

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

BUSINESS REVIEW

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

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

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

Future outlook

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

Current market conditions

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

MORGAN STANLEY B.V.

DIRECTORS' REPORT

Current market conditions (continued)

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

Risk Management

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

Market risk

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

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

Credit risk

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

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

Liquidity risk

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

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

MORGAN STANLEY B.V.

DIRECTORS' REPORT

DIRECTORS

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

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

POST BALANCE SHEET EVENTS

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

AUDIT COMMITTEE

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

AUDITORS

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

Approved by the Board and signed on its behalf by

Directors

29th April 2010

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

MORGAN STANLEY B.V.

DIRECTORS' RESPONSIBILITY STATEMENT

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

- (a) the financial statements, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and as endorsed by the EU, have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- (b) the management report represented by the Directors' report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

Approved by the Board and signed on its behalf by

Directors

29th April 2010

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

MORGAN STANLEY B.V.**STATEMENT OF COMPREHENSIVE INCOME****Period ended 31 December 2009**

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

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

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

MORGAN STANLEY B.V.**STATEMENT OF CHANGES IN EQUITY****Period ended 31 December 2009**

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

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

MORGAN STANLEY B.V.

Registered Number: 34161590

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

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

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

Signed on behalf of the Board on

Directors
29th April 2010

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

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

MORGAN STANLEY B.V.

STATEMENT OF CASH FLOWS

Period ended 31 December 2009

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

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

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2009

1. CORPORATE INFORMATION

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

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

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

2. BASIS OF PREPARATION

Statement of compliance

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

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

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

New standards and interpretations adopted during the period

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2009

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations not yet adopted

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

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

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

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

Basis of measurement

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

Use of estimates and sources of uncertainty

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Functional currency

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

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

b. Foreign currencies

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

