FTSE 100 Income Note III (GBP, 6Y)

A MORGAN STANLEY BACKED INCOME OPPORTUNITY

The Morgan Stanley FTSE 100 Income Note III is designed to provide a regular, fixed income over the next six years. What's more, investors' initial capital will be returned in full as long as the FTSE 100 Index does not fall by 50% or more during the investment term.

ATTRACTIVE, ANNUAL INCOME

Investors will receive a fixed annual income of 6.75%, paid annually throughout the six year term regardless of the performance of the FTSE 100 Index. The dates these income payments are made are as follows:

1st Nov 2011	3rd Nov 2014
1st Nov 2012	2nd Nov 2015
1st Nov 2013	15th Nov 2016

SOME PROTECTION FROM A FALLING MARKET

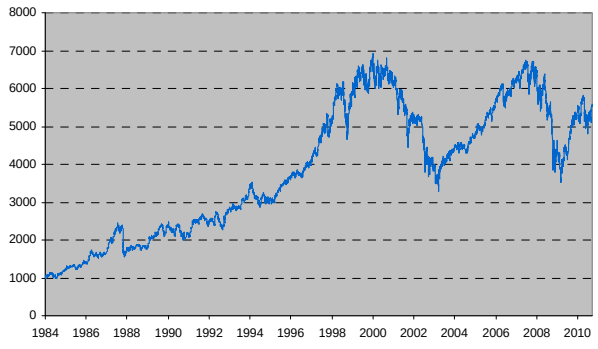
If the FTSE 100 Index level at maturity is at or above its level on the start date (the 'Initial Level'), investors will receive the return of their initial capital in full.

If, however, the FTSE 100 Index level at maturity is below its Initial Level, the return of investors' capital will depend on how the FTSE 100 Index has performed during the investment term:

- If the index has never closed at or below 50% of its Initial Level, investors will receive the return of their initial capital in full.
- If the index, on any business day during the term, has closed at or below 50% of its Initial Level, investors will lose 1% of their initial capital for each 1% that the index level at maturity is below the Initial Level.

FTSE 100 INDEX: HISTORICAL PERFORMANCE

The below chart shows the historical performance of the FTSE 100 Index from 3rd Jan 84 to 20th Sep 10.



Based on this historical performance, we ran a backtest looking at the return of capital available for each possible start date from 3rd Jan 84 to 20th Sep 04.[1]

- Return of capital was less than 100% in only 1.08% of cases
- The minimum return of capital was 72.59% (for an investment made on 28th Apr 99)
- The average return of capital was 99.83%

The past performance of the index is not necessarily a guide to its performance in the future and there is no certainty that the future performance of the index will be positive.

KEY INVESTMENT ADVANTAGES

- Annual, attractive income
- Some protection from a falling market (provided by Morgan Stanley, rated A[2] by S&P)
- Denominated in GBP, therefore no currency risk for GBP investors
- Daily secondary market and liquidity

KEY INVESTMENT CONSIDERATIONS

- Investors are exposed to the credit risk of Morgan Stanley
- Investors do not participate directly in any growth in the FTSE 100 Index. The fixed, annual returns they receive may be less than they would receive from an investment linked directly to the performance of the FTSE 100 Index.
- The secondary market price of the notes will depend on many factors, including, but not limited to, the index level, volatility and interest rates. If investors sell before maturity, they may receive less than their initial investment
- Note returns do not include any returns from dividend income or participation in corporate actions, as would be the case if you invested directly in the shares underlying the index

[1] This backtest is hypothetical only and the terms available on products launched on historical dates would differ from the terms available today. Backtests should not be relied upon for future performance of the product.
[2] As of 20th September 10

NOTE DETAILS

ISSUER	Morgan Stanley (S&P Rating: A)
ISIN	XS0536150153
UNDERLYING	FTSE 100 Index (UKX Index)
CURRENCY	GBP
MATURITY	6 years
ISSUE PRICE	1 GBP
MINIMUM INVESTMENT AMOUNT	3000 GBP
SUBSCRIPTION PERIOD	31st August 2010 to 11th October 2010. We will be unable to accept any subscriptions after this deadline and reserve the right to close the subscription period early.
START DATE	1st November 2010
INCOME PAYMENT DATES	1st November 2011, 1st November 2012, 1st November 2013, 3rd November 2014, 2nd November 2015, 15th November 2016.
MATURITY DATE	15th November 2016
INITIAL INDEX LEVEL	The official closing level of the FTSE 100 Index on 1st November 2010
FINAL INDEX LEVEL	The official closing level of the FTSE 100 Index on 1st November 2016

If any of the dates in this table are not London business days, or days on which the relevant stock exchanges are not functioning normally, the date will move forward to the following business day.

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