

Registered number: 04091663

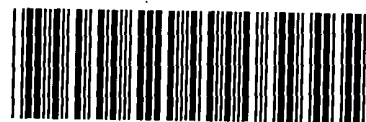
Registered office:
20 Bank Street
Canary Wharf
London E14 4AD

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

Report and financial statements

31 December 2014

MONDAY



L4GW5R77

LD4 28/09/2015 #231
COMPANIES HOUSE

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

CONTENTS	PAGE
Strategic report	1
Directors' report	5
Independent auditor's report	7
Profit and loss account	9
Balance sheet	10
Notes to the financial statements	11

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

STRATEGIC REPORT

The Directors present their Strategic report for Morgan Stanley Montgomerie Investments Limited (the "Company") for the year ended 31 December 2014.

PRINCIPAL ACTIVITY

The principal activity of the Company is to act as an intermediate holding company.

The Company's ultimate parent undertaking and controlling entity is Morgan Stanley, which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the "Morgan Stanley Group".

There have not been any significant changes in the Company's principal activity in the year under review and no significant change in the Company's principal activity is expected.

BUSINESS REVIEW

During 2014, global market and economic conditions displayed a continued but choppy improvement from 2013, characterised by continued global central bank accommodations, low inflation, geopolitical tensions, and sharply lower oil prices during the final months of the year. The United States ("US") economy which started 2014 with a weather-impacted first quarter decline in gross domestic product ("GDP"), ended the year with annualised GDP growth. The Eurozone economy, by contrast, stalled in the second quarter before showing some signs of improvement in the second half of the year, as the annexation of the Crimea region in Ukraine by Russia and conflict in Eastern Ukraine raised anxiety and tensions which weighed on regional economies. In the United Kingdom ("UK"), GDP growth continued to accelerate, while the Japanese economy saw substantial volatility surrounding a national sales tax hike, resulting in a GDP growth rate near zero for all of 2014. In China, the government continued reforms to change the structure of the Chinese economy accepting a somewhat less rapid growth pace as deleveraging is pursued, but targeted easing measures by the Chinese central bank supported a gain in real GDP in 2014.

The profit and loss account is set out on page 9. The Company made a profit of \$26,708,000 during the year compared to a loss of \$41,569,000 in the prior year. The profit was largely as a result of a dividend distribution of \$68,808,000 received from Morgan Stanley Weaver S.à r.l. Together with the dividend, the Company received a return of capital of \$1,409,165,000 from Morgan Stanley Weaver S.à r.l. Following the receipt of the dividend and the capital the Company impaired the investment in Morgan Stanley Weaver S.à r.l by \$19,832,000 to its recoverable amount. On 12 December 2014, Morgan Stanley Weaver S.à r.l was dissolved, resulting in a gain on disposal of \$7,000. The dividend income and capital return were used by the Company to repay an intercompany loan from another Morgan Stanley Group undertaking, driving a \$19,284,000 decrease in interest expense in the year.

The balance sheet for the Company is set out on page 10. Net liabilities at the end of the year were \$39,302,000 compared to net liabilities of \$66,010,000 at the end of the prior year. The reduction in net liabilities is due to the profit for the year. The \$1,069,000,000 decrease in investments in subsidiary undertakings is primarily represented by the disposal of the investment in Morgan Stanley Weaver S.à r.l. As detailed above, the proceeds of the disposal of this subsidiary were used to repay part of the amounts due to other Morgan Stanley Group undertakings, driving a sharp decline in this balance at 31 December 2014.

The Company is in a net liability position. The net liability position is due to amounts owing to fellow Morgan Stanley Group undertakings within the next 12 months, the demand for repayment of which is wholly within the control of the Morgan Stanley Group. As discussed in the Risk Management section below, and in note 1(b) to the Company financial statements, the Company operates within the global liquidity management framework of the Morgan Stanley Group and relies on this framework to provide sufficient liquidity to meet its obligations.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (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 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.

Market risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument implied from option prices), correlations or other market factors, such as liquidity, will result in losses for a position or portfolio.

Market risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to the Company's Board of Directors and appropriate senior management personnel.

The Company manages the market risk associated with its trading activities at both a trading division and an individual product level, which includes consideration of market risk for each significant legal entity within the 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, ensuring compliance with established limits and escalating risk concentrations to appropriate senior management.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Liquidity and funding risk

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

The Morgan Stanley Group's senior management establishes the liquidity and funding policies of the Morgan Stanley Group and the liquidity risk management policies and procedures conducted within the Company are consistent with those of the Morgan Stanley Group. The primary goal of the Morgan Stanley Group's liquidity and funding risk management framework is to ensure that the Morgan Stanley Group, including the Company, have access to adequate funding across a wide range of market conditions. The framework is designed to enable the Morgan Stanley Group, including the Company, 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, and to meet regulatory stress testing requirements proposed by its regulators globally.

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. This definition includes legal, regulatory and compliance risks but excludes strategic risk. Operational risk relates to the following risk event categories as defined by Basel II: 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.

The Company is exposed to legal, regulatory and compliance risks, which include the risk of legal or regulatory sanctions, material financial loss; such as fines, penalties, judgements, damages and/ or settlements or loss to reputation the Company may suffer as a result of a failure to comply with laws, regulations, rules, self-regulatory organisations standards and codes of conduct applicable to business activities. Legal risk also includes contractual and commercial risks in the event that a counterparty's performance obligations will be unenforceable. The Company is generally subject to extensive regulation in the different jurisdictions in which it conducts its business. In the current environment of rapid and possibly transformational regulatory changes, the Company also views regulatory changes as a component of legal risk.

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

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Culture, Values and Conduct of Employees

All of the Morgan Stanley Group's employees have accountability for risk management. The Morgan Stanley Group strives to establish a culture of effective risk management through its defined core values, governance framework, management oversight, training and development programs, policies, procedures, and defined roles and responsibilities within the Morgan Stanley Group. The actions and conduct of each employee are essential to risk management. The Morgan Stanley Group's Code of Conduct (the "Code") has been established to provide a framework and standards for employee conduct that further reinforces the Morgan Stanley Group's commitment to integrity and high ethical standards. Every new hire and every employee annually must certify to their understanding of and adherence to the Code. The employee annual review process includes evaluation of adherence to the Code. The Global Incentive Compensation Discretion Policy sets forth standards that specifically provide that managers must consider whether the employee effectively managed and supervised the risk control practices of his/her employee reports during the performance year. The Morgan Stanley Group has several mutually reinforcing processes to identify incidents of employee conduct that may have an impact on the employment status, current year compensation or prior year compensation. The Morgan Stanley Group's clawback and cancellation provisions permit recovery of deferred incentive compensation where, for example, an employee's act or omission (included with respect to direct supervisory responsibilities) causes a restatement of the Morgan Stanley Group's consolidated financial results, constitutes a violation of the Morgan Stanley Group's global risk management principles, policies and standards, or causes a loss of revenue associated with a position on which the employee was paid and the employee operated outside of internal control policies.

Approved by the Board and signed on its behalf by



Director

S. Merry

22 September 2015.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the profit and loss account, the balance sheet, and the related notes, 1 to 16) for the Company for the year ended 31 December 2014.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was \$26,708,000 (2013: \$41,569,000 loss after tax).

During the year, no dividends were paid or proposed (2013: \$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:

S I Merry

J E Iragorri Rizo

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.

POST BALANCE SHEET EVENTS

Morgan Stanley Raleigh Investments Limited was dissolved on 1 January 2015. On the same date, the Company received a final distribution of \$103,000 from Morgan Stanley Raleigh Investments Limited. The Company recognised a gain of \$1,000 on the disposal of this investment.

Morgan Stanley Oostburg B.V. was dissolved on 30 January 2015. On the same date, the Company received a final distribution of \$101,000 from Morgan Stanley Oostburg B.V. The Company recognised a gain of \$1,000 on the disposal of this investment.

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 MONTGOMERIE INVESTMENTS LIMITED

DIRECTORS' REPORT

CHANGE IN ACCOUNTING FRAMEWORK

The Company meets the definition of a qualifying entity under Financial Reporting Standard ("FRS") 100 *Application of Financial Reporting Requirements* and from 1 January 2015, will change its accounting framework to FRS 101 *Reduced Disclosure Framework* ("FRS 101"). Although there will be changes to the presentation of the financial statements and disclosure under the new framework, there is not expected to be a significant impact on net assets as a result of the transition to FRS 101.

DIRECTORS' RESPONSIBILITIES STATEMENT

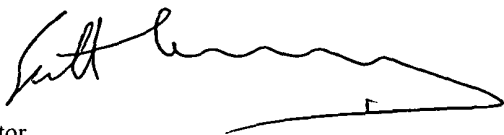
The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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). 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 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



Director
S. Merry.
22 September 2015.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

We have audited the financial statements of Morgan Stanley Montgomerie Investments Limited for the year ended 31 December 2014 which comprise the profit and loss account, the balance sheet and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of Directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

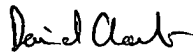
In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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.



David Claxton, ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Glasgow, United Kingdom

23 September 2015

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2014

	Note	2014 \$'000	2013 \$'000
Net gains/ (losses) on fixed asset investments:			
- Subsidiary undertakings	2	48,983	(9)
Interest income	3	4	3
Interest expense	4	(22,279)	(41,563)
PROFIT/ (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		26,708	(41,569)
Tax on profit/ (loss) on ordinary activities	7	-	-
PROFIT/ (LOSS) FOR THE FINANCIAL YEAR		26,708	(41,569)

All operations were continuing in the current and prior year.

There were no recognised gains or losses during the current or prior year other than those disclosed above. Accordingly no statement of total recognised gains and losses has been prepared.

A reconciliation of the movement in shareholders' deficit is disclosed in note 12 to the financial statements.

The notes on pages 11 to 19 form an integral part of the financial statements.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

Registered number: 04091663

BALANCE SHEET**As at 31 December 2014**

	Note	2014 \$'000	2013 \$'000
FIXED ASSETS			
Investments:			
- Subsidiary undertakings	8	620,644	1,689,644
CURRENT ASSETS			
Loans and receivables:			
- Debtors	9	234	220
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Financial liabilities at amortised cost	10	(660,180)	(1,755,874)
NET CURRENT LIABILITIES		<u>(659,946)</u>	<u>(1,755,654)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(39,302)</u>	<u>(66,010)</u>
NET LIABILITIES		<u>(39,302)</u>	<u>(66,010)</u>
CAPITAL AND RESERVES			
Called up share capital	11	100	100
Profit and loss account	12	(39,402)	(66,110)
SHAREHOLDERS' DEFICIT		<u>(39,302)</u>	<u>(66,010)</u>

These financial statements were approved by the Board and authorised for issue on **22 September 2015**

Signed on behalf of the Board



Director

S. Merry

The notes on pages 11 to 19 form an integral part of the financial statements.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

1. ACCOUNTING POLICIES

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

a. Basis of preparation

The financial statements are prepared under the historical cost convention, modified by the inclusion of financial instruments at fair value as described in note 1(e) below, and in accordance with applicable UK company law and accounting standards.

The Company is not required to prepare consolidated financial statements by virtue of the exemption under section 400 of the Companies Act 2006. The results of the Company are included within the financial statements of Morgan Stanley & Co. International plc, a company registered in England and Wales, which has prepared consolidated financial statements for the year ended 31 December 2014. The financial statements therefore present information about the Company as an individual entity and not about its group.

The Company's UK parent undertaking, Morgan Stanley & Co. International plc, presents information in accordance with Financial Reporting Standard ("FRS") 29 *Financial instruments: Disclosures* ("FRS 29"). Accordingly, the Company is exempt from the disclosure requirements of FRS 29.

b. The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Strategic report on pages 1 to 4.

As set out in the Strategic report, retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy. Although the Company is in a net liability position, the Company is performing in line with expectations and the net liability position is due to amounts owing to fellow Morgan Stanley Group undertakings within the next 12 months, the demand for repayment of which is wholly within the control of the Morgan Stanley Group.

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

c. Functional currency

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

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

d. Foreign currencies

All monetary assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the rates ruling at the balance sheet date. Transactions in currencies other than US dollars are recorded at the rates prevailing at the dates of the transactions. All translation differences are taken through the profit and loss account. Exchange differences recognised in the profit and loss account are presented in 'Other income' or 'Other expense', except where noted in 1(e) below.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

1. ACCOUNTING POLICIES (CONTINUED)

e. Financial instruments

The Company classifies its financial assets into the following categories on initial recognition: investments in subsidiaries and loans and receivables.

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

More information regarding these classifications is included below:

i) Investments in subsidiary undertakings

Investments in subsidiary undertakings outside the scope of FRS 26 *Financial instruments: Recognition and measurement* are recorded within 'Investments in subsidiary undertakings' and are stated at cost, less provision for any impairment. Interest (recognised on an accruals basis), dividend income (recognised when the Company's right to receive payment is established), impairment losses, reversals of impairment losses and foreign exchange differences on monetary investments are all reported in the profit and loss account in 'Net gains/ (losses) on fixed asset investments in subsidiary undertakings'.

On disposal of an investment in a subsidiary undertaking, the cumulative gain or loss is reclassified to the profit and loss account and reported in 'Gain/ (loss) on disposal of subsidiary undertakings'.

ii) 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 1(f) below) and subsequently measured at amortised cost less allowance for impairment. Interest is recognised in the profit and loss account 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 profit and loss account in 'Other expense'.

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 1(f) below) and subsequently measured at amortised cost. Interest is recognised in the profit and loss account 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.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

1. ACCOUNTING POLICIES (CONTINUED)

f. Fair value of financial instruments

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.

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).

g. Derecognition of financial assets and liabilities

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset.

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

h. Impairment of financial assets

At each balance sheet date, an assessment is made as to whether there is any objective evidence of impairment in the value of financial assets classified as fixed asset investments in subsidiaries or 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 fixed asset investments in subsidiary undertakings are measured as the difference between cost and the current estimated recoverable amount. When the recoverable amount is less than the cost, an impairment is recognised within the profit and loss account in 'Net gains/ (losses) on fixed asset investments in subsidiary undertakings' and is reflected against the carrying amount of the impaired asset on the balance sheet.

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 profit and loss account within 'Other expense' and are recognised against the carrying amount of the impaired asset on the balance sheet. Interest on the impaired asset continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.

i. Taxation

UK corporation tax is provided at amounts expected to be paid/ recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

j. Cash flow statement

The Company's ultimate parent undertaking produces consolidated financial statements in which the Company is included and which are publicly available. Accordingly, the Company, which is a wholly-owned subsidiary, has elected to avail itself of the exemption provided in FRS 1 (Revised 1996) *Cash flow statements* and not present a cash flow statement.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

2. NET GAINS/ (LOSSES) ON INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	2014 \$'000	2013 \$'000
Income from other investments in subsidiary undertakings	68,808	93
Impairment losses	(19,832)	(100)
Gain/ (loss) on disposal of investment	<u>7</u>	<u>(2)</u>
	<u>48,983</u>	<u>(9)</u>

On 10 April 2014, the Company received a dividend of \$68,808,000 from Morgan Stanley Weaver S.à r.l. The Company subsequently impaired its investment in Morgan Stanley Weaver S.à r.l. by \$19,832,000 to its carrying value of \$103,000.

Morgan Stanley Weaver S.à r.l. was dissolved on 22 December 2014. The Company recognised a gain of \$7,000 on disposal of this investment.

3. INTEREST INCOME

	2014 \$'000	2013 \$'000
Interest income from loans to Morgan Stanley Group undertakings	<u>4</u>	<u>3</u>

4. INTEREST EXPENSE

	2014 \$'000	2013 \$'000
Interest expense on loans from Morgan Stanley Group undertakings	<u>22,279</u>	<u>41,563</u>

5. OTHER EXPENSE

The Company employed no staff during the year (2013: nil).

The fees for the audit of the Company's financial statements of \$8,000 (2013: \$8,000) have been borne by another Morgan Stanley Group undertaking in both the current and prior year.

6. DIRECTORS' BENEFITS

The Directors did not receive any remuneration for their qualifying services to the Company during the year (2013: \$nil).

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

7. TAX ON PROFIT/ (LOSS) ON ORDINARY ACTIVITIES

Analysis of result in the year

	2014 \$'000	2013 \$'000
UK corporation tax at 21.49% (2013: 23.25%)		
- Current year	-	-
Tax on profit/ (loss) on ordinary activities	-	-

Factors affecting the current tax result for the year

The current year UK taxation result is lower (2013: lower) than that resulting from applying the average standard UK corporation tax rate for the year of 21.49% (2013: 23.25%). The main differences are explained below:

	2014 \$'000	2013 \$'000
Profit/ (loss) on ordinary activities before tax	26,708	(41,569)
Profit/ (loss) on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 21.49% (2013: 23.25%)	5,740	(9,665)
Effects of:		
Group relief surrendered for no cash consideration	4,785	9,663
Non-deductible loss on disposal of fixed assets	-	1
Tax exempt dividends	(14,787)	(22)
Impairment provision against fixed asset investments	4,262	23
Current tax result for the year	-	-

Finance Act 2013 enacted a reduction to the UK corporation tax rate to 21% with effect from 1 April 2014. This reduction in tax rate did not impact the current tax result in 2014 as the Company surrendered group relief for no cash consideration.

Finance Act 2013 also enacted a reduction to the UK corporation tax rate to 20% with effect from 1 April 2015. The reduction in the rate may impact the current tax result in future years.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

8. FIXED ASSET INVESTMENTS

Fixed asset investments in subsidiary undertakings

	Subsidiary undertakings \$'000
Cost	
At 1 January 2014	1,689,744
Additions	100
Disposals	<u>(1,069,200)</u>
At 31 December 2014	<u>620,644</u>
Impairment provisions	
At 1 January 2014	100
Provisions made in the year	19,832
Disposals	<u>(19,932)</u>
At 31 December 2014	<u>-</u>
Net book value	
At 31 December 2013	<u>1,689,644</u>
At 31 December 2014	<u>620,644</u>

On 10 April 2014, the Company received a total distribution of \$1,117,973,000 from Morgan Stanley Weaver S.à r.l. Of this, \$1,049,165,000 was represented by the return of capital and the balance of \$68,808,000 was represented by a dividend distribution. The Company subsequently impaired its investment in Morgan Stanley Weaver S.à r.l. by \$19,832,000 to its carrying value of \$103,000.

On 15 June 2014 Morgan Stanley Medway Investments Limited was dissolved. This investment of \$100,000 was impaired in 2013 and was held at a carrying value of \$1, no gain or loss was recognised on this disposal.

On 4 September 2014, the Company purchased the entire share capital of Morgan Stanley Oostburg B.V. from Morgan Stanley Cadzand III Limited for total consideration of \$100,000.

Morgan Stanley Weaver S.à r.l. was dissolved on 22 December 2014. On the same date, the Company received final distribution of \$110,000 from Morgan Stanley Weaver S.à r.l. The Company recognised a gain of \$7,000 on disposal of this investment.

Subsidiaries and significant holdings

Details of the investments in which the Company holds more than 20% of the nominal value of any class of share capital, and investments with a book value greater than 20% of the Company's own assets at 31 December 2014, are as follows:

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2014

8. FIXED ASSET INVESTMENTS (CONTINUED)

Name of company	Country of incorporation	Type of shares held	Proportion of shares held	Proportion of voting rights	Nature of business
Morgan Stanley Equity Derivative Services (Luxembourg) S.à r.l.	Luxembourg	Ordinary	100%	100%	Financial services
Morgan Stanley Langtree Investments B.V.	The Netherlands	Class A & B	100%	100%	Financial services
Morgan Stanley Mallard Investments Limited	England and Wales	Ordinary	100%	100%	Holding company
Morgan Stanley Millbrae Investments B.V.	The Netherlands	Class A*	100%	67%	Financial services
Morgan Stanley Millbrae Investments B.V.	The Netherlands	Preference*	100%	33%	Financial services
Morgan Stanley Raleigh Investments Limited (dissolved on 1 January 2015)	England and Wales	Ordinary	100%	0%	Holding company
Morgan Stanley Oostburg B.V. (dissolved on 30 January 2015)	The Netherlands	Ordinary	100%	0%	Financial services

An * denotes shareholdings attributed to the Company which are not all held directly by the Company.

9. DEBTORS

	2014 \$'000	2013 \$'000
Debtors classified within loans and receivables at amortised cost		
Amounts due from Morgan Stanley Group undertakings	234	220

10. FINANCIAL LIABILITIES AT AMORTISED COST

	2014 \$'000	2013 \$'000
Financial liabilities at amortised cost falling due within one year		
Amounts owing to Morgan Stanley Group undertakings	660,180	1,755,874

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

11. CALLED UP SHARE CAPITAL

	2014 \$'000	2013 \$'000
Allotted and fully paid:		
100,000 ordinary shares of \$1 each	100	100
1 ordinary share of £1	-	-
	<u>100</u>	<u>100</u>

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

12. RECONCILIATION OF SHAREHOLDERS' DEFICIT AND MOVEMENTS ON RESERVES

	Called up share capital \$'000	Profit and loss account \$'000	Total \$'000
At 1 January 2013	100	(24,541)	(24,441)
Loss for the year	-	(41,569)	(41,569)
At 1 January 2014	<u>100</u>	<u>(66,110)</u>	<u>(66,010)</u>
Profit for the year	-	26,708	26,708
At 31 December 2014	<u>100</u>	<u>(39,402)</u>	<u>(39,302)</u>

13. SEGMENTAL 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").

14. RELATED PARTY TRANSACTIONS

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

15. POST BALANCE SHEET EVENTS

Morgan Stanley Raleigh Investments Limited was dissolved on 1 January 2015. On the same date, the Company received a final distribution of \$103,000 from Morgan Stanley Raleigh Investments Limited. The company recognised a gain of \$1,000 on the disposal of this investment.

Morgan Stanley Oostburg B.V. was dissolved on 30 January 2015. On the same date, the Company received a final distribution of \$101,000 from Morgan Stanley Oostburg B.V. The company recognised a gain of \$1,000 on the disposal of this investment.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

16. PARENT UNDERTAKINGS

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

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

The parent undertaking of the smallest group of companies for which group financial statements are drawn up and of which the Company is a member is Morgan Stanley & Co. International plc, which is registered in England and Wales. Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Cardiff CF14 3UZ.