

Registered number: 06893765

Registered office:

20 Bank Street

Canary Wharf

London

E14 4AD

United Kingdom

CABOT 38 LIMITED

Report and financial statements

31 December 2018



CABOT 38 LIMITED

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CABOT 38 LIMITED

STRATEGIC REPORT

The Directors present their Strategic report for Cabot 38 Limited (the "Company") for the year ended 31 December 2018.

PRINCIPAL ACTIVITY

The principal activity of the Company is to enter into financing transactions and investments, with no significant changes expected in 2019.

The Company's ultimate parent undertaking and controlling entity is Morgan Stanley, which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the "Morgan Stanley Group". The Company's immediate parent undertaking is Morgan Stanley & Co. International plc which together with its subsidiaries forms the "MSI Group".

BUSINESS REVIEW

Overview of 2018 performance and key performance indicators

The Company's main key performance indicators are profit after tax, total assets and total liabilities.

The Company's profit after tax for the year amounted to \$298,000, compared to \$173,000 in the prior year.

The profit for the current year mainly comprised of net interest of \$339,000 from Morgan Stanley undertakings. In the prior year the profit was similarly generated by net interest of \$227,000 from Morgan Stanley undertakings.

The total assets of the Company is \$3,530,000 as compared to prior year of \$2,404,000. An increase in balances is due from Other Morgan Stanley Group undertakings. The total liabilities of the Company is \$2,955,000 as compared to prior year of \$2,127,000. An increase in balances is owed to Other Morgan Stanley Group undertakings.

Risk management

The Directors consider that the Company's key financial risks are credit risk, primarily its concentration of exposure to other Morgan Stanley Group undertakings, and liquidity risk arising through its exposure to other Morgan Stanley Group undertakings presented within other payables and debt and other borrowings. The Company leverages the Morgan Stanley Group's credit and liquidity risk frameworks to identify, measure, monitor and control credit risk and to ensure that the Company has access to adequate funding.

The Company also has some limited exposure to country, operational and legal, regulatory and compliance risks.

The Company leverages the risk management policies and procedures of the Morgan Stanley Group. The Company also manages the risk of potential impacts on its business (including but not limited to the impact of United Kingdom's (the "UK") decision to leave the European Union (the "EU") by maintaining a constant planning dialogue with the wider Morgan Stanley Group and MSI Group.

CABOT 38 LIMITED

STRATEGIC REPORT (CONTINUED)

Going concern

Retaining sufficient liquidity and capital to withstand market pressures remains central to the Company's strategy. The Company has access to Morgan Stanley Group capital and liquidity. 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.

Approved by the Board and signed on its behalf by

A handwritten signature in black ink, appearing to read 'V. Worster', written over a horizontal line.

V. Worster - Director
19 September 2019

CABOT 38 LIMITED

DIRECTORS' REPORT

The Directors present their report and financial statements for the Company for the year ended 31 December 2018.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was \$298,000 (2017: \$173,000)

During the year, no dividends were paid to the Company's shareholder, Morgan Stanley & Co. International plc ("MSIP") (2017: \$nil).

RISK MANAGEMENT AND FUTURE DEVELOPMENTS

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

DIRECTORS

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

L Bainbridge
Y W Goddard
V Worster

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 and its subsidiary undertakings.

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

AUDITOR

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

Statement as to disclosure of information to the auditor

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

- so far as each of the Directors is aware, there is no relevant audit information 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.

CABOT 38 LIMITED

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice ("UK GAAP") (UK Accounting Standards and applicable law), including Financial Reporting Standard 101 '*Reduced Disclosure Framework*' ("FRS 101"). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board and signed on its behalf by



V Worster - Director
19 September 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CABOT 38 LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Cabot 38 Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 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 which comprise:

- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of financial position;
- the related notes 1 to 10; and

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

Basis for opinion

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

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

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CABOT 38 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CABOT 38 LIMITED (CONTINUED)

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.

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

28 September 2019

CABOT 38 LIMITED

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	Note	2018 \$'000	2017 \$'000
Interest income	4	339	302
Interest expense	4	-	(75)
Net interest income		<u>339</u>	<u>227</u>
Other income	5	-	1
Other expense	6	<u>(6)</u>	<u>(7)</u>
PROFIT BEFORE TAXATION		333	221
Income tax expense	7	<u>(35)</u>	<u>(48)</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>298</u>	<u>173</u>

All operations were continuing in the current and prior year.

The notes on pages 11 to 16 form an integral part of the financial statements.

CABOT 38 LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Note	Share capital \$'000	Share premium \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 January 2017		14	21	(21,436)	104
Profit and total comprehensive income for the year		-	-	173	173
Balance at 31 December 2017		14	21	(21,263)	277
Profit and total comprehensive income for the year		-	-	298	298
Balance at 31 December 2018		14	21	(20,965)	575

The notes on pages 11 to 16 form an integral part of the financial statements.

CABOT 38 LIMITED

Registered number: 06893765

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 \$'000	2017 \$'000
ASSETS			
Other receivables	9	3,530	2,404
TOTAL ASSETS		3,530	2,404
LIABILITIES			
Other payables	9	2,876	1,924
Current tax liabilities		79	203
TOTAL LIABILITIES		2,955	2,127
EQUITY			
Share capital	8	14	14
Share premium	8	21	21
Capital contribution reserve	8	21,505	21,505
Retained earnings		(20,965)	(21,263)
Equity attributable to owners of the Company		575	277
TOTAL EQUITY		575	277
TOTAL LIABILITIES AND EQUITY		3,530	2,404

These financial statements were approved by the Board and authorised for issue on 19 September 2019

Signed on behalf of the Board

V Worster - Director

The notes on pages 11 to 16 form an integral part of the financial statements.

CABOT 38 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in England and Wales, United Kingdom, at the following registered address 20 Bank Street, Canary Wharf, London, E14 4AD, United Kingdom. The Company is a private company and is limited by shares. The registered number of the Company is 06893765.

The Company's immediate parent undertaking is Morgan Stanley & Co. International plc which has its registered office at 25 Cabot Square, Canary Wharf, London, E14 4QA, United Kingdom. Copies of the 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 and smallest 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.

2. BASIS OF PREPARATION

The Company is not required to prepare consolidated financial statements by virtue of the exemption under section 401 of the Companies Act 2006.

Statement of compliance

These financial statements are prepared on a going concern basis as explained in the Strategic Report and under the historical cost convention in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101.

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 a cash-flow statement, accounting standards not yet effective and related party transactions.

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

New standards and interpretations adopted during the year

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

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

CABOT 38 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations adopted during the year (continued)

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

Critical judgements

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.

b. Foreign currencies

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 recognised through the statement of comprehensive income.

c. Financial instruments

Financial assets and liabilities primarily comprise other receivables and payables.

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

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

CABOT 38 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Impairment of financial assets

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

e. Income tax

The tax expense represents the sum of the tax currently payable and is calculated based on taxable profit for the year. Taxable profit may differ from profit 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.

CABOT 38 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2018

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.

5. OTHER INCOME

	2018 \$'000	2017 \$'000
Net foreign exchange gains	<u>-</u>	<u>1</u>

6. OTHER EXPENSE

	2018 \$'000	2017 \$'000
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	<u>6</u>	<u>7</u>
	<u>6</u>	<u>7</u>

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

The Company's directors are employed by other Morgan Stanley Group entities. The directors' services to the Company are considered to be incidental to their other responsibilities within the Morgan Stanley Group and as such, directors' remuneration is \$nil for the current year (2017: \$nil).

CABOT 38 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2018

7. INCOME TAX EXPENSE

	2018	2017
	\$'000	\$'000
Current tax expense		
UK corporation tax at 19% (2017: 19.25%)		
- Current year	35	48
	<u>35</u>	<u>48</u>
Income tax expense	<u>35</u>	<u>48</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 which will impact the current tax charge in future periods.

Reconciliation of effective tax rate

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

	2018	2017
	\$'000	\$'000
Profit before taxation	<u>333</u>	<u>221</u>
Income tax using the average standard rate of corporation tax in the UK of 19% (2017: 19.25%)	63	43
Impact on tax of		
Currency translation on tax	(1)	2
Group relief received for no cash consideration	(28)	-
Expenses not deductible for tax purposes	1	3
Total income tax expense in the statement of comprehensive income	<u>35</u>	<u>48</u>

CABOT 38 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2018

8. EQUITY

Ordinary share capital

	2018	2017
	\$'000	\$'000
Allotted and fully paid:		
14,000 ordinary shares of \$1 each	<u>14</u>	<u>14</u>

Reserves

Share premium

The 'share premium account' of \$21,000 (2017: \$21,000) comprises the capital raised in an issue of shares that exceeds the nominal value of share.

Capital contribution reserve

The 'Capital contribution reserve' of \$21,505,000 (2017: \$21,505,000) comprises contributions of capital from the Company's parent company.

9. EXPECTED MATURITY OF ASSETS AND LIABILITIES

Other receivables and payables relate wholly to amounts due from and to group undertakings respectively.

Other receivables of \$3,530,000 (2017: \$2,404,000), other payables of \$2,876,000 (2017: \$1,924,000) and current tax liabilities of \$79,000 (2017: \$203,000) are expected to be settled no more than twelve months after the reporting period, with all other amounts expected to be settled more than twelve months after the reporting period end.

10. SEGMENT REPORTING

The Company has only one class of business, Institutional Securities operating in a single geographic market, Europe, Middle East and Africa ("EMEA") and accordingly no segmental analysis has been provided.