7089 11/20

In accordance with Regulation 32 of the Overseas Companies Regulations 2009.

# OS AA01

## Statement of details of parent law and other information for an overseas company

Companies House

✓ **What this form is for**
You may use this form to accompany your accounts disclosed under parent law.

✗ **What this form is NOT f**
You cannot use this form
an alteration of manner o
with accounting requirem

THURSDAY

*L7XTBUJE*
LD2 24/01/2019 #28
COMPANIES HOUSE

## Part 1 Corporate company name

| | |
|---|---|
| Corporate name of overseas company ❶ | MORGAN STANLEY PASIPHAE NETHERLANDS B V. |
| UK establishment number | B R 0 0 9 1 7 3 |

→ **Filling in this form**
Please complete in typescript or in bold black capitals.

All fields are mandatory unless specified or indicated by *

❶ This is the name of the company in its home state.

## Part 2 Statement of details of parent law and other information for an overseas company

### A1 *Legislation*

Please give the legislation under which the accounts have been prepared and, if applicable, the legislation under which the accounts have been audited.

Legislation ❷ DUTCH CIVIL CODE

❷ This means the relevant rules or legislation which regulates the preparation and, if applicable, the audit of accounts.

### A2 Accounting principles

Accounts

Have the accounts been prepared in accordance with a set of generally accepted accounting principles?

Please tick the appropriate box.

☐ **No.** Go to **Section A3.**

☑ **Yes.** Please enter the name of the organisation or other body which issued those principles below, and then go to **Section A3.**

Name of organisation or body ❸ UK FINANCIAL REPORTING COUNCIL (FRS 101)

❸ Please insert the name of the appropriate accounting organisation or body.

### A3 Accounts

Accounts

Have the accounts been audited? Please tick the appropriate box.

☑ **No.** Go to **Section A5.**

☐ **Yes.** Go to **Section A4.**

**OS** AA01
Statement of details of parent law and other information for an overseas company

## A4 Audited accounts

| | | |
|---|---|---|
| Audited accounts | Have the accounts been audited in accordance with a set of generally accepted auditing standards?<br>Please tick the appropriate box.<br>☐ **No.** Go to **Part 3 'Signature'**.<br>☐ **Yes.** Please enter the name of the organisation or other body which issued those standards below, and then go to **Part 3 'Signature'**. | ❶ Please insert the name of the appropriate accounting organisation or body. |
| Name of organisation or body ❶ | | |

## A5 Unaudited accounts

| | |
|---|---|
| Unaudited accounts | Is the company required to have its accounts audited?<br>Please tick the appropriate box.<br>☑ **No.**<br>☐ **Yes.** |

## Part 3 Signature

I am signing this form on behalf of the overseas company.

| | |
|---|---|
| Signature | Signature<br>**X** [signature] **X** |

This form may be signed by:
Director, Secretary, Permanent representative.

**OS** AA01

Statement of details of parent law and other information for an overseas company

## Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name SANDRA WALTERS

Company name MORGAN STANLEY

Address 10TH FLOOR

20 BANK STREET

CANARY WHARF

Post town LONDON

County/Region

Postcode E 1 4 4 A D

Country UNITED KINGDOM

DX

Telephone +44 (0) 207 677 1803

## Checklist

**We may return forms completed incorrectly or with information missing.**

**Please make sure you have remembered the following:**

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register.
- ☐ You have completed all sections of the form, if appropriate.
- ☐ You have signed the form.

## Important information

**Please note that all this information will appear on the public record.**

## Where to send

**You may return this form to any Companies House address:**

**England and Wales:**
The Registrar of Companies, Companies House, Crown Way, Cardiff, Wales, CF14 3UZ.
DX 33050 Cardiff.

**Scotland:**
The Registrar of Companies, Companies House, Fourth floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, Scotland, EH3 9FF.
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post).

**Northern Ireland:**
The Registrar of Companies, Companies House, Second Floor, The Linenhall, 32-38 Linenhall Street, Belfast, Northern Ireland, BT2 8BG.
DX 481 N.R. Belfast 1.

## Further information

For further information, please see the guidance notes on the website at www.companieshouse.gov.uk or email enquiries@companieshouse.gov.uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk

70591120

**Registered number: 34260427**

**UK Registered Number: FC027268**

| | |
|---|---|
| Business office: | Registered office: |
| 20 Bank Street | 20 Bank Street |
| Canary Wharf | Canary Wharf |
| London | London |
| E14 4AD | E14 4AD |

# MORGAN STANLEY PASIPHAE NETHERLANDS B.V.

## Report and financial statements

## 31 December 2017

## MORGAN STANLEY PASIPHAE NETHERLANDS B.V.

**CONTENTS** **PAGE**

## MORGAN STANLEY PASIPHAE NETHERLANDS B.V.

## DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the statement of financial position, the statement of changes in equity, the statement of comprehensive income and the related notes, 1 to 15) for the Company for the year ended 31 December 2017.

### RESULTS AND DIVIDENDS

The loss for the year, after tax, was €8,316,000 (2016: €6,223,000 loss after tax).

During the year, in accordance with the Articles of Association of the Company, dividends of €10,808,000 (2016: €10,838,000) were accrued to the holders of the Class A Redeemable Preference shares and dividends of €11,726,000 (2016: €10,838,000) were paid on the Class A Redeemable Preference shares consisting of €7,255,000 of accrued dividends as at 31 December 2016 and €4,471,000 for the period 1 January 2017 to 31 May 2017. In accordance with International Accounting Standard ("IAS") 32: *Financial Instruments: Presentation* ("IAS 32"), these Class A Redeemable Preference shares are presented as liabilities. Dividends on these Class A Redeemable Preference shares are recorded in the statement of comprehensive income within interest expense for the year.

### PRINCIPAL ACTIVITY

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 Company was incorporated under Dutch law on 21 November 2006 and has its statutory seat in Amsterdam, The Netherlands. The business office of the Company is at 20 Bank Street, Canary Wharf, London, E14 4AD, United Kingdom and its financial year is 31 December.

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

On 23 June 2016, the United Kingdom (the "UK") electorate voted to leave the European Union (the "EU"). On 29 March 2017, the UK invoked Article 50 of the Lisbon Treaty which triggered a two-year period, subject to extension (which would need the unanimous approval of the EU Member States), during which the UK government is expected to negotiate its withdrawal agreement with the EU. Absent any extension, the UK is expected to leave the EU in March 2019. The terms and conditions of the anticipated withdrawal from the EU, and which of the several alternative models of relationship that the UK might ultimately negotiate with the EU, remain uncertain. However, the UK government has stated that the UK will leave the EU single market and will seek a phased period of implementation for the new relationship that may cover the legal and regulatory framework applicable to financial institutions with significant operations in Europe, such as Morgan Stanley. Since any transition or implementation periods and the eventual successor arrangements require agreement of both the UK and the EU, there is a risk that these arrangements may not be agreed by March 2019.

## DIRECTORS' REPORT

### BUSINESS REVIEW (CONTINUED)

It is difficult to predict the future of the UK's relationship with the EU, which may result in increased volatility in the global financial markets in the short- and medium-term. Potential effects of the UK exit from the EU and potential mitigation actions may vary considerably depending on the timing of withdrawal and the nature of any transition, implementation or successor arrangements. Morgan Stanley is taking steps to make changes to its European operations in an effort to ensure that it can continue to provide cross-border banking and investment services in EU Member States without the need for separate regulatory authorisations in each member state. These changes must be approved by the relevant regulatory authorities and therefore it is currently unclear what the final post-Brexit structure of European operations will be. Depending on the extent to which Morgan Stanley may be required to make material changes to European operations beyond those currently planned, results of Morgan Stanley's operations and business prospects could be negatively affected.

**Overview of 2017**

The statement of comprehensive income is set out on page 7. The Company has made a loss of €8,316,000 in the current year compared to a loss of €6,223,000 in the prior year. The increase in losses is primarily due to a €1,536,000 decrease in interest income caused by a decrease in interest rates on intercompany loans during the year and a tax charge of €596,000.

The statement of financial position on page 5 of the financial statements shows that the Company's total assets at the end of the current year were €397,736,000 compared to total assets of €406,387,000 at the prior year end. The €8,651,000 decrease in total assets was primarily attributable to a decrease in amounts due from other Morgan Stanley Group undertakings when intercompany receivables were recalled to pay dividends to the Redeemable Preference Shareholders offset by interest income. The Company's total liabilities at the end of the current year were €268,727,000 compared to total liabilities of €269,062,000 at the end of the prior year. The decrease of €335,000 was primarily attributable to a decrease in the dividend reserve during the year offset by an increase in taxes payable.

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 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, and which include escalation 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 includes the risk that economic, social and political conditions and events in a foreign country will adversely affect an obligor's ability and willingness to fulfil their obligations.

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.

# MORGAN STANLEY PASIPHAE NETHERLANDS B.V.

## DIRECTORS' REPORT

### BUSINESS REVIEW (CONTINUED)

**Risk management (continued)**

*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 includes the risk that economic, social and political conditions and events in a foreign country will adversely affect an obligor's ability and willingness to fulfil their obligations.

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.

Credit risk exposure is managed on a global basis and in consideration of each significant legal entity within the Morgan Stanley Group. The 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 the Company's 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.

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, people and systems, 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. It also includes compliance with Anti-Money Laundering, anti-corruption and terrorist financing rules and regulations.

# DIRECTORS' REPORT

## 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.

### Going concern

Retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy. Additionally, the Company has access to further Morgan Stanley Group capital and liquidity as required.

Although the Company has net liabilities payable within the next 12 month, the Company is performing in line with expectations and the net liabilities payable within the next 12 months are due to amounts owing to fellow Morgan Stanley Group undertakings, the demand for repayment of which is wholly within the control of the Morgan Stanley Group

Taking the above 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.

## DIRECTORS

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

S I Merry

B Young

## EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

Approved by the Board and signed on its behalf by

London, 31 May 2018

Management

| | |
|---|---|
| S I Merry | B Young |
| Director | Director |

# MORGAN STANLEY PASIPHAE NETHERLANDS B.V.

*Registered number. 34260427*
*UK Registered number. FC027268*

## STATEMENT OF FINANCIAL POSITION
## As at 31 December 2017

(Including proposed appropriation of net results)

| | Note | 2017 €'000 | 2016 €'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Loans and receivables: | | | |
| Other receivables | 7 | 397,736 | 406,387 |
| **TOTAL ASSETS** | | 397,736 | 406,387 |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| Financial liabilities at amortised cost: | | | |
| Preference Shares | 8 | 260,000 | 260,000 |
| Dividend reserve account | 8 | 6,337 | 7,255 |
| Current tax liabilities | | 596 | - |
| Other payables | 9 | 1,794 | 1,807 |
| **TOTAL LIABILITIES** | | 268,727 | 269,062 |
| | | | |
| **EQUITY** | | | |
| Share capital | 10 | 20 | 20 |
| Share premium account | 10 | 130,000 | 130,000 |
| Retained earnings | | (1,011) | 7,305 |
| **Equity attributable to owners of the Company** | | 129,009 | 137,325 |
| | | | |
| **TOTAL EQUITY** | | 129,009 | 137,325 |
| | | | |
| **TOTAL LIABILITIES AND EQUITY** | | 397,736 | 406,387 |

The notes on pages 8 to 19 form an integral part of the financial statements.

MORGAN STANLEY PASIPHAE NETHERLANDS B.V.

## STATEMENT OF CHANGES IN EQUITY
### Year ended 31 December 2017

| | Share capital €'000 | Share premium €'000 | Retained earnings €'000 | Total equity €'000 |
|---|---|---|---|---|
| **Balance at 1 January 2016** | 20 | 130,000 | 13,528 | 143,548 |
| Loss and total comprehensive income for the year | - | - | (6,223) | (6,223) |
| **Balance at 31 December 2016** | 20 | 130,000 | 7,305 | 137,325 |
| Loss and total comprehensive income for the year | - | - | (8,316) | (8,316) |
| **Balance at 31 December 2017** | 20 | 130,000 | (1,011) | 129,009 |

The notes on pages 8 to 19 form an integral part of the financial statements.

## STATEMENT OF COMPREHENSIVE INCOME
## Year ended 31 December 2017

| | Note | 2017 €'000 | 2016 €'000 |
|---|---|---|---|
| Interest income | 4 | 3,108 | 4,644 |
| Interest expense | 4 | (10,828) | (10,867) |
| **LOSS BEFORE TAXATION** | | (7,720) | (6,223) |
| Income tax expense | 6 | (596) | - |
| **LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | (8,316) | (6,223) |

All operations were continuing in the current and prior year.

The notes on pages 8 to 19 form an integral part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2017

### 1. CORPORATE INFORMATION

The Company is incorporated in The Netherlands, at the following registered address: 20 Bank Street, Canary Wharf, London, E14 4AD, United Kingdom. The Company is a closed limited liability company. The registered number of the Company is 34260427.

The Company, having its statutory seat in Amsterdam, The Netherlands, currently operating from 20 Bank Street, Canary Wharf, London, E14 4AD, United Kingdom, enters into financing transactions and investments.

Details of parent and ultimate parent of the group are disclosed in the related party disclosure note 13 to these financial statements.

### 2. BASIS OF PREPARATION

**Statement of compliance**

These financial statements are prepared in accordance with UK Generally Accepted Accounting Practice (UK 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, fair value measurement, capital management, presentation of comparative information in respect of certain assets, 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 13.

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

The following amendments to standards relevant to the Company's operations were adopted during the year. This amendment did not have a material impact on the Company's financial statements.

An amendment to IAS 12 *'Income Taxes'* was issued by the IASB in January 2016, for application in annual periods beginning on or after 1 January 2017. The amendment was endorsed by the EU in November 2017.

There were no other 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, except for certain financial instruments that have been measured at fair value as explained in the accounting policies below, and in accordance with applicable UK Accounting Standards, including FRS 101, and the Dutch Civil Code. The Dutch Civil Code permits the use of FRS 101 as issued by the Financial Reporting Council in the preparation of financial statements on the basis of the Company's international connections as stated in Article 362.1 of Book 2 of the Dutch Civil Code.

**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.

## 2. BASIS OF PREPARATION (CONTINUED)

### 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 Director's report on pages 1 to 4.

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

Although the Company has net liabilities payable within the next 12 months, the Company is performing in line with expectations and the net liabilities payable within the next 12 months are due to amounts owing to fellow Morgan Stanley Group undertakings, the demand for repayment of which is wholly within the control of the Morgan Stanley Group.

Taking the above 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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Functional currency

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

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

### b. Foreign currencies

All monetary assets and liabilities denominated in currencies other than Euros are translated into Euros at the rates ruling at the reporting date. Transactions and non-monetary assets and liabilities denominated in currencies other than Euros are recorded at the rates prevailing at the dates of the transactions. All translation differences are taken through the income statement. Exchange differences recognised in the income statement are presented in 'Other income' or 'Other expense'.

### c. Financial instruments

The Company classifies its financial assets into loans and receivables on initial recognition.

The Company classifies its financial liabilities as financial liabilities at amortised cost on initial recognition.

More information regarding these classifications is included below:

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

### c. Financial instruments (continued)

**Loans and receivables and financial liabilities at amortised cost**

Financial assets classified as loans and receivables are recognised when the Company becomes a party to the contractual provisions of the instrument. They are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost less allowance for impairment. Interest is recognised in the Statement of Comprehensive Income in 'Interest Income', using the effective interest rate method as described below. Transaction costs that are directly attributable to the acquisition of the financial asset are added to or deducted from the fair value on initial recognition. Impairment losses and reversals of impairment losses on financial assets classified as loans and receivables are recognised in the Statement of Comprehensive Income in 'Other expense'.

Financial assets classified as loans and receivables include other receivables.

Financial liabilities at amortised cost are recognised when the Company becomes a party to the contractual provisions of the instrument. They are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost. Interest is recognised in the Statement of Comprehensive Income in 'Interest expense' using the effective interest rate method as described below. Transaction costs that are directly attributable to the issue of the financial liability are added to or deducted from the fair value on initial recognition.

The effective interest rate method is a method of calculating the amortised cost of a financial instrument (or a group of financial instruments) and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, where appropriate a shorter period) to the carrying amount of the financial instrument. The effective interest rate is established on initial recognition of the financial instrument. The calculation of the effective interest rate includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument.

### 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.

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

### d. Fair value (continued)

*Fair value measurement (continued)*

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that maximises the use of relevant observable inputs and minimises the use of unobservable inputs by requiring that 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 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.

*Gains and losses on inception*

In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (i.e. the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognises a gain or loss on inception of the transaction.

When the use of unobservable market data has a significant impact on determining fair value at the inception of the transaction, the entire initial gain or loss indicated by the valuation technique as at the transaction date is not recognised immediately in the statement of comprehensive income and is recognised instead when the market data becomes observable.

### e. Derecognition of financial assets and liabilities

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.

If the asset has been transferred, and the entity neither transfers nor retains substantially all of the risks and rewards of the asset, then the entity determines whether it has retained control of the asset.

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

### e. Derecognition of financial assets and liabilities (continued)

If the entity has retained control of the asset, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the entity has not retained control of the asset, it derecognises the asset and separately recognises any rights or obligation created or retained in the transfer.

The Company derecognises financial liabilities when the Company's obligations are discharged, cancelled or they expire.

### f. Impairment of financial assets

At each reporting date, an assessment is made as to whether there is any objective evidence of impairment in the value of a financial asset classified as loans and receivables. Impairment losses are recognised if an event has occurred which will have an adverse impact on the expected future cash flows of an asset and the expected impact can be reliably estimated.

Impairment losses on loans and receivables are measured as the difference between the carrying amount of the loans and receivables and the present value of estimated cash flows discounted at the asset's original effective interest rate. Such impairment losses are recognised in the statement of comprehensive income within 'Other expense' and are recognised against the carrying amount of the impaired asset on the statement of financial position. Interest on the impaired asset continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.

For all loans and receivables, if in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed as described for the relevant categories of by financial asset in note 3(c). Any reversal is limited to the extent that the value of the asset may not exceed the original amortised cost of the asset had no impairment occurred.

### g. Income tax

The tax expense represents the tax currently payable.

The tax currently payable is calculated based on taxable profit for the year. Taxable profit may differ from 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.

### g. 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 loans and receivables 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 at amortised cost other than as disclosed as 'Interest expense' within the statement of comprehensive income.

Included in 'Interest expense' is €10,808,000 (2016: €10,838,000) of preference share dividends.

## 5. OTHER EXPENSE

The Company employed no staff during the year (2016: 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 13).

## 6. INCOME TAX EXPENSE

**Analysis of result in the year**

| | 2017<br>€'000 | 2016<br>€'000 |
|---|---|---|
| **Current tax** | | |
| UK corporation tax at 19.25% (2016: 20%) | | |
| - Current year | 596 | - |
| **Total current tax** | 596 | - |

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

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2017

### 6. INCOME TAX EXPENSE (CONTINUED)

**Reconciliation of effective tax rate**

The current year income tax expense is higher (2016: higher) than that resulting from applying the average standard rate of corporation tax in the UK for the year of 19.25% (2016: 20%). The main differences are explained below:

| | 2017 €'000 | 2016 €'000 |
|---|---|---|
| Loss before taxation | (7,720) | (6,223) |
| Income tax using the average standard rate of corporation tax in the UK of 19.25% (2016: 20%) | (1,486) | (1,245) |
| Impact on tax of: | | |
| Group relief received for no cash consideration | - | (923) |
| Non-deductible dividends on preference shares shown as interest expense | 2,081 | 2,168 |
| Other non-deductible interest expense | 1 | - |
| **Total income tax expense in the statement of comprehensive income** | 596 | - |

### 7. OTHER RECEIVABLES

| | 2017 €'000 | 2016 €'000 |
|---|---|---|
| Amounts due from other Morgan Stanley Group undertakings | 397,736 | 406,387 |

## 8. PREFERENCE SHARES

| | 2017 €'000 | 2016 €'000 |
|---|---|---|
| ***Financial instruments issued:*** | | |
| - Preference shares | 65 | 65 |
| - Preference shares premium account | 259,935 | 259,935 |
| | 260,000 | 260,000 |

| **Authorised, allotted and fully paid preference shares of €1 each, classified as financial liabilities** | 2017 Number | 2016 Number | 2017 €'000 | 2016 €'000 |
|---|---|---|---|---|
| Class A Redeemable Preference Shares of €1 each | 65,000 | 65,000 | 65 | 65 |
| Class B Redeemable Preference Shares of €1 each | 1 | 1 | - | - |
| Class C Redeemable Preference Shares of €1 each | 1 | 1 | - | - |
| **At 1 January and 31 December** | 65,002 | 65,002 | 65 | 65 |

In addition to the share capital of redeemable preference shares of €65,000 (2016: €65,000) above, there are contractual preference dividends of €6,337,000 (2016: €7,255,000) accrued at 31 December. Total share capital and accrued dividends classified within liabilities is therefore €6,402,000 (2016: €7,320,000).

As at 31 December 2017, the issued share capital of the Company included 65,002 Redeemable Cumulative €1 Preference shares, classified as financial liabilities.

The preference shares issued by the Company and related share premium are classified as financial liabilities under IAS 32.

The Class A Redeemable Preference shareholders are entitled to a cumulative dividend of 4.1% per annum on the consideration paid for the shares on issue.

The Redeemable Preference Shares can be redeemed on demand with the prior approval of the holders of the Redeemable Preference Shares and rank ahead of the ordinary shares in the event of liquidation. In accordance with the Articles of Association of the Company, each Class A, Class B and Redeemable Preference share confers the right to cast one vote.

During the year, dividends of €11,726,000 (2016: €10,838,000) were paid to the holders of the Class A Redeemable Cumulative Preference shares consisting of €7,255,000 of accrued dividends as at 31 December 2016 and €4,471,000 for the period 1 January 2017 to 31 May 2017.

During the year, dividends of €10,808,000 (2016: €10,838,000) were accrued in relation to the holders of the redeemable cumulative preference shares and have been included within 'Interest expense'.

## 9. OTHER PAYABLES

| | 2017 €'000 | 2016 €'000 |
|---|---|---|
| Amounts due to other Morgan Stanley Group undertakings | 1,794 | 1,807 |

## 10. EQUITY

**Ordinary share capital**

| | Ordinary shares of €1 each Number |
|---|---|
| **Authorised** | |
| At 1 January 2017 and 31 December 2017 | 34,998 |

| | Ordinary shares of €1 each Number | Ordinary shares of €1 each €'000 |
|---|---|---|
| **Allotted and fully paid** | | |
| At 1 January 2017 and 31 December 2017 | 20,000 | 20 |

**Other shares classified as financial liabilities**

The terms of other shares classified as financial liabilities are detailed in note 8, 'Preference shares'.

**Reserves**

*Share premium*

The 'Share premium account' of €130,000,000 (2016: €130,000,000) comprises the capital raised in an issue of shares that exceeds the nominal value of the shares.

# NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2017

### 11. EXPECTED MATURITY OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered, realised or settled.

**At 31 December 2017**

| | Less than or equal to twelve Months €'000 | More than twelve months €'000 | Total €'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Loans and receivables: | | | |
| Other receivables | 2,391 | 395,345 | 397,736 |
| | 2,391 | 395,345 | 397,736 |
| **LIABILITIES** | | | |
| Financial liabilities at amortised cost: | | | |
| Preference Shares | - | 260,000 | 260,000 |
| Dividend reserve account | 6,337 | - | 6,337 |
| Current tax liabilities | 596 | - | 596 |
| Other payables | 1,794 | - | 1,794 |
| | 8,727 | 260,000 | 268,727 |

**At 31 December 2016**

| | Less than or equal to twelve months €'000 | More than twelve months €'000 | Total €'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Loans and receivables: | | | |
| Other receivables | 406,387 | - | 406,387 |
| | 406,387 | - | 406,387 |
| **LIABILITIES** | | | |
| Financial liabilities at amortised cost: | | | |
| Preference Shares | - | 260,000 | 260,000 |
| Dividend reserve account | 7,255 | - | 7,255 |
| Other payables | 1,807 | - | 1,807 |
| | 9,062 | 260,000 | 269,062 |

## 12. 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").

## 13. RELATED PARTY DISCLOSURES

*Parent and ultimate controlling entity*

The Company's immediate parent undertaking is Morgan Stanley Iocaste Cayman Limited which has its registered office at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KYI-1104, 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 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 has its registered office c/o The Corporation Trust Company, The Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, 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.

**Key management compensation**

**Directors' remuneration**

The Directors did not receive any remuneration for their qualifying services to the Company during the year (2016: €nil).

## 14. SUBSEQUENT EVENTS

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

## NOTES TO THE FINANCIAL STATEMENTS
## Year ended 31 December 2017

### 15. PROPOSED APPROPRIATION OF THE RESULT

**Appropriation of Net result for the financial year 2016**

The annual report 2016 was determined in the general meeting of shareholder on 15 August 2017. The general meeting of the shareholder has determined the appropriation of result in accordance with the proposal being made to that end.

**Appropriation of Net result for the financial year 2017**

The statement of financial position is presented after the proposed appropriation of net result for the year ended 31 December 2017. Management propose to add the net result for the year to retained earnings. This proposal has been included in the financial statements.

**Exempt from audit**

Morgan Stanley Pasiphae Netherlands B.V. qualifies as a small sized company according to Dutch Civil Code which means it is exempt from the audit of financial statements. For this reason the financial statements do not include an audit report.

**Signing of the financial statements**

London, 31 May 2018

Management:

| | |
|---|---|
| S I Merry<br>Director | B Young<br>Director |