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Registered number: MC 142158

UK Registered number: FC026495

Business office
20 Bank Street
Canary Wharf
London
E14 4AD

Registered office
PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

MORGAN STANLEY TOSTAO LIMITED

Report and financial statements

31 December 2013

WEDNESDAY



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MORGAN STANLEY TOSTAO LIMITED

STRATEGIC REPORT

The Directors present their Strategic report for Morgan Stanley Tostao Limited (the "Company") for the year ended 31 December 2013

The Company is an exempted company incorporated under the laws of the Cayman Islands

The principal activity of the Company is to enter into financing transactions and investments

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"

The management and control of the Company is in the UK, and the entity is liable to UK Corporation Tax on its taxable profits

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

During 2013, global market and economic conditions showed improvement from 2012 although have remained challenging with continuing concerns about the United States ("US") longer term budget outlook and the scaling back of the monetary stimulus, the remaining European sovereign debt issues and slowing economic growth in emerging markets. Whilst the US economy continued its moderate growth pace, and as a whole the recession in the euro-area came to an end, significant pockets of slow or negative growth remained in Europe. These ongoing conditions present difficulties and uncertainty for the business outlook that may adversely impact the financial performance of the Company in the future

The profit and loss account for the year is set out on page 6. The Company's profit for the year has increased from A\$97,573,000 in the prior year to A\$112,590,000 in the current year. This is driven by a reduction in tax with the Company receiving full group relief in the current year compared to A\$32,313,000 tax expense in 2012. This is offset by a reduction in interest income of A\$13,217,000.

The balance sheet for the Company is as set out on page 7. The Company's net assets at the end of the year were A\$2,351,782,000 in comparison to A\$2,239,192,000 in the prior year. The increase is due mainly to interest accrued and unpaid of A\$117,596,000.

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 US 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 further performance indicators for the Company itself would not enhance an understanding of the development, performance or position of the business of the Company.

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 both Morgan Stanley's and 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. The Company's own risk management policies and procedures are consistent with those of the Morgan Stanley Group.

MORGAN STANLEY TOSTAO LIMITED

STRATEGIC REPORT

Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its obligations to the Company

The Morgan Stanley Group manages credit risk exposure on a global consolidated basis and in consideration of individual legal entities. The credit risk management policies and procedures of the Morgan Stanley Group establish the framework for identifying, measuring, monitoring and controlling credit risk whilst ensuring transparency of material credit risks, ensuring compliance with established limits and escalating risk concentrations to appropriate senior management. Credit risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to appropriate key management personnel of the Company

Liquidity and capital resources

Liquidity and funding risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity and funding risk also encompasses the Company's ability to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern

The Morgan Stanley Group's senior management establishes the 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 primary goal of the Morgan Stanley Group's liquidity risk management framework is to ensure that the Morgan Stanley Group, including the Company, have access to adequate funding across a wide range of market conditions. The framework is designed to enable the Morgan Stanley Group to fulfil its financial obligations and support the execution of the Company's business strategies

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, including the Company, to enable the Morgan Stanley Group to withstand market stresses, and to meet regulatory stress testing requirements proposed by regulators globally

Operational risk

Operational risk refers to the risk of loss, or of damage to the Company's or the Morgan Stanley Group's reputation, resulting from inadequate or failed processes, people and systems or from external events (e.g. fraud, legal and compliance risks or damage to physical assets). Legal and regulatory risk is included in the scope of operational risk and is discussed below under "Legal and regulatory risk"

The Morgan Stanley Group has established an operational risk management process that operates on a global and regional basis to identify, measure, monitor and control risk. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal, regulatory, and reputational risks

Legal and regulatory risk

Legal risk includes the risk of exposure to fines, penalties, judgements, damages and/or settlements in connection with regulatory or legal actions as a result of non-compliance with applicable legal or regulatory requirements and standards or litigation. Legal risk also includes contractual and commercial risk such as the risk that a counterparty's performance obligations will be unenforceable. The Morgan Stanley Group is generally subject to extensive regulation in the different jurisdictions in which it conducts its business. In the current environment of rapid and possibly transformational regulatory change, the Morgan Stanley Group also views regulatory change as a component of legal risk

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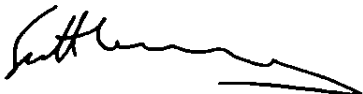
STRATEGIC REPORT

Legal and regulatory risk (continued)

The Morgan Stanley Group has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to foster compliance with applicable statutory and regulatory requirements. The Morgan Stanley Group, principally through the Legal and Compliance Division, also has established procedures that are designed to require that the Morgan Stanley Group's policies relating to business conduct, ethics and practices are followed globally. In connection with its businesses, the Morgan Stanley Group has and continuously develops various procedures addressing issues such as regulatory capital requirements, sales and trading practices, new products, information barriers, potential conflicts of interest, structured transactions, use and safekeeping of customer funds and securities, lending and credit granting, anti-money laundering, privacy and recordkeeping. In addition, the Morgan Stanley Group has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The legal and regulatory focus on the financial services industry presents a continuing business challenge for the Morgan Stanley Group.

Significant changes in the way that major financial services institutions are regulated are occurring in the United Kingdom ("UK"), Europe, the US and worldwide. The reforms being discussed and, in some cases, already implemented, include several that contemplate comprehensive restructuring of the regulation of the financial services industry. Such measures will likely lead to stricter regulation of financial institutions generally, and heightened prudential requirements for systemically important firms in particular. Such measures could include reforms of the over-the-counter derivatives markets, such as mandated exchange trading and clearing, position limits, margin, capital and registration requirements. Changes in tax legislation in the UK and worldwide, such as taxation of financial transactions, liabilities and employees compensation, are also possible.

Approved by the Board and signed on its behalf by



Director

S. Merry.

9 April 2014

MORGAN STANLEY TOSTAO 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 the Company for the year ended 31 December 2013

RESULTS AND DIVIDENDS

The profit for the year, after tax, was A\$112,590,000 (2012 A\$97,573,000 profit after tax)

During the year no dividends were paid or proposed (2012 A\$33,453,000)

DIRECTORS

The following Directors held office throughout the year and to the date of approval of this report (except where otherwise shown)

G Adams	(resigned 27 March 2013)
C J Allen	(appointed 7 August 2013)
S E Long	(appointed 27 March 2013)
	(resigned 8 August 2013)
S I Merry	

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Directors' and Officers' Liability Insurance is taken out by Morgan Stanley, the Company's ultimate parent undertaking, for the benefit of the Directors and Officers of the Company

DIRECTORS' INDEMNITY

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006 of the UK (the "Companies Act 2006")) were in force during the year and up to and including the date of the Directors' report for the benefit of the Directors of the Company

POST BALANCE SHEET EVENTS

There have been no significant events since the balance sheet date

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

The Company was incorporated as an exempt company under the laws of the Cayman Islands. The Directors and the shareholders of the Company require the financial statements of the Company to be prepared in accordance with Part 15 of the Companies Act 2006 of the United Kingdom (that would have applied had these been statutory accounts under the Companies Act 2006) and drawn up in Australian Dollars

The Directors are required to prepare such financial statements for each financial year which 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 judgements and accounting estimates that are reasonable and prudent,

MORGAN STANLEY TOSTAO LIMITED

DIRECTORS' REPORT

- 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 part 15 of the Companies Act 2006. 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

S. Merry.

9 April 2014.

MORGAN STANLEY TOSTAO LIMITED

PROFIT AND LOSS ACCOUNT **Year ended 31 December 2013**

	Note	2013 A\$'000	2012 A\$'000
Interest income	2	117,596	130,813
Interest expense	3	(402)	-
Other expense	4	(4,608)	(927)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		112,586	129,886
Tax on profit on ordinary activities	7	4	(32,313)
PROFIT FOR THE FINANCIAL YEAR	11	<u>112,590</u>	<u>97,573</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' funds is disclosed in note 11 to the financial statements

The notes on pages 8 to 12 form an integral part of the financial statements

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Registered number MC 142158

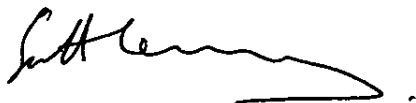
BALANCE SHEET

Year ended 31 December 2013

	Note	2013 A\$'000	2012 A\$'000
CURRENT ASSETS			
Debtors	8	2,390,294	2,272,698
		<u>2,390,294</u>	<u>2,272,698</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	9	(38,512)	(33,506)
		<u>2,351,782</u>	<u>2,239,192</u>
NET CURRENT ASSETS			
		<u>2,351,782</u>	<u>2,239,192</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>2,351,782</u>	<u>2,239,192</u>
NET ASSETS		<u>2,351,782</u>	<u>2,239,192</u>
CAPITAL AND RESERVES			
Called up share capital	10	10	10
Share premium account	11	2,162,882	2,162,882
Profit and loss account	11	188,890	76,300
		<u>2,351,782</u>	<u>2,239,192</u>
SHAREHOLDERS' FUNDS		<u>2,351,782</u>	<u>2,239,192</u>

These financial statements were approved by the Board and authorised for issue on 9 April 2014.

Signed on behalf of the Board



Director

S. Merry

The notes on pages 8 to 12 form an integral part of the financial statements

MORGAN STANLEY TOSTAO LIMITED

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2013**

1. ACCOUNTING POLICIES

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

a) Basis of preparation

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

The Company is incorporated under the laws of the Cayman Islands, which permits the use of UK company law and the use of UK accounting standards in the preparation of financial statements

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 Strategic report on pages 1 to 3

As set out in the Strategic report, retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy

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 Australian dollars, the currency of the primary economic environment in which the Company operates

All currency amounts in the financial statements and Directors' report and Strategic report are rounded to the nearest thousand Australian dollars

d) Foreign currencies

All monetary assets and liabilities denominated in currencies other than Australian dollars are translated into Australian dollars at the rates ruling at the balance sheet date. Transactions in currencies other than Australian dollars are recorded at the rates prevailing at the dates of the transactions. All translation differences are taken through the profit and loss account and are presented in 'Other income' or 'Other expense'

e) Recognition of income and expense

i) Interest 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

MORGAN STANLEY TOSTAO LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2013

1. ACCOUNTING POLICIES (CONTINUED)

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 Financial Reporting Standard ("FRS") 1 (Revised 1996) *Cash flow statements* and not present a cash flow statement.

2. INTEREST INCOME

	2013 A\$'000	2012 A\$'000
Interest income from loans to Morgan Stanley Group undertakings	<u>117,596</u>	<u>130,813</u>

3. INTEREST EXPENSE

	2013 A\$'000	2012 A\$'000
Interest expense on loans from Morgan Stanley Group undertakings	<u>402</u>	<u>-</u>

4. OTHER EXPENSE

	2013 A\$'000	2012 A\$'000
Other expenses	<u>4,608</u>	<u>927</u>

5. STAFF COSTS

The Company employed no staff during the year (2012: nil)

6. DIRECTORS' BENEFITS

The Directors did not receive any remuneration for their qualifying services to the Company during the year (2012: A\$nil)

MORGAN STANLEY TOSTAO LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2013

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of expense/ (benefit) in the year

	2013 A\$'000	2012 A\$'000
UK corporation tax at 23 25% (2012 24 50%)		
- Current year	-	32,313
- Adjustment in respect of prior years	(4)	-
Tax on profit on ordinary activities	(4)	32,313

Factors affecting the current tax expense/ (benefit) for the year

The current year UK taxation result is lower (2012 higher) than that resulting from applying the average standard UK corporation tax rate of 23 25% (2012 24 50%) The main differences are explained below

	2013 A\$'000	2012 A\$'000
Profit on ordinary activities before tax	112,586	129,886
Profit on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 23 25% (2012 24 50%)	26,176	31,822
Effects of:		
Currency translation on tax	-	491
Group relief received for no cash consideration	(26,176)	-
Adjustments to the tax charge in respect of previous years	(4)	-
Current tax expense/ (benefit) for the year	(4)	32,313

Finance Act 2012 enacted a reduction to the UK corporation tax rate to 23% with effect from April 2013 This reduction in the tax rate did not impact the current tax charge in 2013 as the Company received group relief for no cash consideration

Finance Act 2013 received Royal Assent on 17 July 2013 and enacted a reduction to the UK corporation tax rate to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015 The reduction in the rate may impact the current tax charge in 2014 and 2015

MORGAN STANLEY TOSTAO LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2013

8. DEBTORS

	2013 A\$'000	2012 A\$'000
Amounts due from Morgan Stanley Group undertakings	2,390,294	2,272,698

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013 A\$'000	2012 A\$'000
Amounts owed to Morgan Stanley Group undertakings	9,143	8,744
Corporation tax payable	29,369	24,762
	38,512	33,506

10. CALLED UP SHARE CAPITAL

Shares classified as equity	2013 A\$'000	2012 A\$'000
Allotted and fully paid:		
10,100 ordinary shares of A\$1 each	10	10

11. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital A\$'000	Share premium account A\$'000	Profit and loss account A\$'000	Total A\$'000
At 1 January 2012	10	2,162,882	12,180	2,175,072
Profit for the financial year			97,573	97,573
Dividends	-	-	(33,453)	(33,453)
At 1 January 2013	10	2,162,882	76,300	2,239,192
Profit for the financial year	-	-	112,590	112,590
At 31 December 2013	10	2,162,882	188,890	2,351,782

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")"

MORGAN STANLEY TOSTAO LIMITED

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2013**

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 group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley. Morgan Stanley is incorporated in the state of Delaware, the United States of America and copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

The Company's immediate controlling party is Morgan Stanley Dolor Limited which is registered in the Cayman Islands. Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Cardiff CF14 3UZ.

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 & Co International plc 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, Cardiff CF14 3UZ.