

Jersey Company Registration No. 74793
UK Company Registration No. FC022412

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MSDW FIXED INCOME LIMITED

Report and Accounts

30 November 2006



MSDW FIXED INCOME LIMITED

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MSDW FIXED INCOME LIMITED

DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 30 November 2006

RESULTS AND DIVIDENDS

The loss for the year, after tax, was \$11,408,000 (2005 \$50,734,000 loss) During the year, no dividends were paid (2005 \$nil)

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of MSDW Fixed Income Limited (the "Company") is that of an intermediate holding company The Company is managed and controlled in the UK

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

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

The profit and loss account for the year is set out on page 4 The Company's operating loss has increased by 50% over the prior year and the loss has decreased from \$50,734,000 to \$11,408,000

The balance sheet on page 5 of the financial statements shows that the Company's net liabilities at the end of the year were \$65,417,000 an increase of 21% from the prior year

There have been no significant events after the balance sheet date

The performance of the Company is included in the results of the Group which are discussed in the Group's Annual Report 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

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, in accordance with defined policies and procedures

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, and escalating risk concentrations to appropriate senior management

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 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

DIRECTORS

The following Directors held office throughout the year

B Gill (appointed 20 December 2006)

E J Ocampo

M C Slings (resigned 20 December 2006)

MSDW FIXED INCOME LIMITED

DIRECTORS' REPORT (CONTINUED)

AUDITORS

Following the transfer of their business to Deloitte & Touche LLP with effect from 1 October 2006, Deloitte & Touche resigned as auditors on 16 February 2007 and their successors, Deloitte & Touche LLP, were appointed as auditors. The Directors have obtained a waiver to dispense with Annual General Meetings of the members of the Company. As such, under Jersey Law, Deloitte & Touche LLP will remain in office until formally removed.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. 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.

By order of the Board on 24 September 2007



DIRECTOR

B Gill

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MSDW FIXED INCOME LIMITED

We have audited the financial statements of MSDW Fixed Income Limited for the year ended 30 November 2006 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 14. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Article 110 of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the Directors' Report for the above year and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 November 2006 and of its loss for the year then ended, and
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Deloitte Touche LLP

Deloitte & Touche LLP

Chartered Accountants

St Helier, Jersey

25 September 2007

MSDW FIXED INCOME LIMITED

PROFIT AND LOSS ACCOUNT

Year Ended 30 November 2006

	Note	2006 \$'000	2005 \$'000
Administrative expenses		<u>(12)</u>	<u>(8)</u>
OPERATING LOSS	3	(12)	(8)
Interest receivable and similar income	5	592	556
Amounts written off investments	8	-	(43,597)
Interest payable and similar charges	6	<u>(11,988)</u>	<u>(7,685)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(11,408)	(50,734)
Tax on loss on ordinary activities	7	<u>-</u>	<u>-</u>
LOSS RETAINED FOR THE FINANCIAL YEAR		<u><u>(11,408)</u></u>	<u><u>(50,734)</u></u>

All operations were continuing in the current and prior year

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

A reconciliation of the movement in shareholders' deficit has been prepared in note 12 to the accounts

The notes on pages 6 to 11 form an integral part of the accounts

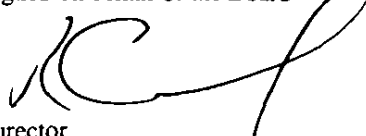
MSDW FIXED INCOME LIMITED

BALANCE SHEET 30 November 2006

	Note	2006 \$'000	2005 \$'000
FIXED ASSETS			
Investments	8	<u>156,633</u>	<u>156,633</u>
CURRENT ASSETS			
Debtors	9	12,920	10,816
Cash at bank		<u>-</u>	<u>1</u>
		12,920	10,817
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Creditors	10	<u>(234,970)</u>	<u>(221,459)</u>
NET CURRENT LIABILITIES		<u>(222,050)</u>	<u>(210,642)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(65,417)</u>	<u>(54,009)</u>
CAPITAL AND RESERVES			
Called up share capital	11	-	-
Profit and loss account	12	(65,417)	(54,009)
EQUITY SHAREHOLDERS' DEFICIT		<u>(65,417)</u>	<u>(54,009)</u>

These accounts were approved by the Board on 24 September 2007

Signed on behalf of the Board


Director
B Gill

The notes on pages 6 to 11 form an integral part of the accounts

MSDW FIXED INCOME LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2006

1. ACCOUNTING POLICIES

a) Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable Jersey law and United Kingdom accounting standards

The Company has elected to take advantage of transitional provisions within *FRS 25* and not restate comparative information under *FRS 25*. Where comparative information has been prepared on the basis of the Company's previous accounting policies, the accounting policies applied for 2005 and 2006 are disclosed separately to the extent that they differ.

The Company is not required to prepare consolidated accounts by virtue of the exemption under *FRS 2 'Accounting for Subsidiary Undertakings'*. The results of the Company are included within the accounts of Morgan Stanley International Limited, a company registered in England and Wales, which will prepare consolidated accounts for the year to 30 November 2006. The accounts therefore present information about the Company as an individual entity and not about its group.

b) Functional currency

The accounts are prepared in US dollars, the currency of the primary economic environment in which the Company operates.

All currency amounts in the Directors' report, accounts and the notes to the accounts are rounded to the nearest thousand US dollars.

c) Foreign currencies

All monetary assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the rates ruling at the balance sheet date. Transactions in currencies other than US dollars are recorded at the rates ruling at the dates of the transactions. Translation differences are taken through the profit and loss account.

d) Fixed asset investments

Fixed asset investments are stated at cost, less provision for any impairment.

e) 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 by the balance sheet date.

Full provision has been made for deferred tax assets and liabilities arising from timing differences. Deferred tax is measured at 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 likely that they will be recovered. Deferred tax assets and liabilities are not discounted.

The Company has been granted exempt status for Jersey taxation purposes and therefore incurs an annual exempt company fee of £600.

f) Offsetting of financial assets and financial liabilities

For the year ended 30 November 2005, all assets and liabilities were disclosed gross unless the Company had the ability to insist on net settlement and this was assured beyond doubt.

From 1 December 2005, the Company implemented *FRS 25*. Where there is a legally enforceable right to set off the recognised amounts and an intention to settle on a net basis or to realise the asset the liability simultaneously, financial assets and financial liabilities are offset and the net amount is presented on the balance sheet. All other amounts are presented on a gross basis.

There is no impact on the Company as at 30 November 2006 of implementing *FRS 25*.

MSDW FIXED INCOME LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2006

1. ACCOUNTING POLICIES (CONTINUED)

g) 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 produce a cash flow statement.

2. 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.

3. OPERATING LOSS

	2006 \$'000	2005 \$'000
Operating loss is stated after charging		
Auditors' remuneration - audit fees	<u>12</u>	<u>8</u>

4. STAFF COSTS

The Company employed no staff during the year (2005: nil). The Directors did not receive any remuneration for their qualifying services to the Company during the year (2005: \$nil).

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2006 \$'000	2005 \$'000
Interest receivable from Group undertakings	<u>592</u>	<u>556</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2006 \$'000	2005 \$'000
Interest payable to Group undertakings	11,987	7,685
Other foreign exchange losses	<u>1</u>	<u>-</u>
	<u>11,988</u>	<u>7,685</u>

MSDW FIXED INCOME LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2006

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	2006 \$'000	2005 \$'000
UK corporation tax at 30% (2005 30%)		
- Current year	-	-
Tax on loss on ordinary activities	-	-

Factors affecting the tax charge for the year

The current year UK taxation charge is higher than that resulting from applying the standard UK corporation tax rate of 30% (2005 30%) The main differences are explained below

	2006 \$'000	2005 \$'000
Loss on ordinary activities before tax	(11,408)	(50,734)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 30%)	(3,423)	(15,220)
Effects of:		
Impairment charges not deductible for tax purposes	-	13,079
Group relief surrendered for nil consideration	3,423	2,141
Current tax charge for the year	-	-

The Company continues to have tax losses carried forward at nil value The potential deferred tax asset of \$826,286 (2005 \$826,286) has not been recognised due to uncertainty regarding the level of future profits

MSDW FIXED INCOME LIMITED

NOTES TO THE ACCOUNTS Year ended 30 November 2006

8. FIXED ASSET INVESTMENTS

	Subsidiary undertakings \$'000	Total \$'000
Cost		
At 1 December 2005	306,230	306,230
At 30 November 2006	306,230	306,230
Impairment Provision		
At 1 December 2005	(149,597)	(149,597)
At 30 November 2006	(149,597)	(149,597)
Net book value		
At 30 November 2005	156,633	156,633
At 30 November 2006	156,633	156,633

Details of the investments in which the Company holds more than 20% of the nominal value of any class of share capital, or investments with a book value greater than 20% of the Company's own assets at 30 November 2006 are as follows

Name of Company	Country of incorporation	Holding	Type of shares held	Proportion of voting rights	Nature of business
MSDW Jubilee Investments Limited	United Kingdom	100%	Ordinary shares	100%	Holding company
Willow Capital Limited	Jersey	100%	Ordinary shares	100%	Financial services
MSDW Eden Investments Limited	United Kingdom	100%	Ordinary shares*	100%	Holding company
Augusta Cooperative U A	The Netherlands	100%	A & B Memberships*	100%	Financial services

An * denotes shareholdings attributed to the Company which are not held directly by the Company

9. DEBTORS

	2006 \$'000	2005 \$'000
Other amounts due from Group undertakings	12,920	10,816

MSDW FIXED INCOME LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2006

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 \$'000	2005 \$'000
Other amounts owing to Group undertakings	234,970	221,459

11. CALLED UP SHARE CAPITAL

	2006 Number	2005 Number
Authorised:		
Equity shares		
Ordinary shares of £1 each	500,000,000	500,000,000
	2006 \$'000	2005 \$'000
Allotted and fully paid :		
Equity shares		
10 ordinary shares of £1 each	-	-

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

12. RECONCILIATION OF SHAREHOLDERS' DEFICIT AND MOVEMENTS ON RESERVES

	Called up share capital \$'000	Profit and loss account \$'000	Total \$'000
At 1 December 2004	-	(3,275)	(3,275)
Loss for the year	-	(50,734)	(50,734)
At 1 December 2005	-	(54,009)	(54,009)
Loss for the year	-	(11,408)	(11,408)
At 30 November 2006	-	(65,417)	(65,417)

13. 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.

MSDW FIXED INCOME LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 November 2006

14. PARENT UNDERTAKINGS

The ultimate parent undertaking and controlling entity and the 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.

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