**Registered number: 06165157**

Registered office:
20 Bank Street
Canary Wharf
London
E14 4AD
United Kingdom

# MORGAN STANLEY CAPITAL GROUP ENERGY EUROPE LIMITED

## Report and financial statements

## 31 December 2018

# MORGAN STANLEY CAPITAL GROUP ENERGY EUROPE LIMITED

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# STRATEGIC REPORT

The Directors present their Strategic report for Morgan Stanley Capital Group Energy Europe Limited (the "Company") for the year ended 31 December 2018.

## PRINCIPAL ACTIVITY

The Company's principal activity is to engage in financing transactions with other Morgan Stanley Group undertakings and to support the orderly wind down of the Company's branches in Hungary, Slovakia and Slovenia.

Previously, the principal activity of the Company was to trade in gas and power, and these activities were transferred to Shell Energy Europe Limited during 2015.

In line with the Directors' intention to close the branches and liquidate the Company in the foreseeable future, the financial statements have been prepared on a basis other than that of a going concern.

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 Company's immediate parent undertaking is Morgan Stanley Capital Group Inc.

## BUSINESS REVIEW

### Overview of 2018

The statement of comprehensive income for the year is set out on page 9. The Company generated a loss before tax of €48,000, compared with a €35,000 loss before tax for the prior year. The increase is primarily attributable to an increase in other expenses.

The statement of financial position is set out on page 11. The Company's total assets of €437,000 have decreased by €210,000 compared to the prior year. The movement is due to a decrease of €68,000 in cash and short-term deposits and a decrease of €142,000 in loans and advances and other receivables. Total liabilities of €391,000 have decreased by €162,000 primarily due to a decrease in amounts due to other Morgan Stanley Group undertakings.

The performance of the Company is included in the results of the Morgan Stanley Group. 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 the Company's business activity. The Company seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities, in accordance with defined policies and procedures. The Company has developed its own risk management policy framework, which leverages the risk management policies and procedures of the Morgan Stanley Group. The risk management policy framework includes escalation to the Company's Board of Directors and to appropriate senior management personnel of the Company.

*Credit risk*

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

Credit risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to appropriate senior management personnel.

# STRATEGIC REPORT (CONTINUED)

## BUSINESS REVIEW (CONTINUED)

### Risk management (continued)

*Credit risk (continued)*
Credit risk exposure is managed on a global basis and in consideration of each significant legal entity within the Morgan Stanley Group. Its credit risk management policies and procedures establish the framework for identifying, measuring, monitoring and controlling credit risk whilst ensuring transparency of material credit risks and compliance with established limits and escalating risk concentrations to appropriate senior management.

*Liquidity risk*
Liquidity 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 risk encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern. Liquidity risk also encompasses the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding. Generally, the Company incurs liquidity and funding risk as a result of its trading, investing and client facilitation activities.

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, has access to adequate funding across a wide range of market conditions and time horizons. 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.

The Company continues to actively manage its capital and liquidity position to ensure adequate resources are available to support its activities, to enable it to withstand market stresses.

*Operational risk*
Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, from human factors or from external events (e.g. fraud, theft, legal and compliance risks, cyber-attacks or damage to physical assets). Operational risk relates to the following risk event categories as defined by Basel Capital Standards: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; business disruption and system failure; damage to physical assets; and execution, delivery and process management. Legal, regulatory and compliance risk is discussed below under "Legal, regulatory and compliance risk".

*Legal, regulatory and compliance risk*
Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions, material financial loss; including fines, penalties, judgements, damages and/ or settlements or loss to reputation which the Company may suffer as a result of a failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to our business activities. This risk also includes contractual and commercial risk, such as the risk that a counterparty's performance obligations will be unenforceable. It also includes compliance with Anti-Money Laundering, anti-corruption and terrorist financing rules and regulations.

## STRATEGIC REPORT (CONTINUED)

### BUSINESS REVIEW (CONTINUED)

**Risk management (continued)**

*Legal, regulatory and compliance risk (continued)*

The Company, principally through the Morgan Stanley Group's Legal and Compliance Division, has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to facilitate compliance with applicable statutory and regulatory requirements and to require that the Company's policies relating to business conduct, ethics and practices are followed globally.

In addition, the Company 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 heightened legal and regulatory focus on the financial services and banking industries globally presents a continuing business challenge for the Company.

**Going concern**

As described in the principal activity section, the Directors intend to close the branches and liquidate the Company in the foreseeable future, therefore the financial statements have been prepared on a basis other than that of a going concern. There is however, sufficient liquidity to support the orderly wind down of the business and the Company will continue to meet its liabilities as they fall due.

Approved by the Board and signed on its behalf by J R CANORA

Director

26 SEPTEMBER 2019

# DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the statement of comprehensive income, the statement of changes in equity, the statement of financial position and the related notes, 1 to 14) for the Company for the year ended 31 December 2018.

## RESULTS AND DIVIDENDS

The loss for the year, after tax, was €48,000 (2017: €35,000).

During the year, no dividends were paid or proposed (2017: €nil).

## RISK MANAGEMENT AND FUTURE DEVELOPMENTS

Information regarding risk management and future developments has been included in the Strategic report.

## DIRECTORS

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

H B Amin
J B Canora
D C Parsons (resigned 31st December 2018)

## 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 and its subsidiary undertakings.

## DIRECTORS' INDEMNITY

Qualifying third party indemnity provisions (as defined in Section 234 of 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 and its subsidiary undertakings.

## EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

## AUDITOR

Deloitte LLP have expressed their willingness to continue in office as auditor of the Company and, under Sections 485 to 488 of the Companies Act 2006, will be deemed to be re-appointed.

**Statement as to disclosure of information to the auditor**

Each of the persons who are Directors of the Company at the date when this report is approved confirms that:

- so far as each of the Directors is aware, there is no relevant audit information (being information needed by the Company's auditor in connection with preparing their report) of which the Company's auditor is unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

## DIRECTORS' REPORT (CONTINUED)

### 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 UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including Financial Reporting Standard 101 '*Reduced Disclosure Framework*' ("FRS 101"). Under company law the Directors must not approve the financial statements unless they are satisfied that they 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;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, 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 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 JB CANORA

Director      26 SEPTEMBER 2019

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY CAPITAL GROUP ENERGY EUROPE LIMITED

**Report on the audit of the financial statements**

**Opinion**

In our opinion the financial statements of Morgan Stanley Capital Group Energy Europe ("the Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of the Company which comprise:

- the statement of comprehensive income,
- the statement of changes in equity,
- the statement of financial position; and
- the related notes 1 to 14.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of matter – Financial statements prepared other than on a going concern basis**

We draw attention to note 2 in the financial statements, which indicates that the financial statements have been prepared on a basis other than that of a going concern. Our opinion is not modified in respect of this matter.

**Other information**

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY CAPITAL GROUP ENERGY EUROPE LIMITED (CONTINUED)

**Responsibilities of Directors**

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Report on other legal and regulatory requirements**

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report and the Directors' report.

**Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY CAPITAL GROUP ENERGY EUROPE LIMITED (CONTINUED)

**Use of our report**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

P Cowley

Paul Cowley, C.A. (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom

Date: 26 September 2019

## MORGAN STANLEY CAPITAL GROUP ENERGY EUROPE LIMITED

## STATEMENT OF COMPREHENSIVE INCOME
**Year ended 31 December 2018**

| | Note | 2018 €'000 | 2017 €'000 |
|---|---|---|---|
| Interest income | 4 | 2 | 3 |
| Interest expense | 4 | (7) | (6) |
| Other expense | 5 | (43) | (32) |
| **LOSS BEFORE TAXATION** | | (48) | (35) |
| Income tax | 6 | - | - |
| **LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | | (48) | (35) |

All operations were discontinued in the current and prior year.

The notes on pages 12 to 18 form an integral part of the financial statements.

## STATEMENT OF CHANGES IN EQUITY
## Year ended 31 December 2018

| | Share capital €'000 | Retained losses €'000 | Total equity €'000 |
|---|---|---|---|
| **Balance at 1 January 2017** | 204 | (75) | 129 |
| Total comprehensive loss | - | (35) | (35) |
| **Balance at 31 December 2017** | 204 | (110) | 94 |
| Total comprehensive loss | - | (48) | (48) |
| **Balance at 31 December 2018** | 204 | (158) | 46 |

The notes on pages 12 to 18 form an integral part of the financial statements.

**MORGAN STANLEY CAPITAL GROUP ENERGY EUROPE LIMITED**
*Registered number: 06165157*

## STATEMENT OF FINANCIAL POSITION
## As at 31 December 2018

| | Note | 2018 €'000 | 2017 €'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and short-term deposits | | 338 | 406 |
| Loans and advances | 7 | 2 | 91 |
| Other receivables | 8 | 97 | 150 |
| **TOTAL ASSETS** | | 437 | 647 |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| Debt and other borrowings | 9 | 327 | 473 |
| Other payables | 10 | 58 | 75 |
| Accruals and deferred income | | 6 | 5 |
| **TOTAL LIABILITIES** | | 391 | 553 |
| | | | |
| **EQUITY** | | | |
| Share capital | 11 | 204 | 204 |
| Retained losses | | (158) | (110) |
| **Equity attributable to owners of the Company** | | 46 | 94 |
| | | | |
| **TOTAL EQUITY** | | 46 | 94 |
| | | | |
| **TOTAL LIABILITIES AND EQUITY** | | 437 | 647 |

These financial statements were approved by the Board and authorised for issue on 26 SEPTEMBER 2019

Signed on behalf of the Board

J B CAMORA

Director

The notes on pages 12 to 18 form an integral part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2018

### 1. CORPORATE INFORMATION

The Company is incorporated and domiciled in England and Wales, United Kingdom, at the following registered address: 20 Bank Street, Canary Wharf, London, E14 4AD. The Company is a private company and is limited by shares. The registered number of the Company is 06165157.

The Company's immediate parent undertaking and 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 Capital Group Inc., which has its registered office at c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, the United States of America and is incorporated in the state of Delaware, in the United States of America. Copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

The Company's 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 which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the Morgan Stanley Group. Morgan Stanley has its registered office c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, the United States of America and is incorporated in the state of Delaware, in the United States of America. Copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

### 2. BASIS OF PREPARATION

As explained in the Strategic report on page 1, in line with the Directors' intention to close the branches and liquidate the Company in the foreseeable future, the financial statements have been prepared on a basis other than that of a going concern. No adjustments arose from ceasing to apply the going concern basis. The financial statements do not include any provision for the future costs of terminating the business of the Company except to the extent that such cost were committed at the reporting date.

**Statement of compliance**

These financial statements are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101.

The Company meets the definition of a qualifying entity as defined in Financial Reporting Standard 100 *Application of Financial Reporting Requirements*. The Company has taken advantage of the disclosure exemptions available under FRS 101 in relation to financial instruments, capital management, presentation of comparative information in respect of shares outstanding, presentation of a cash-flow statement, accounting standards not yet effective and related party transactions.

Where relevant, equivalent disclosures have been provided in the group accounts of Morgan Stanley, in which the Company is consolidated. Copies of Morgan Stanley's accounts can be obtained as detailed at note 1.

**New standards and interpretations adopted during the year**

The following standards, amendments to standards and interpretations relevant to the Company's operations were adopted during the year. Except where otherwise stated, these standards, amendments to standards and interpretations did not have a material impact on the Company's financial statements.

## 2. BASIS OF PREPARATION (CONTINUED)

**New standards and interpretations adopted during the year (continued)**

IFRS 9 'Financial instruments' ("IFRS 9") was issued by the IASB in November 2009, reissued in October 2010, amended in November 2013, and revised and reissued by the IASB in July 2014. IFRS 9 is applicable retrospectively, except where otherwise prescribed by transitional provisions of the standard, and is effective for accounting periods beginning on or after 1 January 2018. The standard was endorsed by the EU in November 2016. The Company has adopted IFRS 9 from 1 January 2018 with no restatement of comparative periods under the transitional provisions of the Standard. There is no impact on the classification and measurement of the Company's financial assets and liabilities. Impairment of financial assets is based on expected credit losses ("ECL") and the effect on opening reserves was €nil.

Amendments to FRS 100 and FRS 101 'Triennial review 2017 amendments' were issued by the Financial Reporting Council in December 2017 for application in accounting periods beginning on or after 1 January 2019. The Company has early adopted all these amendments from 1 January 2018.

There were no other standards, amendments to standards or interpretations relevant to the Company's operations which were adopted during the year.

**Basis of measurement**

The financial statements of the Company are prepared under the historical cost basis, modified by the use of a basis other than that of a going concern as described above, except for certain financial instruments that have been measured at fair value as explained in the accounting policies below, and in accordance with applicable United Kingdom Accounting Standards, including FRS 101, and UK company law.

**Critical judgements in applying the Company's accounting policies**

No judgements have been made in the process of applying the Company's accounting policies that have had a significant effect on the amounts recognised in the financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Functional currency

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

All currency amounts in the financial statements and Strategic and Directors' reports are rounded to the nearest thousand Euro.

### b. Foreign currencies

All monetary assets and liabilities denominated in currencies other than Euro are translated into Euro at the rates ruling at the reporting date. Transactions and non-monetary assets and liabilities denominated in currencies other than Euro are recorded at the rates prevailing at the dates of the transactions. All translation differences are taken through the statement of comprehensive income. Exchange differences recognised in the statement of comprehensive income are presented in 'Other income' or 'Other expense', except where noted in 3(d) below.

### c. Financial instruments

Financial assets and liabilities primarily comprise loans and advances, debt and other borrowings, other receivables and other payables.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### c. Financial instruments (continued)

Loans and advances, other receivables and payables and debt and other borrowings are recognised when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value and subsequently measured at amortised cost (less allowance for impairment on financial assets). Interest is recognised in the statement of comprehensive income using the effective interest rate ("EIR") method.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset. The Company derecognises financial liabilities when the Company's obligations are discharged, cancelled or they expire.

### d. Fair value

*Fair value measurement*
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date.

Where the Company manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the Company measures the fair value of that group of financial instruments consistently with how market participants would price the net risk exposure at the measurement date.

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that requires the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability that were developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect assumptions the Company believes other market participants would use in pricing the asset or liability, that are developed based on the best information available in the circumstances.

The fair value hierarchy is broken down into three levels based on the observability of inputs as follows, with Level 1 being the highest and Level 3 being the lowest level:

- Level 1 - Quoted prices (unadjusted) in an active market for identical assets or liabilities

  Valuations based on quoted prices in active markets that the Morgan Stanley Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement.

- Level 2 - Valuation techniques using observable inputs

  Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

- Level 3 - Valuation techniques with significant unobservable inputs

  Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### e. Impairment of financial assets

From 1 January 2018, the Company recognises loss allowances for expected credit losses ("ECL") for its financial assets classified at amortised cost. ECLs are the present value of cash shortfalls over the expected life of the financial instrument, discounted at the asset's EIR. ECL is recognised in the statement of comprehensive income within 'Net impairment loss on financial instruments' and is reflected against the carrying amount of the impaired asset on the statement of financial position as an ECL allowance. Until 31 December 2017, impairment losses on financial assets were measured as the difference between the carrying amount and the present value of estimated cash flows discounted at the asset's original EIR.

### f. Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with banks, net of outstanding bank overdrafts, along with highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

### g. Income tax

The tax expense represents the sum of the tax currently payable.

The tax currently payable is calculated based on taxable profit for the year. Taxable profit may differ from profit/ (loss) before taxation as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the current tax is also recorded within other comprehensive income or equity respectively.

Current tax assets are offset against current tax liabilities when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Company intends to settle its current tax assets and current tax liabilities on a net basis or to realise the asset and settle the liability simultaneously.

### h. Offsetting of financial assets and financial liabilities

Where there is a currently legally enforceable right to set off the recognised amounts and an intention to either settle on a net basis or to realise the asset and the liability simultaneously, financial assets and financial liabilities are offset and the net amount is presented on the statement of financial position. In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

## 4. INTEREST INCOME AND INTEREST EXPENSE

'Interest income' and 'Interest expense' represent total interest income and total interest expense for financial assets and financial liabilities that are not carried at fair value.

No other gains or losses have been recognised in respect of financial assets measured at amortised cost other than as disclosed as 'Interest income' within the statement of comprehensive income.

No other gains or losses have been recognised in respect of financial liabilities measured at amortised cost other than as disclosed as 'Interest expense' within the statement of comprehensive income.

## 5. OTHER EXPENSE

| | 2018 €'000 | 2017 €'000 |
|---|---|---|
| Auditor's remuneration: | | |
| Fees payable to the Company's auditor for the audit of the Company's annual financial statements | 11 | 11 |
| Professional fees | 27 | 18 |
| Other expenses | 5 | 3 |
| | 43 | 32 |

**Staff costs**

The Company employed no staff during the year (2017: nil).

The amount of remuneration received by Directors in respect of their qualifying services to the Company is disclosed in the Related Party disclosures note (note 14).

## 6. INCOME TAX

| | 2018 €'000 | 2017 €'000 |
|---|---|---|
| **Current tax** | | |
| UK corporation tax at 19.00% (2017: 19.25%) | | |
| - Current year | - | - |
| **Total current tax** | - | - |

Finance (No.2) Act 2015 enacted a reduction in the UK corporation tax rate to 19% with effect from 1 April 2017. The Finance Act 2016 enacted a further reduction in the UK corporation tax rate to 17% with effect from 1 April 2020 which will impact the current tax charge in future periods.

**Reconciliation of effective tax rate**

The current year income tax benefit is lower (2017: lower) than that resulting from applying the average standard rate of corporation tax in the UK for the year of 19% (2017: 19.25%). The main differences are explained below:

| | 2018 €'000 | 2017 €'000 |
|---|---|---|
| Loss before taxation | (48) | (35) |
| Income tax using the average standard rate of corporation tax in the UK of 19.00% (2017: 19.25%) | (9) | (7) |
| Impact on tax of: | | |
| Group relief surrendered for no cash consideration | 9 | 7 |
| **Total income tax in the statement of comprehensive income** | - | - |

## 7. LOANS AND ADVANCES

| | 2018 €'000 | 2017 €'000 |
|---|---|---|
| Loans and advances at amortised cost | 2 | 91 |

## 8. OTHER RECEIVABLES

| | 2018 €'000 | 2017 €'000 |
|---|---|---|
| Amounts due from other Morgan Stanley Group undertakings | 97 | 150 |

## 9. DEBT AND OTHER BORROWINGS

| | 2018 €'000 | 2017 €'000 |
|---|---|---|
| Other borrowings | 327 | 473 |

## 10. OTHER PAYABLES

| | 2018 €'000 | 2017 €'000 |
|---|---|---|
| Amounts due to other Morgan Stanley Group undertakings | 58 | 75 |

## 11. EQUITY

| | Ordinary shares of £1 each Number | Ordinary shares €'000 |
|---|---|---|
| **Allotted and fully paid** | | |
| At 1 January 2018 and 31 December 2018 | 175,000 | 204 |

All ordinary shares are recorded at the rates of exchange ruling at the date the shares were paid up.

## 12. EXPECTED MATURITY OF ASSETS AND LIABILITIES

Loans and advances, other receivables, debt and other borrowings and other payables relate wholly to amounts due from and to group undertakings respectively.

## 12. EXPECTED MATURITY OF ASSETS AND LIABILITIES (CONTINUED)

Other receivables of €97,000 (2017: €150,000) and Other payables of €58,000 (2017: €75,000) are expected to be settled no more than twelve months after the reporting period, with all other amounts expected to be settled more than twelve months after the reporting period end.

## 13. SEGMENT REPORTING

The Company has only one class of business as described in the Strategic report and operates in one geographic market, Europe, Middle East and Africa ("EMEA") and accordingly no segmental analysis has been provided.

## 14. RELATED PARTY DISCLOSURES

### Parent relationships

*Parent and ultimate controlling entities*

The parent and ultimate controlling entities are disclosed in note 1 to the financial statements.

### Directors' remuneration

The Company had 3 Directors during the year who were employed by other Morgan Stanley Group entities. The Directors did not receive any remuneration for their qualifying services to the Company during the year (2017: €nil).