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Touche**

Deloitte Touche
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International



Company Registration No. 2164628

MORGAN STANLEY & CO. LIMITED

Report and Financial Statements

30 November 1997

Deloitte & Touche
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR





REPORT AND FINANCIAL STATEMENTS 1997

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REPORT AND FINANCIAL STATEMENTS 1997

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

S C Fleischer
J Hepburn
J Johansson
R S Rosenthal
J Studzinski
Sir David Walker

SECRETARY

R S Rosenthal

REGISTERED OFFICE

25 Cabot Square
Canary Wharf
London E14 4QA

AUDITORS

Deloitte & Touche
Chartered Accountants
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 30 November 1997.

RESULTS AND DIVIDENDS

The loss for the year, after tax and dividends, was \$133,868,000 (1996 - profit \$110,459,000). On 16 March, 1 July and 26 November 1997, interim dividends were paid of \$24,323,000, \$125,000,000 and \$40,000,000 respectively. The Directors recommend the payment of a final ordinary dividend of \$30,000,000 (1996: \$Nil).

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company is the provision of investment banking services. The company is regulated by the Securities and Futures Authority Limited. The profit and loss account for the year is set out on page 5. The company has a representative office in Madrid. Both the level of business during the year and the financial position at the end of the year were satisfactory.

DIRECTORS

The following Directors held office throughout the year, except where otherwise shown:

S C Fleischer	
J K Hepburn	
J P Hollihan	(resigned 9 December 1996)
L Isasi	(resigned 9 December 1996)
G James	(resigned 9 December 1996)
J Johansson	
D Lancksweert	(resigned 9 December 1996)
F Mäude	(resigned 9 December 1996)
N H Neubohn	(resigned 9 December 1996)
R S Rosenthal	
J Salzman	(resigned 9 December 1996)
P Stott	(resigned 9 December 1996)
J Studzinski	
G Voute	(resigned 9 December 1996)
Sir David Walker	(Chairman)
J S Ward	(resigned 12 April 1997)
M Zaoui	(resigned 9 December 1996)

DIRECTORS' INTERESTS

The Directors had no disclosable interests in the share and loan capital of any group company at the beginning or at the end of the year.

AUDITORS

Deloitte & Touche were appointed as auditors during the year. They have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at a forthcoming Extraordinary General Meeting.

By order of the Board



R S Rosenthal

Secretary

27 February 1998



STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping 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 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.



Chartered Accountants

Deloitte & Touche
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

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AUDITORS' REPORT TO THE MEMBERS OF

MORGAN STANLEY & CO. LIMITED

We have audited the financial statements on pages 5 to 11 which have been prepared under the historical cost convention and on the basis of the policies set out on page 7.

Respective responsibilities of Directors and auditors

As described on page 3 the company's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards 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 of the state of the company's affairs at 30 November 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants
and Registered Auditors

27 February 1998


PROFIT AND LOSS ACCOUNT

Year ended 30 November 1997

	Note	1997 \$'000	1996 \$'000
TURNOVER	2	316,607	303,394
Staff costs	3	135,514	104,971
Depreciation		57	40
Other operating charges		98,820	89,102
		<u>234,391</u>	<u>194,113</u>
OPERATING PROFIT		82,216	109,281
Interest receivable		15,101	5,780
Interest payable	4	(3,623)	(194)
		<u>11,478</u>	<u>5,586</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	93,694	114,867
Tax on profit on ordinary activities	7	(8,239)	(4,408)
		<u>85,455</u>	<u>110,459</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	15	85,455	110,459
Dividends paid and proposed	8	(219,323)	-
(LOSS)/PROFIT ON ORDINARY ACTIVITIES RETAINED FOR THE YEAR		<u>(133,868)</u>	<u>110,459</u>

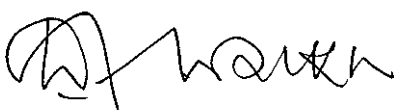
There are no recognised gains or losses or movements in shareholders' funds during the year other than the loss on ordinary activities retained for the year disclosed above. Accordingly, no statement of total recognised gains or losses is given. The above all relates to continuing operations.

BALANCE SHEET
30 November 1997

	Note	1997 \$'000	1996 \$'000
FIXED ASSETS			
Tangible assets	9	126	152
CURRENT ASSETS			
Debtors	10	312,595	86,867
Cash at bank		51	187,251
		312,646	274,118
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	(283,575)	(111,205)
NET CURRENT ASSETS		29,071	162,913
TOTAL ASSETS LESS CURRENT LIABILITIES		29,197	163,065
CAPITAL AND RESERVES			
Called up share capital	14	1,001	1,001
Profit and loss account	15	28,196	162,064
EQUITY SHAREHOLDERS' FUNDS		29,197	163,065

These financial statements were approved by the Board of Directors on 27 February 1998.

Signed on behalf of the Board of Directors


 Sir David Walker
 Director

NOTES TO THE FINANCIAL STATEMENTS
30 November 1997

1. ACCOUNTING POLICIES

Accounting convention

These financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Preparation of financial statements in US dollars

It is considered that a fairer reflection of the company's activities is given by presenting the financial statements in US dollars, the functional currency of the ultimate parent company, since the US dollar is the main currency of the company's primary economic environment.

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 rate ruling at the date of the transaction. Translation differences are dealt with through the profit and loss account.

Deferred taxation

Deferred taxation is provided on all timing differences which are expected to reverse in the future, calculated at the rate at which it is estimated that the tax will be payable.

Depreciation

The company's policy is to provide depreciation on all tangible fixed assets. The rates used are calculated to write off the cost of each asset on a straight line basis over three to five years.

Cash flow statement

The company's ultimate parent undertaking produces a cash flow statement in accordance with Financial Reporting Standard (FRS) 1 (Revised), Cash Flow Statements. Accordingly the company, which is a wholly owned subsidiary, has elected to utilise the exemption provided in FRS 1 (Revised), and not produce a cash flow statement.

Segmental Reporting

The Directors are of the opinion that it would be seriously prejudicial to the interests of the company to give separate disclosure in respect of each geographical market and the company has only one class of business, described in Note 2.

2. TURNOVER

Turnover, which is stated net of value added tax, represents fees for investment banking services provided.

3. STAFF COSTS

The company employed no staff during the year, but incurred management charges in respect of staff costs from other group undertakings. No Directors' remuneration was paid by the company, but management recharges were incurred in respect of their directorships. Details of Directors' remuneration are shown in Note 6.



NOTES TO THE FINANCIAL STATEMENTS

30 November 1997

4. INTEREST PAYABLE

	1997 \$'000	1996 \$'000
Group undertakings	3,623	194

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1997 \$'000	1996 \$'000
This is stated after charging:		
Auditors' remuneration - audit fees	13	13
- other services	-	5
Operating lease rentals	53	29

6. DIRECTORS' EMOLUMENTS

	1997 \$'000	1996 \$'000
Emoluments of the highest paid Director are as follows:		
Aggregate emoluments excluding pension contributions	3,382	2,800
Company pension contributions to money purchase scheme	-	5
Defined benefit pension scheme:		
Accrued pension at end of year	-	10
Total emoluments of all Directors are as follows:		
Aggregate emoluments	12,386	18,425
Company pension contributions to money purchase schemes	103	26

There are four Directors to whom retirement benefits are accruing under money purchase schemes. Two of these Directors also have retirement benefits accruing under defined benefit schemes.


NOTES TO THE FINANCIAL STATEMENTS
30 November 1997
7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1997 \$'000	1996 \$'000
Based on profit for the year:		
UK corporation tax		
- current year at 31.67% (1996 - 33%)	7,409	4,786
- prior year at 33%	1,071	-
Deferred taxation		
- current year	(264)	(378)
- prior year	23	-
	<u>8,239</u>	<u>4,408</u>

The current year tax charge has been reduced by \$22,865,000 relating to group relief and advance corporation tax surrendered by other group companies for no consideration (1996 - \$33,864,000).

8. DIVIDENDS

	1997 \$'000	1996 \$'000
Equity dividends on ordinary shares:		
Interim paid	189,323	-
Final proposed	30,000	-
	<u>219,323</u>	<u>-</u>

9. TANGIBLE FIXED ASSETS

	Leasehold \$'000	Motor vehicles \$'000	Furniture, fixtures and fittings \$'000	Total \$'000
Cost				
At 1 December 1996	155	-	110	265
Additions	-	27	4	31
At 30 November 1997	<u>155</u>	<u>27</u>	<u>114</u>	<u>296</u>
Depreciation				
At 1 December 1996	59	-	54	113
Provided during the year	32	2	23	57
At 30 November 1997	<u>91</u>	<u>2</u>	<u>77</u>	<u>170</u>
Net book value				
At 30 November 1997	<u>64</u>	<u>25</u>	<u>37</u>	<u>126</u>
At 30 November 1996	<u>96</u>	<u>-</u>	<u>56</u>	<u>152</u>


NOTES TO THE FINANCIAL STATEMENTS
30 November 1997
10. DEBTORS

	1997 \$'000	1996 \$'000
Trade debtors	76,202	86,291
Amounts due from group undertakings	235,713	1
Other debtors	61	197
Deferred taxation (Note 13)	619	378
	<u>312,595</u>	<u>86,867</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1997 \$'000	1996 \$'000
Amounts owing to group undertakings	238,422	103,755
Corporation tax	7,409	4,486
Other taxes and social security costs	2,576	1,659
Accruals	5,168	1,305
Proposed dividend	30,000	-
	<u>283,575</u>	<u>111,205</u>

12. OPERATING LEASE COMMITMENTS

During the year ending 30 November 1998 the company is committed to pay \$53,000 in respect of operating leases for land and buildings which expire:

	1997 \$'000	1996 \$'000
In two to five years	<u>53</u>	<u>53</u>

13. DEFERRED TAXATION

Deferred taxation has been fully provided. The asset is included in debtors and relates to short-term timing differences.

The movement in the provision for deferred tax during the year was:

	\$'000
At 1 December 1996	378
Current year timing differences	264
Prior year timing differences	(23)
At 30 November 1997	<u>619</u>



NOTES TO THE FINANCIAL STATEMENTS

30 November 1997

14. CALLED UP SHARE CAPITAL

	1997 \$'000	1996 \$'000
Authorised:		
15,001,000 ordinary shares of \$1 each	<u>15,001</u>	<u>15,001</u>
Allotted and fully paid:		
1,001,000 ordinary shares of \$1 each	<u>1,001</u>	<u>1,001</u>

15. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share capital \$'000	Profit and loss account \$'000	Total \$'000
At 1 December 1996	1,001	162,064	163,065
Profit for the year	-	85,455	85,455
Dividends	-	(219,323)	(219,323)
At 30 November 1997	<u>1,001</u>	<u>28,196</u>	<u>29,197</u>

16. RELATED PARTY TRANSACTIONS

Under paragraph 17 of FRS 8, Related Party Transactions, the company is exempt from the requirement to disclose transactions with fellow group companies.

17. PARENT UNDERTAKINGS

The ultimate parent company is Morgan Stanley, Dean Witter, Discover & Co., which is incorporated in the United States of America.

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 Group (Europe) Plc which is registered in England and Wales. Copies of Morgan Stanley, Dean Witter, Discover & Co's. financial statements can be obtained from 25 Cabot Square, Canary Wharf, London E14 4QA and Morgan Stanley Group (Europe) Plc's financial statements can be obtained from the Registrar of Companies for England and Wales Companies House, 3 Crown Way, Maindy, Cardiff CF4 3UZ.