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Jersey Registered number: 74794

UK Company Registered Number: FC022413

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CORNWALL FINANCING UK LIMITED

Report and financial statements

31 December 2011

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17/08/2012
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CORNWALL FINANCING UK LIMITED

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CORNWALL FINANCING UK LIMITED

DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the profit and loss account, the balance sheet, and the related notes, 1 to 14) for Cornwall Financing UK Limited (the "Company") for the year ended 31 December 2011

RESULTS AND DIVIDENDS

The profit for the year, after tax, was \$12,000 (2010 \$12,000)

During the year no dividends were proposed or paid (2010 \$Nil)

PRINCIPAL ACTIVITY

The principal activity of the Company is to enter into financing transactions and investments. The company was incorporated in Jersey and operates a registered UK Establishment (no FC022413) in the United Kingdom ('UK') where it is managed and controlled.

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".

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 activity is expected.

BUSINESS REVIEW

The profit and loss account for the year is on page 4 of the financial statements. The Company's profit for the year is \$12,000 which is in line with the prior year. This was primarily driven by \$11,000 of interest receivable on its intercompany balances with other Morgan Stanley group undertakings.

The balance sheet of the Company is on page 5 of the financial statements. The net assets of the Company at the end of the year were \$470,000, an increase of \$12,000 from the prior year as a result of interest received on balances with other Morgan Stanley group undertakings. During the year the Company partially recalled amounts receivable by other Morgan Stanley Group undertakings and used these funds to repay its intercompany borrowings.

The performance of the Company is included in the results of the Morgan Stanley Group which are disclosed in the Morgan Stanley Group's Annual Report on Form 10-K to the United States Securities and Exchange Commission. The Morgan Stanley Group manages its key performance indicators on a global basis but in consideration of individual legal entities. 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.

Current market conditions

During 2011 and 2012, economic conditions have remained challenging with concerns about the sovereign debt crisis in Europe, lack of robust economic recovery in the US and other developed markets and slowing economic growth in emerging markets. These on-going conditions present difficulties and uncertainty for the business outlook which may adversely impact the financial performance of the Company in the future.

Morgan Stanley has taken transformative steps during this extremely difficult environment, including the de-risking of the balance sheet and those related to capital and liquidity outlined below.

Morgan Stanley continues to actively manage its capital and liquidity position to ensure adequate resources are available to support the activities of the Morgan Stanley Group, to enable the Morgan Stanley Group to withstand market stresses, and to meet regulatory stress testing requirements proposed by regulators globally. Throughout 2011, the Morgan Stanley Group has been focused on the composition of its funding liabilities, reducing reliance on short term funding in favour of more diverse and durable funding sources. This remains an ongoing objective of the Morgan Stanley Group.

In line with this active management, in June 2011, the Morgan Stanley Group's capital position was further strengthened by converting its outstanding Series B Non-Cumulative Non-Voting Perpetual Convertible Preferred Stock with a face value of \$7.8 billion and a 10% dividend issued to Mitsubishi UFJ Financial Group Inc ("MUFG"), for 385,464,097 shares in Morgan Stanley's common stock.

CORNWALL FINANCING UK LIMITED

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Current market conditions (continued)

During the latest Comprehensive Capital Analysis and Review performed by the Federal Reserve, Morgan Stanley Group exceeded the minimum capital ratio even under the most negative "stressed" scenario which reaffirms the improvements made in recent years to reduce risk and overhauling the quality and quantity of the capital base

The rating agencies are continuing to monitor certain issuer specific factors that are important to the determination of credit ratings including governance, the level and quality of earnings, capital adequacy, funding and liquidity, risk appetite and management, asset quality, strategic direction, and business mix. Additionally, the agencies will look at other industry-wide factors such as regulatory or legislative changes, macro-economic environment, and perceived levels of government support. In June 2012, Moody's Investor's Service announced the conclusion of an industry-wide reassessment and revised ratings for 17 global capital markets banks, Morgan Stanley's revised long-term credit rating is Baa1.

The risk management section below sets out the Company's and the Morgan Stanley Group's policies for the management of liquidity and cash flow risk and other significant business risks.

Risk management

Risk is an inherent part of the Company's business activity and is managed within the context of the broader Morgan Stanley Group's business activities. The Morgan Stanley Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its activities on a global basis, in accordance with defined policies and procedures and in consideration of the individual legal entities.

Credit risk

Credit risk refers to the risk of loss arising from borrower or counterparty default when a borrower, counterparty or obligor does not meet its obligations.

The Morgan Stanley Group manages credit risk exposure on a global basis as well as giving consideration to each individual legal entity, by ensuring transparency of material credit risks, ensuring compliance with established limits, approving material extensions of credit, escalating risk concentrations to appropriate senior management and mitigating credit risk through the use of collateral and other arrangements.

Liquidity and funding risk

Liquidity and funding risk refers to the risk that the Company will be unable to meet its funding obligations in a timely manner. Liquidity risk stems from the potential risk that the Company will be unable to obtain necessary funding through borrowing money at favourable interest rates or maturity terms, or selling assets in a timely manner and at a reasonable price.

The 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 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 stressed market conditions.

DIRECTORS

The following Directors held office throughout the year and to the date of approval of this report:

G Adams

A N Chrishan

I Gonen (resigned 20 September 2011)

R M Taylor (resigned 14 June 2012)

POST BALANCE SHEET EVENTS

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

CORNWALL FINANCING UK LIMITED

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITIES STATEMENT


The Directors are responsible for preparing the annual report and 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 and applicable law). 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 accounting estimates that are reasonable and prudent,
- state whether applicable UK 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 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.

Approved by the Board and signed on its behalf by


Director **GORDON ADAMS**
17 August 2012

CORNWALL FINANCING UK LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 December 2011

	Note	2011 \$'000	2010 \$'000
Interest income	2	11	18
Interest expense	3	-	(8)
Other income	4	1	2
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>12</u>	<u>12</u>
Tax on profit on ordinary activities	7	-	-
PROFIT FOR THE FINANCIAL YEAR		<u>12</u>	<u>12</u>

All operations were continuing in the current and prior year

There were no recognised gains or losses during the current and 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' funds is disclosed in note 11 to the financial statements

The notes on pages 6 to 9 form an integral part of the financial statements

CORNWALL FINANCING UK LIMITED

Registered number 74794

BALANCE SHEET

As at 31 December 2011

	Note	2011 \$'000	2010 \$'000
CURRENT ASSETS			
Debtors	8	493	866
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	9	(23)	(408)
NET CURRENT ASSETS		<u>470</u>	<u>458</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>470</u>	<u>458</u>
NET ASSETS		<u>470</u>	<u>458</u>
CAPITAL AND RESERVES			
Called up share capital	10	90	90
Share premium account	11	185	185
Other reserves	11	52	52
Profit and loss account	11	143	131
SHAREHOLDERS' FUNDS		<u>470</u>	<u>458</u>

These financial statements were approved by the Board and authorised for issue on
Signed on behalf of the Board

17 August 2012

Gordon Adams
Gordon Adams.

Director

The notes on pages 6 to 9 form an integral part of the financial statements

CORNWALL FINANCING UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

1. ACCOUNTING POLICIES

The Company's principal accounting policies are summarised below and have been applied consistently throughout the year and preceding year

a) Basis of preparation

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

b) The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Business Review section of the Directors' report on pages 1 to 3

As set out in the Directors' report, retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy and steps have been taken to strengthen the Morgan Stanley Group capital position and ensure that the Company's capital position is satisfactory

Taking all of these factors into consideration, the Directors believe it is reasonable to assume that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements

c) Functional currency

Items included in the financial statements are measured and presented in US Dollars, the currency of the primary economic environment in which the Company operates

All currency amounts in the Directors' report and the financial statements are rounded to the nearest thousand US Dollars

d) 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 prevailing at the dates of the transactions. All translation differences are taken through the profit and loss account. Exchange differences recognised in the profit and loss account are presented in 'Other income' or 'Other expense'

e) Recognition of income and expense

Interest income and interest expense are recognised on an accruals basis within 'Interest income' and 'Interest expense' in the profit and loss account

f) 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

g) Cash flow statement

The Company's ultimate parent undertaking produces consolidated financial statements in which the Company is included and which are publicly available. 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 present a cash flow statement

2. INTEREST INCOME

	2011 \$'000	2010 \$'000
Interest income from loans to Morgan Stanley Group undertakings	<u>11</u>	<u>18</u>

CORNWALL FINANCING UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

3. INTEREST EXPENSE

	2011 \$'000	2010 \$'000
Interest expense on loans from Morgan Stanley Group undertakings	-	8

4. OTHER INCOME

	2011 \$'000	2010 \$'000
Foreign exchange gains	1	2

5. OTHER EXPENSES

The company employed no staff during the year (2010 Nil)

6. DIRECTORS' BENEFITS

The Directors did not receive any remuneration for their qualifying services to the Company during the year (2010 \$Nil)

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

A company which is incorporated in Jersey but managed and controlled and resident for tax purposes outside of Jersey in a country or territory where the highest rate at which any company may be charged to tax on any part of its income is 20% or higher, will not be regarded as resident in Jersey for tax purposes

As the company is both managed and controlled and tax resident in the UK it will not be regarded as resident in Jersey for tax purposes

The Company is managed and controlled in the UK, and is therefore subject to UK Corporation Tax

Analysis of charge in the year

	2011 \$'000	2010 \$'000
UK corporation tax at 26.49% (2010 28%)		
- Current year	-	-
Tax on profit on ordinary activities	-	-

Factors affecting the tax charge for the year

The current year UK taxation charge is lower than that resulting from applying the standard UK corporation tax rate of 26.49% (2010 28%). The main differences are explained below

	2011 \$'000	2010 \$'000
Profit on ordinary activities before tax	12	12
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26.49% (2010 28%)	3	3
Effects of:		
Group relief received for no consideration	(3)	(3)
Current tax charge for the year	-	-

CORNWALL FINANCING UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

7. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

Finance (No 2) Act 2010 enacted a 1% reduction in the UK corporation tax rate to 27% with effect from April 2011. Finance Act 2011 enacted a further 1% reduction in the rate of UK corporation tax to 26% from April 2011. The combined 2% reduction in the tax rate impacted the current tax charge in 2011.

Finance Act 2011 enacted an additional 1% reduction to the UK corporation tax rate to 25% with effect from April 2012. Finance Act 2012 increased the reduction by a further 1%. The combined 2% reduction in the tax rate to 24% from 1 April 2012 will impact the current tax charge in 2012.

8. DEBTORS

	2011 \$'000	2010 \$'000
Amounts due from Morgan Stanley Group undertakings	493	866

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 \$'000	2010 \$'000
Amounts owed Morgan Stanley Group undertakings	23	408

10. CALLED UP SHARE CAPITAL

	2011 \$'000	2010 \$'000
Allotted and fully paid:		
200 ordinary shares of \$1 each	-	-
9,000,000 UEDP shares of \$0.01 each	90	90
	<u>90</u>	<u>90</u>

Unlimited Enhanced Dividend Preferred (UEDP) Shares

The Unlimited Enhanced Dividend Preferred Shares do not carry any voting rights in the Company, are not redeemable and may not be repurchased by the Company.

11. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital \$'000	Share premium account \$'000	Capital redemption reserve \$'000	Profit and loss account \$'000	Total \$'000
At 1 January 2010	90	185	52	119	446
Profit for the year	-	-	-	12	12
At 1 January 2011	90	185	52	131	458
Profit for the year	-	-	-	12	12
At 31 December 2011	<u>90</u>	<u>185</u>	<u>52</u>	<u>143</u>	<u>470</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

12. SEGMENTAL REPORTING

The Company has only one class of business as described in the Directors' report and operates in one geographic market, Europe, Middle East and Africa ("EMEA")

13. RELATED PARTY TRANSACTIONS

The Company is exempt from the requirement to disclose transactions with fellow wholly owned Morgan Stanley Group undertakings under paragraph 3(c) of FRS 8 *Related party disclosures*. There were no other related party transactions requiring disclosure.

14. PARENT UNDERTAKINGS

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

The Company's immediate controlling party is MSDW Investment Holdings (UK) Limited, which is registered in England and Wales. Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Mandy, Cardiff CF14 3UZ.