Registered Office:
Locatellikade 1
Parnassustoren
1076 AZ
Amsterdam
The Netherlands

MORGAN STANLEY B.V.

Annual Report and Accounts

30 November 2007

MORGAN STANLEY B.V.

CONTENTS

MORGAN STANLEY B.V.

DIRECTORS' REPORT

The Directors present their report and accounts for Morgan Stanley B.V. (the "Company") for the year ended 30 November 2007.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was €2,197,000 (2006: €775,000 profit).

During the year, no dividends were paid (2006: €nil).

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

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 (the "Group").

The income statement for the year is set out on page 2. The profit for the year rose by €1,422,000 over the prior year. The Company's operating profit has increased by €1,887,000. This was primarily driven by fees earned from increased issuances of financial instruments to other Morgan Stanley Group undertakings following increased activity over prior year.

The balance sheet on page 3 of the financial statements shows that the Company's net assets at the end of the year were €5,368,000 an increase of 69.3% from the prior year. This was primarily driven by increased fees earned from issuances of financial instruments to other Morgan Stanley Group undertakings following increased activity over prior year not yet received and presented within receivables.

The Directors have voluntarily opted for the financial statements to be prepared under International Financial Reporting Standards ('IFRS') as adopted by the European Union effective 1 December 2006. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 14.

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

The Group manages its key performance indicators on a global basis. 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.

Detailed information regarding the financial risk management of the Company is set out in note 10 to the accounts.

FUTURE OUTLOOK

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 business is expected.

DIRECTORS

The following Directors held office throughout the year:

G.C.De Boer
C.E.C. Hood
TMF Management B.V.
J.A. Solan

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.

By order of the Board on 1 February 2008.

Directors

G.C.De Boer | C.E.C. Hood | TMF Management B.V. | J.A. Solan

MORGAN STANLEY B.V.

INCOME STATEMENT
Year ended 30 November 2007

	Note	2007 €'000	2006 €'000
Net gains on financial instruments designated at fair value through profit or loss		-	-
Interest income		397	176
Other operating income	4	2,573	908
Other operating expense	5	(8)	(9)
OPERATING PROFIT BEFORE INCOME TAX		2,962	1,075
Income tax expense	6	(765)	(300)
PROFIT FOR THE YEAR		2,197	775

All operations were continuing in the current and prior year.

The notes on page 6 to 16 form an integral part of the accounts.

MORGAN STANLEY B.V.

BALANCE SHEET
30 November 2007
(Including Proposed Appropriation of Results)

	Note	2007 €'000	2006 €'000
ASSETS			
Loans and receivables:			
Cash at bank		12	14
Trade receivables	13	31,229	-
Other receivables	13	46,356	1,736
Financial assets designated at fair value through profit or loss	7	10,104,646	3,890,053
Current tax		236	1,454
TOTAL ASSETS		10,182,479	3,893,257
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost:			
Trade payables	13	(119,030)	-
Other payables	13	-	(33)
Financial liabilities designated at fair value through profit or loss	7	(10,058,081)	(3,890,053)
TOTAL LIABILITIES		(10,177,111)	(3,890,086)
EQUITY ATTRIBUTABLE TO SHAREHOLDERS			
Share capital	8	(18)	(18)
Retained earnings		(5,350)	(3,153)
TOTAL EQUITY		(5,368)	(3,171)
TOTAL LIABILITIES AND EQUITY		(10,182,479)	(3,893,257)

These accounts were approved by the Board and authorised for issue on 1 February 2008

Signed on behalf of the Board on 1 February 2008.

Directors

G.C. De Boer C.E.C. Hood TMF Management B.V. J.A. Solan

The notes on pages 6 to 16 form an integral part of the accounts.

STATEMENT OF CHANGES IN EQUITY
Year ended 30 November 2007

	Share Capital €'000	Retained Earnings €'000	Total €'000
At 1 December 2005	18	2,378	2,396
Profit for the year	-	775	775
Balance at 30 November 2006	18	3,153	3,171
At 1 December 2006	18	3,153	3,171
Profit for the year	-	2,197	2,197
Balance at 30 November 2007	18	5,350	5,368

MORGAN STANLEY B.V.

CASH FLOW STATEMENT
Year ended 30 November 2007

	2007 €'000	2006 €'000
OPERATING ACTIVITIES		
Profit for the year	2,962	1,075
Change in operating assets		
Net increase in loans and receivables	(75,847)	(1,160)
Net increase in financial assets designated at fair value through profit or loss	(6,229,258)	(3,250,780)
Net increase in current tax	(5)	(1)
	(6,305,110)	(3,251,941)
Change in operating liabilities		
Net increase /(decrease) in financial liabilities at amortised cost	118,997	(272)
Net increase in financial liabilities designated at fair value through profit or loss	6,182,693	3,250,780
	6,301,690	3,250,508
Cash used in operating activities	(458)	(358)
Income tax received	982	358
Income tax paid	(524)	-
	458	358
NET CASH FLOWS FROM OPERATING ACTIVIES	-	-
Currency translation differences on FX currency cash balances	(2)	(1)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	14	15
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12	14

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 November 2007

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 annual financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The primary financial statements in this document are presented in accordance with International Accounting Standard ('IAS') 1 'Presentation of Financial Statements'.

This is the Company's first set of financial statements prepared in accordance with IFRS and IFRS 1 'First-time Adoption of International Financial Reporting Standards' ('IFRS 1') has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 14.

New Standards and interpretations adopted during the year

IFRS 7 'Financial Instruments: Disclosures' ('IFRS 7') was issued by the International Accounting Standards Board ('IASB') in August 2005 for application for annual periods beginning on or after 1 January 2007. The Company has chosen to early adopt IFRS 7 with effect from 1 December 2006, ahead of its effective date. The impact of the new Standard has been to expand the disclosures provided in these financial statements regarding the Company's financial instruments.

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 effective:

Amendment to IAS 1 'Presentation of Financial Statements' on capital disclosures. This was issued by the IASB in August 2005 for application in accounting periods beginning on or after 1 January 2007. The Standard will be adopted by the Company for the year ended 30 November 2008.

IFRS 8 '*Operating Segments'*. This was issued by the IASB in November 2006 for application in accounting periods beginning on or after 1 January 2009. This Standard will be adopted by the Company for the year ended 30 November 2008.

The Company expects that the adoption of these Standards will have no material impact on the financial statements.

Basis of measurement

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

Use of estimates

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 annual report are rounded to the nearest thousand Euros.

b. Foreign currencies

Any 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 ruling at the dates of the transactions. All translation differences are taken through the income statement.

c. Recognition of income and expenses

i) Net gains and losses on financial instruments designated at fair value through profit or loss

Net gains and losses on financial instruments designated at fair value through profit or loss includes all related realised and unrealised fair value changes, interest income and expense and foreign exchange differences.

ii) Interest

Interest income and interest expense on financial assets and financial liabilities not at fair value is recognised in the income statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the expected life of the financial asset or financial liability. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability 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 or a financial asset or liability.

iii) Fees and commissions

Fees and commissions classified within other operating income include fees earned from issuances of financial instruments to other Morgan Stanley Group undertakings. These amounts are recognised as the related services are performed.

d. 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.

The price transparency of a particular product will determine the degree of judgment involved in determining the fair value of the financial instrument. Price transparency is affected by a wide range of factors, including, for example, the type of product, whether it is a new product and not yet established in the marketplace and the characteristics particular to the product. Products for which actively quoted prices or market data are available or for which fair value is derived from actively quoted prices or market data will generally have a higher degree of price transparency. By contrast, products that are thinly traded or not quoted will generally have little or no price transparency.

A substantial percentage of the fair value of the Company's financial instruments held at fair value is based on observable market prices, observable market data, or is derived from such prices or data. The availability of observable market prices and market data can vary from product to product. Where available, observable market prices and market data in a product (or a related product) may be used to derive a price without requiring significant judgment.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 November 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In certain markets, observable market prices or market data are not available for all products, and fair value is determined using valuation techniques appropriate for each particular product. These valuation techniques involve some degree of judgement.

The transparency of market prices and/or market data will determine the degree of judgement involved in determining the fair value of the Company's financial instruments.

The fair values of many financial instruments, including over-the-counter (OTC) financial instruments, are derived primarily using valuation techniques, which may require multiple market data as inputs. The Company also uses valuation techniques to manage the risks introduced by OTC financial instruments. Depending on the product and the terms of the valuation technique the fair value of the OTC financial instrument 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, applied consistently. In the case of more established financial instruments, the valuation techniques used by the Company are widely accepted by the financial services industry. Valuation techniques take into account the contract terms including the maturity, as well as market data such as interest rates, volatility and the creditworthiness of the counterparty.

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 repacking, 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, as at the transaction date, indicated by the valuation technique is not recognised immediately in the income statement. It is recognised instead when the market data becomes observable.

e. Financial instruments designated at fair value

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

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

Financial instruments designated at fair value are recorded on settlement date at fair value. From the date the transaction is entered into (trade date) until settlement date the Company recognises any unrealised fair value changes of the contract in 'Net gains from financial instruments designated at fair value through profit or loss'. On settlement date the financial instrument is recognised or derecognised from the balance sheet at fair value of the consideration given or received, plus or minus the change in fair value of the contract since the trade date. Subsequent changes in fair value are reflected in the income statement in 'Net gains from financial instruments designated at fair value through profit or loss'.

f. Loans and Receivables

Financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market are categorised as loans and receivables. These financial assets are initially recognised on trade date at fair value. Subsequent measurement is at amortised cost, using the effective interest rate method, less allowance for impairment.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 November 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Offsetting of financial assets and financial liabilities

Where there is a current legally enforceable right to set off the recognised amounts and an intention to settle on a net basis or to realise the asset and the liability simultaneously, financial assets and financial liabilities are offset and the net amount is presented on the balance sheet. In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

h. Income Tax

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

4. OTHER OPERATING INCOME

	2007 €'000	2006 €'000
Other operating income	2,573	908

Operating income relates to fees earned from issuances of financial instruments to other Morgan Stanley Group undertakings.

5. OTHER OPERATING EXPENSE

	2007 €'000	2006 €'000
Audit Fees		
Audit of the annual accounts	8	9

The Company employed no staff during the year.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 November 2007

6. TAX EXPENSE

	2007 €'000	2006 €'000
Dutch corporation tax at 25.84% (2006: 29.76%)		
Current year	765	320
Adjustments in respect of prior years	-	(20)
Tax expense	765	300

	2007 €'000	2006 €'000
Reconciliation of effective tax rate		
Profit before income tax	2,962	1,075
Income tax using the standard rate of corporation tax in the Netherlands of 25.84% (2006: 29.76%)	765	320
Impact on tax of:		
Adjustments to the tax charge in respect of previous periods	-	(20)
Total income tax expense in the income statement	765	300

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

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

Issued structured notes - These instruments contain an embedded derivative which significantly modifies the cash flows of the issuance. The return on the instrument is linked to an underlying that is not clearly and closely related to the debt host including, but not limited to, equity, credit or commodity-linked notes. Using the fair value option, the entire instrument is measured at fair value through profit or loss.

Prepaid equity securities contracts - These contracts involve derivatives for which an initial payment is paid at inception. These financial instruments hedge the obligations arising pursuant to the issuance of the structured notes. Using the fair value option, the entire instrument is measured at fair value through profit or loss.

	2007		2006	
	Assets €'000	Liabilities €'000	Assets €'000	Liabilities €'000
Prepaid equity securities contracts	10,104,646	-	3,890,053	-
Issued notes	-	(10,058,081)	-	(3,890,053)
	10,104,646	(10,058,081)	3,890,053	(3,890,053)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 November 2007

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

Included within financial assets designated at fair value is an amount of €2,331,580,000 (2006 €110,842,000) and within financial liabilities designated at fair value is an amount of €2,331,580,000 (2006 €110,842,000) that is expected to be settled after more than twelve months.

The carrying amount at 30 November 2007 and 30 November 2006 of financial liabilities designated at fair value is equal to the contractual value at maturity.

The change in the fair value of financial liabilities designated at fair value attributable to changes in credit risk is a gain of €104,980,000 and the change in the fair value of financial assets designated at fair value attributable to changes in credit risk is a loss of €104,980,000. This represents a change of estimate from the prior period when the equivalent amount would have been €14,664,000 in respect of both financial assets and liabilities. Included within the income statement is a gain of €104,980,000 attributable to changes in own credit risk for financial liabilities designated at fair value and a loss of €104,980,000 attributable to counterparty credit for financial assets designated at fair value.

The above change in the fair value of financial assets designated at fair value through profit or loss and financial liabilities designated at fair value through profit or loss that is attributable to changes in the credit risk is determined as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk.

8. EQUITY

	Ordinary Shares	
	2007 Number	2006 Number
Authorised	900	900

	2007 €'000	2006 €'000
Issued and fully paid	18	18

At 30 November 2007 the authorised share capital comprised 900 ordinary shares (2006: 900) with a par value of €100 each, of these 180 ordinary shares (2006: 180) were issued and fully paid.

9. SEGMENTAL REPORTING

The Company structures its business segments primarily based upon the nature of the financial products and services provided to the Company's internal management structure.

The Company has only one business segment as described in the Directors' Report and operates in one geographic market, Europe. The balance sheet and income statement reflect the financial position and results of this segment.

10. FINANCIAL RISK MANAGEMENT

Risk Management Procedures

The principal activity of the Company continues to be the issuance of financial instruments and the economic hedging of the obligations arising pursuant to such issuances. It is the policy and objective of the Company not to be exposed to market risk. On issuance of each financial instrument, the Company enters into economic hedges of its obligations by purchasing financial instruments from another Morgan Stanley Group entity.

Credit risk

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

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

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

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

Liquidity risk

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

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 those of 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 financial difficulty.

The Company hedges all of its fair value financial liability transactions with Group companies. The Company's liquidity risk related to this concentration is mitigated as both the Company and its Morgan Stanley Group companies are wholly owned subsidiaries of the same group parent company, Morgan Stanley.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 November 2007

10. FINANCIAL RISK MANAGEMENT (CONTINUED)

In the following contractual maturity analysis, derivative contracts are disclosed as on demand; financial liabilities designated at fair value are disclosed according to their earliest contractual maturity. All such amounts are presented at their fair value. All other amounts represent the undiscounted cash flows payable by the Company arising from its financial liabilities to contractual maturities as at 30 November 2007. Repayments that are subject to notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from those financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial liabilities is managed by the Company.

	In less than one year	In more than one year but not more than two years	More than two years but less than five years	More than five years	Total
	€'000	€'000	€'000	€'000	€'000
2007					
Financial liabilities					
Financial liabilities at amortised cost:					
- Trade payables	119,030	-	-	-	119,030
Financial liabilities designated at fair value through profit or loss	7,726,501	21,267	2,070,542	239,771	10,058,081
Total financial liabilities	7,845,531	21,267	2,070,542	239,771	10,177,111
2006					
Financial liabilities					
Financial liabilities at amortised cost:					
- Other payables	33	-	-	-	33
Financial liabilities designated at fair value through profit or loss	3,779,211	54,027	41,719	15,096	3,890,053
Total financial liabilities	3,779,244	54,027	41,719	15,096	3,890,086

Market Risk

a. Price risk

The Structured notes primarily expose the Company to the risk of changes in market prices of the underlying securities. The Company's price risk arising on the issuance of each financial instrument is economically hedged by the purchase of corresponding hedging contracts from other Group companies.

b. Interest rate risk

The Company's interest rate risk arising on issuance of each financial instrument is economically hedged by the purchase of the corresponding hedging contracts from other Group companies.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 November 2007

10. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Foreign currency risk

If denominated in currencies other than Euros, the structured notes may expose the Company to the risk of changes in rates of exchange between the Euro and the other relevant currencies. The Company uses the hedging contracts that it purchases from other Group companies to hedge any foreign currency risk associated with the issuance of the structured notes, consistent with the Company's risk management strategy.

11. FINANCIAL INSTRUMENTS VALUED USING UNOBSERVABLE MARKET DATA

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

Fair values of financial instruments recognised in the financial statements may be determined in whole or in part using valuation techniques based on assumptions that are not supposed by prices from current market transactions or observable market data.

For fair values that are recognised in the financial statements where valuation techniques use unobservable market inputs, changing one or more assumptions used in these valuation techniques to reasonably possible alternative assumptions has no material impact to the net assets of the Company. This is due to the fact that the Company issues notes to other Group undertakings and currently offsets the risks arising from these financial liabilities by entering into corresponding hedging contracts with other Group undertakings.

b. Financial instruments valued using unobservable market data

The Company does not recognise initially gains/losses arising from unobservable market inputs. Subsequently, gains or losses arising from the valuation of the financial instruments using valuation techniques with unobservable market inputs are recognised in the income statement.

c. Fair value changes estimated using valuation techniques

The total amount of the change in fair value estimated using a valuation technique has resulted in a recognition in the income statement of €nil for the year (2006: €nil). This is due to the fact that the Company issues notes to other Group undertakings and currently offsets the risks arising from these financial liabilities by entering into mirroring contracts with other Group undertakings.

12. FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

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

13. RELATED PARTY DISCLOSURES

Parent and ultimate controlling entity

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

13. RELATED PARTY DISCLOSURES (CONTINUED)

Key Management Compensation

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

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

	2007 €'000	2006 €'000
Short-term employee benefits	40	87
Post-employment benefits	-	1
Share-based payment	5	20
Other long-term employee benefits	1	-
Termination benefits	-	-
Management fees	118	99
	164	207

There were no other transactions with key management personnel in the year.

Transactions with related parties

The Morgan Stanley Group conducts business for clients globally through a combination of both functional and legal entity organisational structures. Accordingly, the Company is closely integrated with the operations of the Morgan Stanley Group and enters into transactions with other Morgan Stanley Group undertakings for the purposes of utilising financing, trading and risk management, and infrastructure services. The nature of these relationships along with information about the transactions and outstanding balances is given below. The Company has made no provision for bad and doubtful debts related to the amount of outstanding balances from related parties (2006: nil).

Financing

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

General funding

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

Details of the outstanding balances on these financing arrangements and interest receivable/payable during the year are shown in the table below:

	2007		2006	
	Interest €'000	Balance €'000	Interest €'000	Balance €'000
Amounts due from other Morgan Stanley Group undertakings	248	46,356	176	1,736
Amounts due to other Morgan Stanley Group undertakings	-	-	-	33

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 November 2007

13. RELATED PARTY DISCLOSURES (CONTINUED)

Trading and risk management

The Company enters into purchases and sales of securities and derivative transactions with other Morgan Stanley Group undertakings to manage the market risks associated with such business. All its transactions are entered into on an arm's length basis. These transactions may give rise to credit risk either for the Company, or to a related party towards the Company. The total amounts receivable and payable on securities transactions not yet settled and the fair value of derivatives contracts outstanding at the year end were as follows:

	2007 €'000	2006 €'000
Amounts due from other Morgan Stanley Group undertakings on unsettled securities and derivatives transactions	31,229	-
Amounts due to other Morgan Stanley Group undertakings	(119,030)	-

The management and execution of business strategies on a global basis results in many Morgan Stanley transactions impacting a number of Morgan Stanley Group entities. The Morgan Stanley Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched. For the year ended 30 November 2007, a net income of €2,573,000 (2006: €908,000) was recognised in the income statement arising from such policies.

Infrastructure services

The Company uses infrastructure services, including the provision of office facilities, operated by other Group undertakings at no charge.

14. TRANSITION TO IFRS

As stated in note 2, these are the Company's first financial statements prepared in accordance with IFRS. The transition to IFRS is accounted for in accordance with IFRS 1 'First-time Adoption of International Financial Reporting Standards' ('IFRS 1'), with 1 December 2006 as the date of transition. The transition from UK GAAP to IFRS has had no material effect on the income statement, balance sheet or cash flows of the Company, and has not affected the underlying economics of its business.

At 30 November 2007, financial assets designated at fair value totalling €10,104,646,000 and financial liabilities designated at fair value totalling €10,058,081,000 were disclosed on the balance sheet. At 30 November 2006, the assets were disclosed as financial instruments with a value of €3,890,053,000 and the liabilities were disclosed as financial instruments with a value of €3,890,053,000. These have been reclassified to financial assets designated at fair value and financial liabilities designated at fair value. The financial instruments were held at fair value in the prior year and so the transition from UK GAAP to IFRS has had no material effect on the valuation of these instruments. Therefore the reconciliation of changes to equity at 30 November 2006 and 30 November 2007 and the reconciliation of profit or loss under UK GAAP and IFRS is not required.

Deloitte.

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To the shareholders of
Morgan Stanley B.V.
Amsterdam

Date	From	Reference
February 4, 2008	G.J.W. Ros	3100120959/OP9997/tdh

Auditor's report

Report on the financial statements

We have audited the accompanying financial statements for the year ended November 30, 2007 of Morgan Stanley B.V., Amsterdam, which comprise the balance sheet as at November 30, 2007, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility

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

Auditor's responsibility

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

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February 4, 2008
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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Morgan Stanley B.V. as at November 30, 2007, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

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

Deloitte Acccountants B.V.

G.J.W. Ros