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25 Cabot Square
Canary Wharf
London
E14 4QA

Lancashire Trading B.V.

Report and Accounts

for the period from

31 August 2004 to 15 September 2004

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LANCASHIRE TRADING B.V.

CONTENTS

	Page
Directors' report	1
Profit and loss account	2
Balance sheet	3
Notes to the accounts	4
Independent auditors' report	11

LANCASHIRE TRADING B.V.

DIRECTORS' REPORT

The Directors present their report and accounts for the period from 31 August 2004 to 15 September 2004.

RESULTS AND DIVIDENDS

The loss for the period, after tax, was £140,000,000. During the period, no dividends were paid. A loss of £140,000,000 will be carried to reserves.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of Lancashire Trading B.V. ("the Company") is the issuance and trading of securities.

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").

The profit and loss account for the period is set out on page 2. Both the level of business during the period and the financial position at the end of the period were satisfactory. No significant change in the Company's principal business activity is expected.

The Company was incorporated on 31 August 2004 in the Netherlands. From the date of incorporation, the management and control of the Company has been in the UK and thus the Company is liable to UK Corporation Tax on its taxable profits.

DIRECTORS

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

C. E. Hood (appointed 31 August 2004)

B. Walker (appointed 31 August 2004)

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 period.

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 15 October 2004

Directors:



C.E. Hood B. Walker

LANCASHIRE TRADING B.V.

PROFIT AND LOSS ACCOUNT
Period from 31 August 2004 (date of incorporation) to 15 September 2004

	Note	Period ended 15 September 2004 £'000
NET REVENUE	3	(200,000)
OPERATING LOSS	4	(200,000)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(200,000)
Tax on loss on ordinary activities	6	60,000
LOSS RETAINED FOR THE PERIOD		(140,000)

All operations were continuing in the current period.

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

A reconciliation of the movement in shareholders' funds has been prepared in note 10 to the accounts.

The notes on page 4 to 9 form an integral part of the accounts.

LANCASHIRE TRADING B.V.

BALANCE SHEET
15 September 2004

Before appropriation of net results

	Note	15 September 2004 £'000
CURRENT ASSETS		
Financial instruments	7	15
Debtors	8	60,019
TOTAL ASSETS		60,034
CAPITAL AND RESERVES		
Called up share capital	9	30
Share premium	10	200,004
Loss retained for the period	10	(140,000)
EQUITY SHAREHOLDERS' FUNDS	10	60,034

These accounts were approved by the Board on 15 October 2004

Signed on behalf of the Board

Director

The notes on pages 4 to 9 form an integral part of the accounts.

LANCASHIRE TRADING B.V.

NOTES TO THE ACCOUNTS
Period ended 15 September 2004

1. GENERAL

Lancashire Trading B.V ("the Company"), having its legal seat in Amsterdam, the Netherlands, currently operating from 25 Cabot Square, Canary Wharf, London, United Kingdom is engaged in the issuance and trading of securities.

The Company is a wholly owned subsidiary of Morgan Stanley Holdings Jersey Unlimited. The Company's ultimate parent undertaking and controlling entity is Morgan Stanley ("the ultimate parent"), which, together with the Company and its other subsidiary undertakings, form the Morgan Stanley Group (the "Group").

2. ACCOUNTING POLICIES

a) Accounting convention

The accounts are prepared under the historical cost convention, modified by the inclusion of financial instruments at fair value, and in accordance with applicable United Kingdom accounting standards as permitted by Article 362.1 of Title 9 of Book 2 of the Netherlands Civil Code, on the basis of the Company's international connections.

b) Functional currency

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

c) Foreign currencies

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

d) Financial instruments

Financial instruments, including cash and derivative products, used in the Company's trading activities are recorded at trade date and are recorded at fair value, gains and losses are reflected in net revenue in the profit and loss account. Fair value is the amount at which financial instruments could be exchanged in a current transaction between willing parties, other than in a forced or distressed sale.

The price transparency of the 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 transaction. Products for which actively quoted prices or pricing parameters are available or for which fair value is derived from actively quoted prices or pricing parameters will generally have a higher degree of price transparency than products that are thinly traded or not quoted that generally have reduced to no price transparency.

A substantial percentage of the fair value of the Company's financial instruments is based on observable market prices, observable market parameters, or is primarily derived from such prices or parameters. The availability of observable market prices and pricing parameters can vary from product to product. Where available, observable market prices and pricing parameters in a product (or a related product) may be used to derive a price without requiring significant judgment. In certain markets, observable market prices or market parameters are not available for all products, and fair value is determined using techniques appropriate for each particular product. These analyses involve some degree of judgment.

The fair value of over-the-counter ("OTC") derivative contracts is derived from pricing models, which may require multiple market input parameters. In the absence of observable market prices or parameters in an active market, observable prices or parameters of other comparable market transactions, or other observable data supporting a fair value based on a pricing model at the inception of a contract, fair value is based on the transaction price. The Company also uses pricing models to manage the risks introduced by these

NOTES TO THE ACCOUNTS
Period ended 15 September 2004

2. ACCOUNTING POLICIES (CONTINUED)

d) Financial instruments (continued)

transactions. The term "model" typically refers to a mathematical calculation methodology based on accepted financial theories. Depending on the product and the terms of the transaction, the fair value of OTC derivative products 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 derivative products, the pricing models used by the Company are widely accepted by the financial services industry. Pricing models take into account the contract terms, including the maturity, as well as quoted market parameters such as interest rates, volatility and the creditworthiness of the counterparty.

All assets and liabilities are held in the trading book of the Company.

e) 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.

3. NET REVENUE

Net revenue represents net trading income on financial instruments and is recorded on a trade date basis.

4. OPERATING LOSS

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

5. STAFF COSTS

The Company employed no staff during the period. The Directors did not receive any remuneration for their qualifying services to the Company during the period.

NOTES TO THE ACCOUNTS
Period ended 15 September 2004

6. TAX ON LOSS ON ORDINARY ACTIVITIES

Analysis of credit in the period

	Period ended 15 September 2004 £'000
UK corporation tax at 30%, current year Group relief receivable	
- Current year	(60,000)
Tax on loss on ordinary activities	(60,000)

Factors affecting the tax credit for the year

The current period UK taxation credit is equal to the standard UK corporation tax rate of 30%.

7. FINANCIAL INSTRUMENTS

Financial instruments owned comprise Pound sterling denominated gilts.

MATURITY PROFILE

The maturity profile of the financial instruments owned is set out below:

	Within one year	Between one and two years	Between two and five years	More than five years	Total
	£'000	£'000	£'000	£'000	£'000
2004					
Financial Instruments owned	-	15	-	-	15

NOTES TO THE ACCOUNTS
Period ended 15 September 2004

7. FINANCIAL INSTRUMENTS (CONTINUED):

INTEREST RATE RISK

					Fixed rate		Non-interest bearing
	Total	Floating rate	Fixed rate	Non-interest bearing	Weighted average interest rate	Weighted average period for which the rate is fixed	Weighted average period until maturity
	£'000	£'000	£'000	£'000	%	Years	Years
Financial Assets							
At 15 September 2004							
Financial instruments owned	15	-	15	-	4.125%	2	2

	Fair and Book value 15 September 2004 £'000
Financial Instruments owned	15

All financial instruments are recorded at fair value, there are not unrecognised gains and losses and, consequently, an analysis of unrecognised gains and losses has not been provided.

CURRENCY RISK PROFILE

The Company's functional currency is Pound sterling. All assets and liabilities at period end are denominated in Pound sterling.

NOTES TO THE ACCOUNTS
Period ended 15 September 2004

8. DEBTORS

	15 September 2004 £'000
Amounts due from Group undertakings	19
Group relief receivable	60,000
	60,019

9. CALLED UP SHARE CAPITAL

	15 September 2004 Number
Authorised :	
Equity shares	
40,000 Class A shares of EUR 1.20 each	40,000
4,000,000 Class B shares of EUR 0.01 each	4,000,000

	15 September 2004 £'000
Allotted and fully paid :	
Equity shares	
20,000 Class A shares of EUR 1.20 each	16
2,000,000 Class B shares of EUR 0.01 each	14
	30

At incorporation, the initial authorised share capital was 40,000 Class A shares of EUR 1.20 each and 4,000,000 Class B shares of EUR 0.01 each. During the period the Company issued 20,000 Class A shares of EUR 1.20 each to Morgan Stanley Investment Holdings Jersey Unlimited for a total consideration of £20,000 in cash.

All ordinary shares are recorded at the rates of exchange ruling at the date the shares were paid up, being 0.6755 on 31 August 2004 and 0.6844 on 15 September 2004.

The Class A shares carry 120 votes each. The Class B shares carry 1 vote each. Neither class of shares are redeemable.

On 31 August 2004, Morgan Stanley Investment Holdings Jersey Unlimited entered into a subscription agreement with the Company whereby it agreed to subscribe for up to 2,500,000 Class B shares for a subscription price of EUR 0.01 and £100.00 premium per share until 30 September 2004.

On 15 September 2004, Morgan Stanley Investment Holdings Jersey Unlimited subscribed for 2,000,000 Class B shares under the above subscription agreement.

NOTES TO THE ACCOUNTS
Period ended 15 September 2004

10. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 31 August 2004 (date of incorporation)	16	4	-	20
Loss for the period	-	-	(140,000)	(140,000)
Subscription for Class B shares	14	200,000	-	200,014
At 15 September 2004	30	200,004	(140,000)	60,034

11. 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.

12. 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 or Locatellikade 1, 1067 AZ Amsterdam.

London, 15 October 2004

Directors:

C.E. Hood

B. Walker

ADDITIONAL INFORMATION

Auditors' report

The auditors' report is recorded on the next page.

Statutory rules concerning appropriation of the net result

The Articles of Incorporation of the Company provide that the net result for the year is at the disposition of the Annual General Meeting of Shareholders.

Appropriation of the net result for the period

Awaiting the decision by the shareholder, the net result for the period from 31 August to 15 September 2004 is separately included in the shareholder's equity as loss retained for the period.

Subsequent events

No events have occurred since the balance sheet date, which would change the financial position of the Company and which would require adjustment of disclosure in the annual report now presented.

Deloitte.

Deloitte Accountants B.V.
Orlyplein 10
1043 DP Amsterdam
P.O.Box 58110
1040 HC Amsterdam
Netherlands

Tel: +31 (20) 582 5000
Fax: +31 (20) 582 4024
www.deloitte.nl

To the Shareholders of Lancashire Trading B.V.

Date	From	Reference
23 September 2004	G.J.W. Ros	1033570/OP9998/PS

Auditors' report

Introduction

We have audited the financial statements of Lancashire Trading B.V., Amsterdam, for the period from 31 August 2004 to 15 September 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 15 September 2004 and of the result for the period then ended in accordance with accounting principles generally accepted in the United Kingdom and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Deloitte Accountants BV

Deloitte Accountants B.V. is registered with the Trade Register of the Chamber of Commerce and Industry in Rotterdam.

Member of
Deloitte Touche Tohmatsu