

25 Cabot Square
Canary Wharf
London
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080666/30

For summary

Lancashire Trading B.V.

Report and Accounts

for the period from

16 September 2004 to 30 November 2004



LANCASHIRE TRADING B.V.

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LANCASHIRE TRADING B.V.

DIRECTORS' REPORT

The Directors present their report and accounts for the period from 16 September 2004 to 30 November 2004, the accounting reference date having been changed from 15 September to 30 November on 29 November 2004.

RESULTS AND DIVIDENDS

The profit for the period, after tax, was £319,000 (period ended 15 September 2004: £140,000,000 loss). During the period, no dividends were paid (period ended 15 September 2004: £nil). A profit of £319,000 (period ended 15 September 2004: £140,000,000 loss) will be carried to reserves. The allocation of the profit of £319,000 (period ended 15 September 2004: £140,000 loss) shall be determined by the General meeting.

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:

C. E. Hood
B. Walker

DIRECTORS' INTERESTS

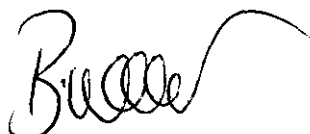
The Directors had no disclosable interests in the share and loan capital of any Group company at the beginning or at the end of the period.

By order of the Board on 28 APRIL 2005

Directors



C.E. Hood



B. Walker

LANCASHIRE TRADING B.V.

PROFIT AND LOSS ACCOUNT

Period from 16 September 2004 to 30 November 2004

	Note	16 September to 30 November 2004 £'000	31 August to 15 September 2004 £'000
NET REVENUE	3	-	(200,000)
OPERATING LOSS	4	-	(200,000)
Interest receivable and similar income	6	456	-
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		456	(200,000)
Tax on profit/(loss) on ordinary activities	7	(137)	60,000
PROFIT/(LOSS) RETAINED FOR THE FINANCIAL PERIOD	11	319	(140,000)

All operations were continuing in the current and prior period.

There were no recognised gains or losses during the current or prior 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 12 to the accounts.

The notes on page 4 to 10 form an integral part of the accounts.

LANCASHIRE TRADING B.V.

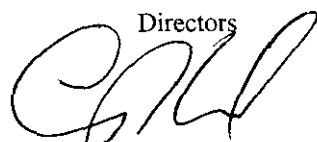
BALANCE SHEET 30 November 2004

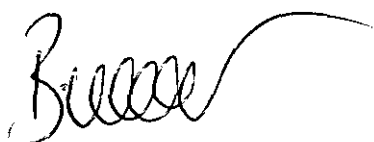
Before appropriation of net results

	Note	30 November 2004 £'000	15 September 2004 £'000
CURRENT ASSETS			
Financial instruments		15	15
Debtors	8	<u>60,475</u>	<u>60,019</u>
		60,490	60,034
CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR			
Other creditors	9	(137)	-
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>60,353</u>	<u>60,034</u>
CAPITAL AND RESERVES			
Called up share capital	10	30	30
Share premium account	11	200,004	200,004
Retained earnings	11	(140,000)	-
Profit and loss account	11	319	(140,000)
EQUITY SHAREHOLDERS' FUNDS		<u>60,353</u>	<u>60,034</u>

These accounts were approved by the Board on 28 April 2005

Signed on behalf of the Board

Directors

C.E. Hood


B. Walker

The notes on pages 4 to 10 form an integral part of the accounts.

NOTES TO THE ACCOUNTS
Period ended 30 November 2004

1. GENERAL

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 Investment Holdings Jersey Limited. The Company's ultimate parent undertaking and controlling entity is Morgan Stanley, which, together with the Company and its other subsidiary undertakings, form 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.

All currency amounts in the Directors' Report, the Accounts and the Notes to the Accounts are rounded to the nearest thousand Pound sterling.

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 on trade date and are recorded at fair value. Subsequent changes in fair value 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 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 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. Products that are thinly traded or not quoted generally have little or no price transparency.

A substantial percentage of the fair value of the Company's financial instruments is based on observable market prices or observable market parameters, or is 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. In these cases, fair value is determined using techniques appropriate for each particular product. These analyses involve some degree of judgment.

NOTES TO THE ACCOUNTS
Period ended 30 November 2004

2. ACCOUNTING POLICIES (CONTINUED)

The fair value of over-the-counter ("OTC") derivative contracts is derived primarily from pricing models, which may require multiple market input parameters. The Company also uses pricing models to manage the risks introduced by these 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 in line with those 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) 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 at 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 that they will be recovered. Deferred tax assets and liabilities are not discounted.

f) 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 PROFIT

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

5. STAFF COSTS

The Company employed no staff during the period (period ended 15 September 2004: Nil). The Directors did not receive any remuneration for their qualifying services to the Company during the period (period ended 15 September 2004: \$nil).

LANCASHIRE TRADING B.V.

NOTES TO THE ACCOUNTS Period ended 30 November 2004

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	16 September to 30 November 2004 £'000	31 August to 15 September 2004 £'000
Interest receivable from Group undertakings	456	-

7. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

Analysis of charge in the period

	16 September to 30 November 2004 £'000	31 August to 15 September 2004 £'000
UK corporation tax at 30% (period ended 15 September 2004 30% Group relief payable)		
- Current period	137	(60,000)
Tax on profit / (loss) on ordinary activities	137	(60,000)

Factors affecting the tax charge for the period

The current period UK taxation charge is equal to the standard UK corporation tax rate of 30% (period ended 15 September 2004: 30%).

8. DEBTORS

	30 November 2004 £'000	15 September 2004 £'000
Amounts due from Group undertakings	60,475	19
Group relief receivable	-	60,000
	60,475	60,019

LANCASHIRE TRADING B.V.

NOTES TO THE ACCOUNTS

Period ended 30 November 2004

9. OTHER CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 November 2004 £'000	15 September 2004 £'000
Corporation tax	<u>137</u>	<u>-</u>

10. CALLED UP SHARE CAPITAL

	30 November 2004 Number	15 September 2004 Number
Authorised :		
Equity shares		
40,000 Class A shares of EUR 1.20 each	40,000	40,000
4,000,000 Class B shares of EUR 0.01 each	<u>4,000,000</u>	<u>4,000,000</u>

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

All ordinary shares are recorded at the rates of exchange ruling at the date the shares were paid up, being EUR 0.6755:£1 on 31 August 2004 and EUR 0.6844:£1 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.

LANCASHIRE TRADING B.V.

NOTES TO THE ACCOUNTS Period ended 30 November 2004

11. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital £'000	Share premium account £'000	Retained reserves £'000	Profit and loss account £'000	Total £'000
At 31 August 2004					
Issuance of Class A shares	16	4	-	-	20
Loss for the period	-	-	-	(140,000)	(140,000)
Subscription for Class B shares	14	200,000	-	-	200,014
At 16 September 2004	30	200,004	-	(140,000)	60,034
Appropriation of net result	-	-	(140,000)	140,000	-
Profit for the period	-	-	-	319	319
At 30 November 2004	30	200,004	(140,000)	319	60,353

12. 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.

13. PARENT UNDERTAKINGS

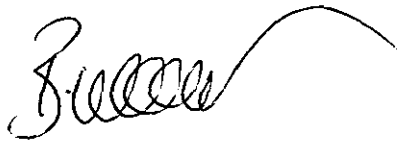
The ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which group accounts are prepared is Morgan Stanley. Morgan Stanley is incorporated in Delaware, the United States of America and copies of its accounts can be obtained from 25 Cabot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

London, 25 April 2005

Directors:



C.E. Hood



B. Walker

ADDITIONAL INFORMATION

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 16 September until 30 November 2004 is separately included in the shareholder's equity as profit 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.

Exemption from audit

Lancashire Trading B.V. qualifies as a small sized company according to the Netherlands Civil Code which means it is exempted from auditing the financial statements. For this reason the financial statements do not include an *auditors' report*.