

**Supplement No. 1 dated 23 August 2013 to the
Base Prospectus for Equity Linked Notes and Certificates dated 27 June 2013**

MORGAN STANLEY & CO. INTERNATIONAL PLC
(incorporated with limited liability in England and Wales)

MORGAN STANLEY B.V.
(incorporated with limited liability in The Netherlands)

and

MORGAN STANLEY
(incorporated under the laws of the State of Delaware in the United States of America)
as Guarantor

**Euro 2,000,000,000 German Programme for Medium Term Notes and Certificates
(Programme for the Issuance of Notes and Certificates)**

MORGAN STANLEY IQ

This supplement No. 1 to the Original Base Prospectus (as defined below) (the "**Supplement No. 1**") is prepared in connection with the EUR 2,000,000,000 German Programme for Medium Term Notes and Certificates (Programme for the Issuance of Notes and Certificates) (the "**Programme**") of Morgan Stanley & Co. International plc ("**MSI plc**") and Morgan Stanley B.V. ("**MSBV**" and MSI plc and MSBV each an "**Issuer**" and together, the "**Issuers**") and is supplemental to, and should be read in conjunction with, the base prospectus for equity linked notes and certificates dated 27 June 2013 (the "**Original Base Prospectus**") in respect of the Programme.

Notes issued by MSBV will benefit from a guarantee dated on or around 27 June 2013 (the "**Guarantee**") by Morgan Stanley ("**Morgan Stanley**" or the "**Guarantor**").

This Supplement No. 1 is a supplement in the meaning of article 13 of the Luxembourg Act on Securities Prospectuses (*loi relative aux prospectus pour valeurs mobilières*) which implements article 16 of the Prospectus Directive. Unless otherwise stated or the context otherwise requires, terms defined in the Original Base Prospectus have the same meaning when used in this Supplement No. 1. As used herein "Base Prospectus" means the Original Prospectus as supplemented by the Supplement No. 1.

The Original Base Prospectus has been and this Supplement No. 1 will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

In accordance with article 13 of the Luxembourg Act on Securities Prospectuses (*loi relative aux prospectus pour valeurs mobilières*), investors who have already submitted purchase orders in relation to instruments issued under the Programme prior to the publication of this Supplement No. 1 are entitled to withdraw their orders within two days of this Supplement No. 1 having been published (the "**Withdrawal Right End Date**") if not yet credited in their respective securities account for the instruments so subscribed. Withdrawal Right End Date means 27 August 2013. A withdrawal, if any, of an order must be communicated in writing to the relevant Issuer at its registered office specified in the Address List hereof.

IMPORTANT NOTICE

This Supplement No. 1 should be read and construed with the Original Base Prospectus and with any documents incorporated by reference therein and, in relation to any issue of Notes, with the relevant Final Terms. In case of any inconsistency between (i) any statement contained in this Supplement No. 1 or any statement incorporated by reference into the Base Prospectus through this Supplement No. 1; and (ii) any other statement in or incorporated by reference in the Original Base Prospectus as supplemented, the statement contained in this Supplement No. 1 or the statement incorporated by reference into the Base Prospectus through this Supplement No. 1 shall prevail.

Any managers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any managers as to the accuracy or completeness of the information contained in this Supplement No. 1 or any other information provided by the Issuers and the Guarantor in connection with the Programme.

No person has been authorised by any of the Issuers or the Guarantor to issue any statement which is not consistent with or not contained in this document, any other document entered into in relation to the Programme or any information supplied by the Issuers or the Guarantor or any information as in the public domain and, if issued, such statement may not be relied upon as having been authorised by the Issuers, the Guarantor or any managers.

The distribution of this Supplement No. 1, the Original Base Prospectus, any Final Terms, any simplified prospectus in case Notes in Switzerland are not publicly distributed by their listing at SIX/Scoach/EUREX but by publishing a simplified prospectus ("**Simplified Prospectus**") pursuant to article 5 of the CISA and any offering material relating to the Notes and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Nobody may use this Supplement No. 1, the Original Base Prospectus or any Final Terms or any Simplified Prospectus for the purpose of an offer or solicitation if in any jurisdiction such use would be unlawful. In particular, this document may only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the Financial Services and Markets Act 2000 does not apply. Additionally, Notes issued under this Programme will not be registered under the United States Securities Act of 1933, as amended. Therefore, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

For a more detailed description of some restrictions, see the paragraph "*Subscription and Sale*" of the Original Base Prospectus.

Neither this Supplement No. 1, the Original Base Prospectus nor any Final Terms nor any Simplified Prospectus constitute an offer to purchase any Notes and should not be considered as a recommendation by the Issuers, the Guarantor or any managers that any recipient of this Supplement No. 1, the Original Base Prospectus or any Final Terms or any Simplified Prospectus should purchase any Notes. Each such recipient shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of each of the Issuers and the Guarantor (see paragraph "*Risk Factors*" of the Original Base Prospectus).

RESPONSIBILITY STATEMENT

Each of Morgan Stanley & Co. International plc, London, United Kingdom, Morgan Stanley B.V., Amsterdam, The Netherlands, and Morgan Stanley, Delaware, United States of America, assumes responsibility for the content of this Supplement No. 1 and declares that the information contained in this Supplement No. 1 is to the best of their respective knowledge in accordance with the facts and that no material circumstances have been omitted.

Dated: 23 August 2013

AMENDMENTS TO THE ORIGINAL BASE PROSPECTUS

A. The following sentence under the second paragraph on the Cover Page of the Original Base Prospectus:

The Issuer has applied for a notification of this Base Prospectus into the Federal Republic of Germany (“**Germany**”) and the Republic of Austria (“**Austria**”).

shall be replaced in its entirety by the following sentence:

The Issuer has applied for a notification of this Base Prospectus into the Federal Republic of Germany (“**Germany**”), the Republic of Austria (“**Austria**”) and the Republic of Italy (“**Italy**”).

B. The following items shall be added to paragraph D.3 “Key information on the key risks that are specific to the Notes” of the section “Summary of the Base Prospectus” on page 41 et seq. of the Original Base Prospectus:

[Risk relating to the cancellation of the offer	The Issuer reserves [, subject to an agreement with [•],] the right to withdraw the offer and cancel the issuance of [Notes][Certificates] for any reason prior to the issue date. In case of such withdrawal or cancellation in relation to the [Notes][Certificates], investors shall be aware that no amount will be payable as compensation for such cancellation or withdrawal and investors may further be subject to reinvestment risk.]
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[Risk relating to the early termination of the offer	In case of an early termination of the subscription period by the Issuer, [Notes][Certificates] may be issued at a lower aggregate nominal amount than expected. Such lower aggregate nominal amount may affect the liquidity of the [Notes][Certificates] and the investor’s ability to sell the [Notes][Certificates] in the secondary market.]
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[Risk relating to fees and/or other additional costs embedded in the issue price	It should be noted that the issue price of the [Notes][Certificates] may include distribution fees and/or additional costs or fees, which are not taken into account when determining the price of the [Notes][Certificates] in the secondary market.
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Such fees and/or additional costs may influence the yield of the [Notes][Certificates] and such yield may not adequately reflect the risk of the [Notes][Certificates] and may be lower than the yield offered by similar securities traded on the market. This does not mean that the [Notes][Certificates] will provide for any positive yield at all.

The investor should also take into consideration that if the [Notes][Certificates] are sold on the secondary market, the fees and/or costs included in the issue price may not be recouped from the selling price and may determine a yield not in line with risks associated with the [Notes][Certificates].]

C. The following items shall be added to paragraph D.3 “Zentrale Angaben zu den zentralen Risiken, die den Schuldverschreibungen eigen sind” of the section „Deutsche Fassung der Zusammenfassung des Basisprospekts“ on page 95 of the Original Base Prospectus:

[Risiken in Bezug auf die Zurücknahme des Angebots Die Emittentin behält sich das Recht vor, [vorbehaltlich einer Vereinbarung mit [•],] das Angebot zurückzunehmen und die Begebung der [Schuldverschreibungen][Zertifikaten], ganz gleich aus welchem Grunde, vor dem Begebungstag nicht durchzuführen. Im Falle einer solchen Zurücknahme bzw. Nichtdurchführung der Begebung in Bezug auf die [Schuldverschreibungen] [Zertifikate] sollten Investoren beachten, dass für eine solche Zurücknahme bzw. eine solche Nichtdurchführung keine Entschädigung gezahlt wird und Investoren zudem einem Wiederanlagerisiko unterliegen können.]

[Risiken in Bezug auf die vorzeitige Kündigung des Angebots Im Falle einer vorzeitigen Kündigung des Zeitraums für die Zeichnung durch die Emittentin können die [Schuldverschreibungen][Zertifikate] zu einem geringeren Gesamtnennbetrag begeben werden als erwartet. Ein solcher geringerer Gesamtnennbetrag kann die Liquidität der [Schuldverschreibungen][Zertifikate] sowie das Vermögen des Investors, die [Schuldverschreibungen][Zertifikate] im Sekundärmarkt zu verkaufen, beeinträchtigen.]

[Risiken in Bezug auf Gebühren und/oder andere im Emissionspreis enthaltenen zusätzliche Kosten Es ist zu beachten, dass der Emissionspreis der [Schuldverschreibungen][Zertifikate] eventuell Vertriebsgebühren und/oder zusätzliche Kosten und Gebühren beinhaltet, die bei der Preisfestlegung der [Schuldverschreibungen][Zertifikate] im Sekundärmarkt nicht berücksichtigt werden.

Solche Gebühren und/oder zusätzliche Kosten können die Rendite der [Schuldverschreibungen][Zertifikate] beeinflussen. Eine solche Rendite kann eventuell die Risiken der [Schuldverschreibungen][Zertifikate] nicht angemessen reflektieren und könnte geringer ausfallen als die für ähnliche am Sekundärmarkt gehandelte [Schuldverschreibungen][Zertifikate] angebotene Rendite. Dies bedeutet nicht, dass die [Schuldverschreibungen][Zertifikate] überhaupt eine positive Rendite haben werden.

Der Investor sollte ebenso berücksichtigen, dass im Falle eines Verkaufs der [Schuldverschreibungen][Zertifikate] am Sekundärmarkt die im Emissionspreis enthaltenen Gebühren und/oder Kosten möglicherweise nicht aus dem Verkaufspreis kompensiert werden können und dadurch eine Rendite bestimmt werden könnte, die die mit den [Schuldverschreibungen][Zertifikaten] einhergehenden

Risiken nicht berücksichtigt.]

D. The following section shall be added to the paragraph titled “English Version of the Risk Factors” under the sub-section “2. General Risks relating to Changes in Market Conditions” on page 113 of the Original Base Prospectus:

Risk relating to the cancellation of the offer

The Issuer reserves, subject to an agreement with the relevant distributor, if any, the right to withdraw the offer and cancel the issuance of Notes for any reason prior to the issue date. In case of such withdrawal or cancellation in relation to the Notes, investors shall be aware that no amount will be payable as compensation for such cancellation or withdrawal and investors may further be subject to reinvestment risk.

Risk relating to the early termination of the offer

In case of an early termination of the subscription period by the Issuer, Notes may be issued at a lower aggregate nominal amount than expected. Such lower aggregate nominal amount may affect the liquidity of the Notes and the investor’s ability to sell the Notes in the secondary market.

Risk relating to fees and/or other additional costs embedded in the issue price

It should be noted that the issue price of the Notes may include distribution fees and/or additional costs or fees, which are not taken into account when determining the price of the Notes in the secondary market.

Such fees and/or additional costs may influence the yield of the Notes and such yield may not adequately reflect the risk of the Notes and may be lower than the yield offered by similar securities traded on the market. This does not mean that the Notes will provide for any positive yield at all.

The investor should also take into consideration that if the Notes are sold on the secondary market, the fees and/or costs included in the issue price may not be recouped from the selling price and may determine a yield not in line with risks associated with the Notes.

E. The following section shall be added to the paragraph titled “Deutsche Fassung der Risikofaktoren” under the sub-section “2. Allgemeine Risiken in Bezug auf eine Veränderung des Marktumfeldes” on page 124 of the Original Base Prospectus:

Risiken in Bezug auf die Zurücknahme des Angebots

Die Emittentin behält sich das Recht vor, vorbehaltlich einer etwaigen Vereinbarung mit einer Vertriebsstelle, das Angebot zurückzunehmen und die Begebung der Schuldverschreibungen, ganz gleich aus welchem Grunde, vor dem Begebungstag nicht durchzuführen. Im Falle einer solchen Zurücknahme bzw. Nichtdurchführung der Begebung in Bezug auf die Schuldverschreibungen sollten Investoren beachten, dass für eine solche Zurücknahme bzw. eine solche Nichtdurchführung keine Entschädigung gezahlt wird und Investoren zudem einem Wiederanlagerisiko unterliegen können.

Risiken in Bezug auf die vorzeitige Kündigung des Angebots

Im Falle einer vorzeitigen Kündigung des Zeitraums für die Zeichnung durch die Emittentin können die Schuldverschreibungen zu einem geringeren Gesamtnennbetrag begeben werden als erwartet. Ein solcher geringerer Gesamtnennbetrag kann die Liquidität der Schuldverschreibungen sowie das Vermögen des Investors, die Schuldverschreibungen im Sekundärmarkt zu verkaufen, beeinträchtigen.

Risiken in Bezug auf Gebühren und/oder andere im Emissionspreis enthaltenen zusätzliche Kosten

Es ist zu beachten, dass der Emissionspreis der Schuldverschreibungen eventuell Vertriebsgebühren und/oder zusätzliche Kosten und Gebühren beinhaltet, die bei der Preisfestlegung der Schuldverschreibungen im Sekundärmarkt nicht berücksichtigt werden.

Solche Gebühren und/oder zusätzliche Kosten können die Rendite der Schuldverschreibungen beeinflussen. Eine solche Rendite kann eventuell die Risiken der Schuldverschreibungen nicht angemessen reflektieren und könnte geringer ausfallen als die für ähnliche am Sekundärmarkt gehandelte Schuldverschreibungen angebotene Rendite. Dies bedeutet nicht, dass die Schuldverschreibungen überhaupt eine positive Rendite haben werden.

Der Investor sollte ebenso berücksichtigen, dass im Falle eines Verkaufs der Schuldverschreibungen am Sekundärmarkt die im Emissionspreis enthaltenen Gebühren und/oder Kosten möglicherweise nicht aus dem Verkaufspreis kompensiert werden können und dadurch eine Rendite bestimmt werden könnte, die die mit den Schuldverschreibungen einhergehenden Risiken nicht berücksichtigt.

F. The following sentence under section “Language of the Base Prospectus” on page 131 of the Original Base Prospectus:

The relevant Terms and Conditions of the Notes and the Final Terms relating to an issue of Notes will be drafted in the German language as the prevailing language, together with a convenience translation thereof in the English language.

shall be replaced in its entirety by the following sentence:

The relevant Terms and Conditions of the Notes relating to an issue of Notes will be drafted in the German language as the prevailing language, together with a convenience translation thereof in the English language or, as the case may be, the relevant Terms and Conditions of the Notes relating to an issue of Notes will be drafted in the English language as the prevailing language, together with a convenience translation thereof in the German language, as specified in the applicable Terms and Conditions of the Notes.

G. The following sentence under section “Notification of the Base Prospectus” on page 131 of the Original Base Prospectus:

The Issuers have applied for a notification of the Base Prospectus into Germany and Austria.

shall be replaced in its entirety by the following sentence:

The Issuers have applied for a notification of the Base Prospectus into Germany, Austria and Italy.

H. The following second subparagraph under the subsection “Consent to the use of the Base Prospectus” on page 141 of the Original Base Prospectus:

Such consent may be given to one or more (individual consent) specified financial intermediary/intermediaries, as stated in the Final Terms, and, next to the Grand Duchy of Luxembourg, for the following member states, into which the Base Prospectus has been notified: the Federal Republic of Germany and/or the Republic of Austria.

shall be replaced in its entirety by the following sentence:

Such consent may be given to one or more (individual consent) specified financial intermediary/intermediaries, as stated in the Final Terms, and, next to the Grand Duchy of Luxembourg, for the following member states, into which the Base Prospectus has been notified: the Federal Republic of Germany and/or the Republic of Austria and/or the Republic of Italy.

I. The following paragraph on page 157 of the Original Base Prospectus:

**§ 14
(Language)**

These Conditions are written in the German language and provided with an English language translation. The German text shall be controlling and binding. The English language translation is provided for convenience only.

shall be replaced in its entirety by the following sentence:

**§ 14
(Language)**

These Conditions are written in the [German] [English] language and provided with a[n] [German] [English] language translation. The [German] [English] text shall be controlling and binding. The [German] [English] language translation is provided for convenience only.

J. The following paragraph on page 166 of the Original Base Prospectus:

**§ 14
(Sprache)**

Diese Anleihebedingungen sind in deutscher Sprache abgefasst. Eine Übersetzung in die englische Sprache ist beigefügt. Der deutsche Text ist bindend und maßgeblich. Die Übersetzung in die englische Sprache ist unverbindlich.

shall be replaced in its entirety by the following sentence:

**§ 14
(Sprache)**

Diese Anleihebedingungen sind in [deutscher] [englischer] Sprache abgefasst. Eine Übersetzung in die [deutsche] [englische] Sprache ist beigefügt. Der [deutsche] [englische] Text ist bindend und maßgeblich. Die Übersetzung in die [deutsche] [englische] Sprache ist unverbindlich.

K. The following paragraph on page 174 of the Original Base Prospectus:

**§ 14
(Language)**

These Conditions are written in the German language and provided with an English language translation. The German text shall be controlling and binding. The English language translation is provided for convenience only.

shall be replaced in its entirety by the following sentence:

**§ 14
(Language)**

These Conditions are written in the [German] [English] language and provided with a[n] [German] [English] language translation. The [German] [English] text shall be controlling and binding. The [German] [English] language translation is provided for convenience only.

L. The following paragraph on page 183 of the Original Base Prospectus:

**§ 14
(Sprache)**

Diese Anleihebedingungen sind in deutscher Sprache abgefasst. Eine Übersetzung in die englische Sprache ist beigefügt. Der deutsche Text ist bindend und maßgeblich. Die Übersetzung in die englische Sprache ist unverbindlich.

shall be replaced in its entirety by the following sentence:

**§ 14
(Sprache)**

Diese Anleihebedingungen sind in [deutscher] [englischer] Sprache abgefasst. Eine Übersetzung in die [deutsche] [englische] Sprache ist beigefügt. Der [deutsche] [englische] Text ist bindend und maßgeblich. Die Übersetzung in die [deutsche] [englische] Sprache ist unverbindlich.

M. The following paragraph under section "Taxation" on page 398 of the Original Base Prospectus:

The information provided below comprises information on German, Austrian, Luxembourg, Dutch, and English tax law, respectively, and practice currently applicable to the Notes. Transactions involving Notes (including purchases, transfers or redemptions), the accrual or receipt of any interest or premium payable on the Notes and the death of a Holder may have tax consequences for potential purchasers which may depend, amongst other things, upon the tax residence and/or status of the potential purchaser. Potential purchasers of Notes are therefore advised to consult their own tax advisers as to the tax consequences of transactions involving Notes and the effect of any tax laws in any jurisdiction in which they may be tax resident or otherwise liable to tax.

shall be replaced in its entirety by the following section:

The information provided below comprises information on German, Austrian, Luxembourg, Dutch, English and Italian tax law, respectively, and practice currently

applicable to the Notes. Transactions involving Notes (including purchases, transfers or redemptions), the accrual or receipt of any interest or premium payable on the Notes and the death of a Holder may have tax consequences for potential purchasers which may depend, amongst other things, upon the tax residence and/or status of the potential purchaser. Potential purchasers of Notes are therefore advised to consult their own tax advisers as to the tax consequences of transactions involving Notes and the effect of any tax laws in any jurisdiction in which they may be tax resident or otherwise liable to tax.

N. The following section shall be added to the section “Taxation“ on page 398 of the Original Base Prospectus:

6. Taxation in the Republic of Italy

Tax regime

The information presented below represents a summary of the tax regime relating to the purchase, holding and sale of the Notes pursuant to current tax legislation in Italy and applying to investors. The following is not intended to be an exhaustive analysis of the tax consequences of purchasing, holding and selling the Notes. The tax regime relating to the purchase, holding and sale of the Notes presented below is based on current legislation and existing practice at the Date of the Prospectus which are liable to change, possibly with retroactive or retrospective effect, and accordingly consist of a mere introduction to the subject.

Investors are accordingly required to consult their own advisors with regard to the tax regime applicable in Italy to the purchase, holding and sale of the Notes.

The Holder shall be liable for all present and future taxes and duties that become payable by law on the Notes and/or the related interest, premiums and other income. As a consequence, all payments in respect of the Notes shall be made by the Issuer net of any withholding tax that may be applicable pursuant to prevailing legislation. More specifically the bondholder shall be liable for all taxes payable on the interest, premiums and other income received or receivable from the Issuer or other parties intervening in the payment of such interest, premiums and other income, such as by way of mere example the substitutive tax (*imposta sostitutiva*) pursuant to Legislative Decree no. 239 of 1 April 1996 (“**Legislative Decree no. 239/1996**”).

The information provided below takes into account the amendments to the taxation of earnings from capital and capital gains introduced by Law Decree 13 August 2011, No. 138, converted into Law 14 September 2011, No. 148 (“**Decree 138/2011**”), effective as of January 1, 2012, and with respect to stamp duties, by Law Decree 6 December 2011, No. 201, converted into Law 22 December 2011, No. 214 (“**Decree 201/2011**”).

Earnings from capital

Legislative Decree no. 239/1996 as subsequently amended and supplemented governs the fiscal treatment of interest, premiums and other income (including any differences between the issue and redemption prices, the “**Interest**”) deriving from the Notes or similar securities issued, among others, by companies resident in Italy with shares traded on Italian regulated markets.

Investors resident in Italy

If an investor resident in Italy is (i) a natural person holding the Notes who is not engaged in any business activities (unless he has elected for the “*risparmio gestito*” regime described in the Paragraph “Taxation of capital gains”), (ii) a partnership or similar subject, other than a *società in nome collettivo*, *società in accomandita semplice* or similar, as per article 5 of Presidential Decree no. 917 of 22 December 1986 (the “**TUIR**”), (iii) a private or public entity not carrying out commercial activities, (iv) an investor exempt from Italian corporate income tax, the Interest arising on the Notes is liable to a substitutive tax of 20%.

If an investor in category i) or iii) holds the Notes as part of engaging in business activities, the Interest is included in the computation of the investor’s business income and the lieu tax may be deducted from the total amount of taxation on income due.

Pursuant to Legislative Decree no. 239/1996, the substitutive tax applies to banks, stock brokerage companies, fiduciary companies, securities brokerage firms and the other subjects expressly listed in specific decrees of the Minister for the Economy and Finance (the “**Intermediaries**”, each being an “**Intermediary**”).

If a resident investor is a corporation or a commercial entity (including permanent establishments in Italy of non-resident investors) and the Notes are deposited with an Intermediary, the Interest is not liable for substitutive tax but is included in the computation of the recipient’s total income for corporate income tax purposes (and, in certain circumstances, depending on the nature of the investor, the recipient’s income liable to IRAP - the regional tax on productive activities).

If the investor is a real estate investment fund the Interest is not liable to either substitutive tax or any other income tax paid by the fund. In all cases the recipient of income arising from the investment in real estate funds is liable to a 20% withholding tax that is treated either as a payment on account of income taxes or as a tax in lieu of income tax (depending on the recipient’s legal form).

If the investor resident in Italy is an open-end or closed-end stock investment fund or a SICAV (open-end investment company) and the Notes are deposited with an Intermediary, the Interest accruing during the period of ownership is not liable to the above-mentioned lieu tax and no other lieu tax will be applicable to the management result of the fund or of the SICAV. In any event profits distributed by the fund or by the SICAV or perceived by certain categories of investors upon redemption and sale of the units will be subject to a 20% withholding tax (being it understood that such withholding may be definitive or on account of the final tax payment depending on the recipient’s legal form).

If the investor is a pension fund (subject to the regime provided by article 17 of Legislative Decree no. 252 of 5 December 2005) and the Notes are not deposited with an Intermediary, the Interest accruing during the period of ownership is not liable to the above-mentioned lieu tax, but must be included in the result of the fund, recognised at the end of each tax period, liable to an ad hoc lieu tax of 11%.

If the Notes are not deposited with an Intermediary, the lieu tax is charged and withheld by each Intermediary that in any event intervenes in the payment of the Interest to the investor or, also in the capacity as purchaser, in the transfer of the Notes. If the Interest is paid directly by the Issuer it applies the lieu tax directly.

Non-resident investors

No substitutive tax is due on the payment of Interest relating to Notes subscribed by investors who are not resident in Italy, if such are: (i) resident for tax purposes in a State that allows for an adequate exchange of information with Italy. The list of Countries that allow for an adequate exchange of information with Italy is included in the Ministerial Decree of 4 September 1996 as subsequently amended and supplemented. The law 24 December 2007, n. 244 (the “**2008 Finance Law**”) provides that, on the basis of the requirements of article 168-*bis* of the TUIR, the Ministry for the Economy and Finance (“**MEF**”) shall issue a decree that contains a list of countries that allow for an adequate exchange of information with Italy; the States and territories currently not included in the lists as per the ministerial decrees of 4 May 1999, 21 November 2001, 23 January 2002 and 4 September 1996 are considered included in that list for a period of five years from the date of the publication of the decree provided by article 168-*bis* of the TUIR in the Official Gazette; (ii) international entities and bodies established on the basis of international agreements ratified in Italy; (iii) foreign institutional investors, even if not subject to taxation, established in countries that allow for an adequate exchange of information with Italy; or (iv) central banks or entities that manage, inter alia, the official reserves of the State.

To benefit from this exemption the non-resident investor must: (i) directly or indirectly deposit the Notes with a bank or resident securities brokerage firm, or with a permanent establishment in Italy of a non-resident bank or securities brokerage firm that has direct electronic contact with the MEF; (ii) provide the depository, either prior to or on depositing the Notes, with a self-declaration in which the investor states that he is the actual beneficiary of the Interest and that he is in possession of the requirements to be able to benefit from the above exemption. This self-declaration must be completed by using the format required by the Ministerial Decree of 12 December 2001 and remains effective until revoked.

A self-declaration is not required if the investor is an international body established on the basis of international agreements ratified in Italy, or central banks or entities that manage, inter alia, the official reserves of the State; (iii) provide his personal details and the identification code of the security and the information required to calculate the interest, premiums and other income not liable to substitutive tax.

A substitutive tax of 20%, or the lower rate provided by any applicable double taxation avoidance treaties, is charged on the Interest paid to investors resident in countries that do not allow for an adequate exchange of information with Italy or which do not comply with at least one of the other conditions set out above.

Taxation of capital gains

Capital gains deriving from the sale or redemption of the Notes form part of the investor’s taxable income (and, in certain circumstances, depending on the nature of the investor, of the net production value for IRAP purposes) if realized by an Italian company or commercial entity (including permanent establishments in Italy of non-resident investors to which the Notes are connected) or by entrepreneurs resident in Italy that purchase the Notes as part of business activities.

If an investor resident in Italy is a natural person holding the Notes who is not engaged in any business activities, the capital gains realized on the sale or redemption of the Notes are liable to a lieu tax of 20%.

Under the “declaration regime”, which is the regime which normally applies to non-resident natural persons not holding the Notes as part of business activities, the substitutive tax is due, net of the respective capital losses, on all the capital gains realized by the investor as the result of the sale or redemption of the securities occurring during the tax period. In this case resident investors must indicate the capital gains realized in each tax period, net of any capital losses, in their tax returns and settle the lieu tax together with their income taxes. Any capital losses exceeding the capital gains realized in the tax period may be carried forward to offset capital gains of the same nature realized in the following four tax periods. Pursuant to Decree 138/2011 capital losses realized as of 31 December 2011 may be carried forward to be offset against subsequent capital gains of the same nature for an overall amount of 62.5 per cent of the relevant capital losses.

Alternatively to the tax declaration regime, resident natural persons not holding the Notes as part of business activities may elect to pay the lieu tax separately for each capital gain realized on the sale or redemption of the securities (the “*risparmio amministrato*” regime). Taxation of capital gains under the *risparmio amministrato* regime is permitted provided (i) the Notes are deposited with an Italian bank, an SIM (*società di intermediazione mobiliare*) or an authorized financial intermediary and (ii) the investor has elected that regime. For the purpose of applying the lieu tax the depository of the Notes is required to consider each capital gain, positive difference or item of income received by the investor on the sale or redemption of the Notes, net of any capital losses, and is required to pay over the lieu tax to the tax authorities on behalf of the investor, by withholding the corresponding amount from the sums due to him or by using the funds made available for the purpose by the investor.

If the sale or redemption of the Notes leads to a capital loss under the *risparmio amministrato* regime, such loss may be deducted from any capital gains realized at a later date, within the same administration relationship, in the same tax period or in the following four tax periods. Under this regime the investor is not required to state the capital gains in his tax return.

The capital gains realized by an investor who is a natural person resident in Italy, who (i) does not hold the Notes as part of business activities, (ii) has engaged an Intermediary to manage his financial assets, including the Notes, and (iii) has made an election for the *risparmio gestito* regime, shall be included in the management result that has accrued in the tax period, even if this has not been realized. Such management result accrued as of 1 January 2012 is liable to a lieu tax of 20%, which is paid over by the Intermediary engaged for management purposes. Under this regime, if the management result that has accrued at the end of the tax period is negative, the amount may be offset against the management results achieved over the following tax periods, up to and including the fourth. Pursuant to Decree 138/2011 negative management results accrued as of 1 January 2012 may be carried forward to be offset against subsequent positive results of the same nature for a percentage of 62.5 per cent of the relevant amount. Under this regime there is no requirement for the investor to declare the capital gains realized in his tax return.

The capital gains realized by an investor that is an open-end or closed-end Italian investment fund, or a SICAV, will not be subject to lieu tax (see the Paragraph “Earnings from capital - Investors resident in Italy”).

The capital gains realized by an investor that is an Italian pension fund (subject to the tax regime provided by Article 17 of Legislative Decree 5 December 2005, n. 252) must be included in the management result that has accrued at the end of the tax period and are liable to a lieu tax of 11% (see the Paragraph “Earnings from capital - Investors resident in Italy”).

An investor that is a real estate investment fund is not liable to lieu tax on the realized capital gains.

Capital gains realized by an investor that is a real estate investment fund will not be subject to any lieu tax in the hands of the same fund. In all cases the recipient of income arising from the investment in real estate funds is liable to a 20% withholding tax.

The capital gains that derive from the sale or redemption of Notes traded on a regulated market, realized by non-resident investors who do not have a permanent establishment in Italy and to whom the Notes are effectively connected, are not liable to any tax in Italy.

The capital gains that derive from the sale or redemption of Notes not traded on a regulated market, realized by non-resident investors who do not have a permanent establishment in Italy and to whom the Notes are effectively connected, are not liable to any tax in Italy provided that the transferor (who is also the effective beneficiary of the respective credit) is: (i) resident in a State that allows for an adequate exchange of information with Italy (the list of countries that allow for an adequate exchange of information with Italy is included in the Ministerial Decree of 4 September 1996 as subsequently amended and supplemented. The 2008 Finance Law provides that, on the basis of the requirements of article 168-*bis* of the TUIR, the Ministry for the Economy and Finance shall issue a decree that contains a list of countries that allow for an adequate exchange of information with Italy); the States and territories currently not included in the lists as per the ministerial decrees of 4 May 1999, 21 November 2001, 23 January 2002 and 4 September 1996 are considered included in that list for a period of five years from the date of the publication of the decree provided by article 168-*bis* of the TUIR in the Official Journal; (ii) an international entity or body established on the basis of international agreements ratified in Italy; (iii) a foreign institutional investor, even if not subject to taxation, established in a country that allow for an adequate exchange of information with Italy; or (iv) a central bank or entity that manages, inter alia, the official reserves of the State.

If none of the above conditions is satisfied, the capital gains realized by investors who are not resident in Italy on the sale or redemption of Notes not traded on a regulated market are liable to a lieu tax of 20%.

In any case non-resident investors not having a permanent establishment in Italy, to whom a double taxation avoidance treaty with the Republic of Italy applies, who subject the capital gains realized on the sale or redemption of the Notes to taxation only in the State in which the investor is resident are not liable to tax on the capital gains realized.

Inheritance and gift tax

Under Decree Law no. 262 of 3 October 2006, converted with Law no. 286 of 24 November 2006, the free of charge transfer between living persons or on death of any asset (including bonds and any other debt security) is liable to tax at the following rates:

- a 4% rate is applied to transfers to a spouse and immediate family members, with an allowance of Euro 1,000,000 granted for each beneficiary;
- a 6% rate is applied to transfers to other relations up to the fourth degree of kindred and persons related by direct affinity, as well as to persons related by collateral affinity up to the third degree of kindred. If the beneficiaries of the bequest or legacy are brothers or sisters there is an allowance of Euro 100,000 on the value of the assets bequeathed, left or gifted;

- a 8% rate is applied for transfers to other parties.

If a beneficiary is disabled, tax is applied only on the amount exceeding Euro 1,500,000.

Tax on stock exchange transactions

Pursuant to article 37 of Decree Law no. 248 of 31 December 2007, converted by Law no. 31 of 28 February 2008, the stamp duty on stock exchange transactions imposed under Royal Decree no. 3278 of 30 December 1923 has been lifted.

Stamp Duty

Article 19 of Decree No. 201/2011 introduced a proportional stamp duty to be levied on an annual basis with respect to any periodic reporting communications which may be sent by a financial intermediary to its customers in respect of any financial product or instrument which are deposited on a voluntary basis with such financial intermediary (with the sole exclusion of pension funds and of sanitary funds). Pursuant to such provisions it is inter alia foreseen that a proportional stamp duty applies on the aggregate market value or – if no market value figure is available – on the nominal value or redemption amount of the same financial instrument at the following rates:

- (i) 0.1 per cent on a yearly basis for 2012;
- (ii) 0.15 per cent on a yearly basis starting from 2013.

In any event the stamp duty can be no lower than €34.20 and, for the year 2012 only, it cannot exceed €1,200.00.

The stamp duty is levied by banks and by other financial intermediaries.

European Union Savings Tax Directive

Pursuant to Council Directive no. 2003/48/EC, from 1 July 2005, each Member State of the European Union must provide the tax authorities of the other member States with information regarding the payment of interest (or similar income) by agents established within their territory to natural persons resident in other Member States, with the exception of Luxembourg and Austria. Such States shall adopt for a transitional period (unless in this period the mentioned States decide otherwise), a system that envisages the payment of a withholding tax at rates that vary over time up to 35%. The duration of the transitional period shall depend on reaching agreements on the exchange of information with certain other countries. Certain countries that are not members of the European Union, including Switzerland, have agreed to adopt regimes similar to those described (a system based on withholding tax as far as Switzerland is concerned) starting from the effective date of the directive.

Implementation in Italy of the Directive on the taxation of savings income in the form of interest payments

Italy implemented the European Directive on the taxation of savings income in the form of interest payments by means of Legislative Decree no. 84 of 18 April 2005, under which, provided a series of important conditions are satisfied, for interest paid from 1 July 2005 to natural persons who are the effective beneficiaries of the interest and are resident for fiscal purposes in another Member State, qualified Italian paying agents must provide the Tax Revenue Office with details of the interest paid and the personal details of the effective

beneficiaries of the payment made. This information is sent by the Tax Revenue Office to the competent tax authorities of the foreign country of residence of the effective beneficiary of the payment.

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