

**Registered number: 05876997**

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

**MORGAN STANLEY MONTROSE INVESTMENTS LIMITED**

**Report and financial statements**

**31 December 2017**

THURSDAY



A07 \*A7EWZ6PP\* #216  
20/09/2018  
COMPANIES HOUSE

# MORGAN STANLEY MONTROSE INVESTMENTS LIMITED

CONTENTS	PAGE
Strategic report	1
Directors' report	4
Independent auditor's report	6
Statement of comprehensive income	9
Statement of changes in equity	10
Statement of financial position	11
Notes to the financial statements	12

# **MORGAN STANLEY MONTROSE INVESTMENTS LIMITED**

## **STRATEGIC REPORT**

The Directors present their Strategic report for Morgan Stanley Montrose Investments Limited (the "Company") for the year ended 31 December 2017.

### **PRINCIPAL ACTIVITY**

The principal activity of the Company is to enter into financing transactions and investments. There have not been any significant changes in the Company's principal activity in the year under review.

As described below in the Directors' report and in note 14 to the financial statements, since the reporting date the Company has reduced 15,000,000 of its ordinary shares of \$1 each and paid a dividend of \$1,066,000, representing the entire distributable reserves of the Company in line with the Directors' intent to liquidate the Company in the foreseeable future. The financial statements have therefore 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".

### **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.

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 9. The Company generated a profit after tax of \$19,000 compared to a profit after tax of \$41,000 for the prior year. The decrease in profit is primarily due to a decrease in interest income from other Morgan Stanley Group undertakings.

The statement of financial position of the Company is set out on page 11. The Company's total assets have decreased by \$1,227,000 from \$2,295,000 at the end of the prior year to \$1,068,000 at the end of the current year. This decrease was primarily driven by decrease in amounts due from other Morgan Stanley Group undertakings. The Company's total liabilities have decreased by \$1,246,000 from \$1,257,000 at the end of prior year to \$11,000 at the end of current year. The decrease primarily relates to the payment of a provision of \$1,213,000 and a decrease in amounts owed to other Morgan Stanley Group undertakings of \$37,000.

# MORGAN STANLEY MONTROSE INVESTMENTS LIMITED

## STRATEGIC REPORT

### BUSINESS REVIEW (CONTINUED)

#### Overview of 2017 (continued)

The performance of the Company is included in the results of the Morgan Stanley Group which are disclosed in the Morgan Stanley Group's Annual Report on Form 10-K to the United States Securities and Exchange Commission. The Morgan Stanley Group manages its key performance indicators on a global basis but in consideration of individual legal entities. For this reason, the Company's Directors believe that providing 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 Morgan Stanley Group 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's own risk management policy framework leverages the risk management policies and procedures of the Morgan Stanley Group.

##### *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.

# MORGAN STANLEY MONTROSE INVESTMENTS LIMITED

## STRATEGIC REPORT

### BUSINESS REVIEW (CONTINUED)

#### Risk management (continued)

##### *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.

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.

Approved by the Board and signed on its behalf by EMILY LAINO



Director

17 SEPTEMBER 2018

# **MORGAN STANLEY MONTROSE INVESTMENTS LIMITED**

## **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 2017.

## **RESULTS AND DIVIDENDS**

The profit for the financial year, after tax, was \$19,000 (2016: \$41,000 profit after tax).

During the financial year, no dividends were paid or proposed (2016: \$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:

E T Laino

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) 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.

## **EVENTS AFTER THE REPORTING DATE**

On 1 August 2018, the Company reduced its 15,000,000 ordinary shares of \$1 each thus creating distributable reserves of \$15,000,000. The Company paid a dividend of \$1,066,000, representing the entire distributable reserves of the Company.

## **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.

# MORGAN STANLEY MONTROSE INVESTMENTS LIMITED

## DIRECTORS' REPORT

### DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including Financial Reporting Standard ("FRS") 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 UK 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 **EMILY LAINO**



Director

17 SEPTEMBER 2018

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY MONTROSE INVESTMENTS UK LIMITED**

### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit 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 Morgan Stanley Montrose Investments Limited ("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 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.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY MONTROSE INVESTMENTS LIMITED (CONTINUED)**

### **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.

### **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 when it 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 Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Report on other legal and regulatory requirements**

#### **Opinions 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 or the Directors' Report.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN  
STANLEY MONTROSE INVESTMENTS LIMITED (CONTINUED)**

**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.

**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.



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

19 SEPTEMBER 2018

**MORGAN STANLEY MONTROSE INVESTMENTS LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME**

**Year ended 31 December 2017**

	<b>Note</b>	<b>2017</b>	<b>2016</b>
		<b>\$'000</b>	<b>\$'000</b>
Interest income	4	32	49
Interest expense	4	(1)	(1)
Other expense	5	(7)	(7)
<b>PROFIT BEFORE TAXATION</b>		<u>24</u>	<u>41</u>
Income tax expense	6	(5)	-
<b>PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>19</u>	<u>41</u>

All operations were continuing in the current and prior year.

The notes on pages 12 to 19 form an integral part of the financial statements.

**MORGAN STANLEY MONTROSE INVESTMENTS LIMITED**

**STATEMENT OF CHANGES IN EQUITY**

**Year ended 31 December 2017**

	<b>Share capital \$'000</b>	<b>Retained losses \$'000</b>	<b>Total equity \$'000</b>
<b>Balance at 1 January 2016</b>	15,000	(14,003)	997
Total comprehensive income	-	41	41
<b>Balance at 31 December 2016</b>	<u>15,000</u>	<u>(13,962)</u>	<u>1,038</u>
Total comprehensive income	-	19	19
<b>Balance at 31 December 2017</b>	<u>15,000</u>	<u>(13,943)</u>	<u>1,057</u>

The notes on pages 12 to 19 form an integral part of the financial statements.

**MORGAN STANLEY MONTROSE INVESTMENTS LIMITED**

Registered number: 05876997

**STATEMENT OF FINANCIAL POSITION**

**As at 31 December 2017**

	Note	2017 \$'000	2016 \$'000
<b>ASSETS</b>			
Loans and receivables:			
Cash and short-term deposits		5	39
Other receivables	7	1,063	2,255
		<u>1,068</u>	<u>2,294</u>
Current tax assets		-	1
<b>TOTAL ASSETS</b>		<u><u>1,068</u></u>	<u><u>2,295</u></u>
<b>LIABILITIES AND EQUITY</b>			
Financial liabilities at amortised cost:			
Other payables	8	7	44
Provisions	9	-	1,213
Current tax liabilities		4	-
<b>TOTAL LIABILITIES</b>		<u>11</u>	<u>1,257</u>
<b>EQUITY</b>			
Share capital	10	15,000	15,000
Retained losses		(13,943)	(13,962)
<b>Equity attributable to owners of the Company</b>		<u>1,057</u>	<u>1,038</u>
<b>TOTAL EQUITY</b>		<u>1,057</u>	<u>1,038</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><u>1,068</u></u>	<u><u>2,295</u></u>

These financial statements were approved by the Board and authorised for issue on **17 SEPTEMBER 2018**

Signed on behalf of the Board

  
Director

EMILY CAIRNS

The notes on pages 12 to 19 form an integral part of the financial statements.

# MORGAN STANLEY MONTROSE INVESTMENTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

### 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 05876997.

The Company's immediate parent undertaking is Morgan Stanley Longcross Limited, which has its registered office at 20 Bank Street, Canary Wharf, London, E14 4AD and 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.

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, 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](http://www.morganstanley.com/investorrelations).

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 has its registered office at 25 Cabot Square, Canary Wharf, London, E14 4QA and 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.

### 2. BASIS OF PREPARATION

As explained in the Strategic report on page 1, the Company will cease operating in the foreseeable future. Consequently, 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 Company's activities except to the extent that such costs were committed at the reporting date.

#### 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 FRS 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 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 & Co. International plc, in which the Company is consolidated. Copies of Morgan Stanley & Co. International plc's accounts can be obtained as detailed at note 1.

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

The following amendment to standards relevant to the Company's operations was adopted during the year. This amendment did not have an impact on the Company's financial statements.

An amendment to International Accounting Standards ("IAS") 12 *Income Taxes* was issued by the International Accounting Standards Board ("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.

# MORGAN STANLEY MONTROSE INVESTMENTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

### 2. BASIS OF PREPARATION (CONTINUED)

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

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 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 US dollars, 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 US dollars.

#### b. Foreign currencies

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

#### c. Financial instruments

The Company classifies its financial assets as 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:

#### 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 cash and short term deposits and other receivables.

# MORGAN STANLEY MONTROSE INVESTMENTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

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

#### c. Financial instruments (continued)

##### Loans and receivables and financial liabilities at amortised cost (continued)

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.

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.



## MORGAN STANLEY MONTROSE INVESTMENTS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

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

##### d. Fair value (continued)

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.

##### 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.

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.

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 category of 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.

# MORGAN STANLEY MONTROSE INVESTMENTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

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

#### 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. Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the year end date, taking into account the risks and uncertainties surrounding the obligation.

#### i. 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.

### 5. OTHER EXPENSE

	2017	2016
	\$'000	\$'000
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	7	6
Other	-	1
	<u>7</u>	<u>7</u>

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

# MORGAN STANLEY MONTROSE INVESTMENTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

### 5. OTHER EXPENSE (CONTINUED)

Disclosures relating to remuneration received by Directors in respect of their qualifying services to the Company are disclosed in the Related party disclosures note (note 13).

### 6. INCOME TAX EXPENSE

#### Analysis of expense in the year

	2017 \$'000	2016 \$'000
<b>Current tax expense</b>		
UK corporation tax at 19.25% (2016: 20.00%)		
- Current year	5	-
<b>Income tax expense</b>	<u>5</u>	<u>-</u>

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. These reductions in the tax rate may impact the current tax charge in future periods.

#### Reconciliation of effective tax rate

The current year income tax expense is same as (2016: lower than) that resulting from applying the average standard rate of corporation tax in the UK for the year of 19.25% (2016: 20.00%). The main differences are explained below:

	2017 \$'000	2016 \$'000
Profit before taxation	<u>24</u>	<u>41</u>
Income tax using the average standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	5	8
Impact on tax of:		
Group relief received for no cash consideration	-	(8)
<b>Total income tax expense in the statement of comprehensive income</b>	<u>5</u>	<u>-</u>

### 7. OTHER RECEIVABLES

	2017 \$'000	2016 \$'000
Amounts due from other Morgan Stanley Group undertakings	<u>1,063</u>	<u>2,255</u>

**MORGAN STANLEY MONTROSE INVESTMENTS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2017**

**8. OTHER PAYABLES**

	2017 \$'000	2016 \$'000
Amounts due to other Morgan Stanley Group undertakings	<u>7</u>	<u>44</u>

**9. PROVISIONS**

	\$'000
At 1 January 2017	1,213
Provisions utilised	<u>(1,213)</u>
At 31 December 2017	<u>-</u>

In 2011, the Company, as part of the sale of Oersted Investments LLP (the "Partnership"), provided an Indemnity (in the legal form of a covenant to pay) to the purchaser relating to the pre-sale losses incurred by the Partnership (the "Indemnity"). In the prior year, the Company provided for the maximum amount payable under the Indemnity which is capped at \$1,213,000.

On 13 March 2017, the Company fully paid the Indemnity.

**10. EQUITY**

	Ordinary shares of \$1 each Number	Ordinary shares of \$1 each \$'000	Ordinary share of £1 each Number	Ordinary share of £1 each \$'000	Total ordinary shares \$'000
<b>Allotted and fully paid</b>					
At 1 January 2017 and 31 December 2017	<u>15,000,000</u>	<u>15,000</u>	<u>1</u>	<u>-</u>	<u>15,000</u>

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

**11. EXPECTED MATURITY OF ASSETS AND LIABILITIES**

None of the Company's assets and liabilities are expected to be recovered or settled more than twelve months after the reporting period (2016: \$none).

**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").

# **MORGAN STANLEY MONTROSE INVESTMENTS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2017**

### **13. RELATED PARTY DISCLOSURES**

#### **Parent relationship**

##### *Parent and ultimate controlling entities*

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

#### **Key management compensation**

##### **Directors' remuneration**

The Company's Directors' in the year are employed by other Morgan Stanley Group entities. The Directors' services to the Company are considered to be incidental to their other responsibilities with the Morgan Stanley Group and as such, Directors remuneration is \$nil for the current financial year (2016: \$4,000).

### **14. EVENTS AFTER THE REPORTING DATE**

On 1 August 2018, the Company reduced its 15,000,000 ordinary shares of \$1 each thus creating distributable reserves of \$15,000,000. The Company paid a dividend of \$1,066,000 representing the entire distributable reserves of the Company.